

Accounts, Audit and Risk Committee

Treasury Management Report

5 December 2012

Report of Head of Finance and Procurement

PURPOSE OF REPORT

To receive information on treasury management performance and compliance with treasury management policy for 2012/13 for the period to 31st October 2012 as required by the Treasury Management Code of Practice.

This report is public

Appendices 1a and 1b to this report are exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

1. Note the contents of the report

Summary

- 1.1 As part of our investment strategy and governance arrangements this committee considers the investment performance to date and our compliance with counterparties being used.
- 1.2 The Code of Practice on Treasury Management approved by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted in full by the Council in 2004, requires that a Treasury Management Strategy is produced prior to the beginning of the financial year to which it relates. The Treasury Management Strategy is the cornerstone of proper treasury management, and is central to the operation, management reporting and performance assessment. The 2012/13 strategy for Cherwell District Council was approved at full Council on 19th March 2012.
- 1.3 The highest standard of stewardship of public funds remains of the utmost importance to the Council. This document details the Council's management of investments and treasury management activities during the first 7 months of 2012/13.

Background Information

2012/13 Performance

- 2.1 As at the end of October the Council had £2.5m and £11.7m respectively

invested with fund managers Tradition UK and Investec. In addition it has around £64m managed in-house (including Eco Town funds of £13.5m) which fluctuates during the year. The Council regularly reviews of each of these funds in light of the current economic climate, reducing balances in investments planned to fund the Capital Programme and the need to contribute to efficiency savings.

Update on Cherwell's Treasury Performance

- 2.2 The Treasury Management Strategy for 2012/13, which includes the Annual Investment Strategy was approved by the Council on 19th March 2012. It sets out the Council's investment priorities as being: Security of Capital; Liquidity; and Yield
- 2.3 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector: this applies in particular to nationalised and semi nationalised UK banks.
- 2.4 Given the turmoil in peripheral Europe, our investments list does not have direct exposure to any sovereign debt of Portugal, Ireland Greece, Spain or Italy and that includes their national banks,. However, indirectly the banks on our lending list, in all probability do have exposure in some shape or form to either or both. Our lending criterion is very stringent and only the very largest banks are considered through negotiable securities, providing us with the greatest liquidity and flexibility.
- 2.5 Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes was £77.4m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and ECO Bicester.

Investment performance at 31st October 2012 was:

Fund	Amount at 31st October 2012	Interest Budget	Actual Interest	Variance	Rate of return %
TUK	2,500,000	79,221	103,396	24,175	1.94%
Investec	11,742,224	50,312	77,844	27,531	1.02%
In House	64,155,000	380,042	453,088	73,046	1.36%
Total	78,397,224	509,575	634,328	124,752	1.39%

- 2.6 At the end of October 2012, interest received was 25% more than budgeted and shows a positive result across all three funds. This was mainly due to higher than planned balances when creating the budget as we had a higher level of capital programme slippage from 2011/12, obtaining better than projected rates from our investments, and the change in allocation of funds between TUK, Investec and in-house.
- 2.7 As a result we have reviewed our interest projection for the year and we are

currently projecting we will receive additional investment income of £350k after the deduction of interest in respect of Eco town funds which will be returned to the Eco Town funding amount. The amount in respect of the Eco Town funds is anticipated to be approximately £150k.

- 2.8 The Counterparties that we have invested with and compliance monitoring is included in Appendix 1a and 1b.

Update on Iceland Funds

- 2.9 The Icelandic Government stated its intention to honour all its commitments as a result of their banks being placed into receivership. The U.K. Government has been working with the Icelandic Government to help bring this about.
- 2.10 At the current time, Cherwell District Council has received repayment of £5.7m of the initial capital investment of £6.5m with the balance of £729k remaining frozen in a deposit account earning interest.
- 2.11 We continue to have discussions with the LGA and Bevan Brittan on the potential for transfer to the UK. The Council has received information relating to the currencies that they will have there deposits repaid in and made arrangements with Natwest Bank to receive and exchange to £ sterling. We are still awaiting information relating to the timing of these payments.

Implications

Financial:	There are no financial implications arising directly from any outcome of this report. Comments checked by Nicola Jackson, Corporate Finance Manager 01295 221731.
Legal:	Presentation of this report is in line with the CIPFA Code of Practice. Comments checked by Kevin Lane Head of Law & Governance.
Risk Management:	It is essential that this report is considered by the Executive as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided. Comments checked by Nicola Jackson, Corporate Finance Manager, 01295 221731.

Wards Affected

All wards are affected.

Document Information

Appendix No	Title
Appendix 1a and b	Deposits by Counterparty – RESTRICTED

Background Papers	
2012/13 Strategy Budget Monitoring Reports CIPFA Treasury Management Code of Practice Sector Templates	
Report Author	Karen Curtin, Head of Finance and Procurement
Contact Information	Karen.Curtin@Cherwellandsouthnorthants.gov.uk 0300 003 0106