

# **Cherwell District Council**

## **Accounts, Audit and Risk Committee**

**4 December 2013**

<p><b>Q2 Treasury Management Report and Draft Treasury Management Strategy 2014/15</b></p>
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### **Report of the Interim Head of Finance and Procurement**

This report is public

Appendices 1, 2 and 3 are exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972

#### **Purpose of report**

To receive information on treasury management performance and compliance with treasury management policy for 2013-14 for Quarter 2 including an update for position as at 31 October 2013 as required by the Treasury Management Code of Practice.

To provide a review of the draft Treasury Management Strategy 2014-15

#### **1.0 Recommendations**

The meeting is recommended:

- 1.1 To note the contents of the Quarter 2 (Q2) Treasury Report
- 1.2 To note the draft Treasury Management Strategy 2014/15

#### **2.0 Introduction**

- 2.1 As part of our investment strategy and governance arrangements this committee considers the investment performance to date and our compliance with counterparties being used.
- 2.2 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 annual strategy for Cherwell District Council was approved at full Council on 25 February 2013. The Council re-appointed Sector as its Treasury Management advisor in January 2013.

- 2.3 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 6 months of 2013/14.

### **3.0 Report Details**

#### **2013-14 Performance**

- 3.1 As at the end of September the Council had £11.8m invested with fund manager Investec. In addition it has around £57m managed in-house (including Eco Town funds of £13.5m) which fluctuates during the year. The Council regularly reviews 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**

- 3.2 The Treasury Management Strategy for 2013-14, which includes the Annual Investment Strategy, was approved by the Council on 25 February 2013. It sets out the Council's investment priorities as being: Security of Capital; Liquidity; and Yield
- 3.3 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. However, the Council also seeks out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions. The Council uses 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).
- 3.3 During the quarter ended 30<sup>th</sup> September, Sector highlighted: -
- Indicators suggested that the economic recovery accelerated;
  - Household spending growth remained robust;
  - Inflation fell back towards the 2% target;
  - The Bank of England introduced forward guidance.
  - 10-year gilt yields rose to 3% at their peak and the FTSE 100 fell slightly to 6460;

- The Federal Reserve decided to maintain the monthly rate of its asset purchases

3.4 Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes up to September 2013 was £68.8m. 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.

3.5 It is worth noting that the revenue budget for 2013-14 has been prepared utilising only £150,000 of investment income. However, total investment income within 2013-14 is budgeted as £550,000. The balance of £400,000 will be used to replenish reserves after transferring interest received in respect of Eco Town funds to the Eco Town reserve.

**Investment performance for quarter ended 30<sup>th</sup> September 2013 was:**

<b>Fund</b>	<b>Amount at 30th September 2013</b>	<b>Interest Budget</b>	<b>Actual Interest</b>	<b>Variance</b>	<b>Rate of return %</b>
Investec	£11,840,069	£28,750	£2,095	(£26,655)	0.02%
In House	£57,005,123	£246,517	£314,224	£67,707	1.05%
<b>Total</b>	<b>£68,845,192</b>	<b>£275,267</b>	<b>£316,319</b>	<b>£41,052</b>	

3.6 At this point in the year the Council is currently projecting to be on target. The variance shown above has arisen through the timing of interest received. Although there is currently a negative balance against budget on the funds managed by Investec, this has arisen through the month end valuation showing an unrealised loss to date.

3.7 Moving forward however the gross redemption yield between now and maturity will accrue at an annual yield. While it shows a loss today over the life of the bond it will average out to produce a positive return per year.

3.8 The negative balance at 30 September 2013 has not yet corrected itself but is improving, with performance as at the **31 October** as follows.

<b>Fund</b>	<b>Amount at 31<sup>st</sup> October 2013</b>	<b>Interest Budget</b>	<b>Actual Interest</b>	<b>Variance</b>	<b>Rate of return %</b>
Investec	£11,840,069	£33,541	£14,996	(£18,545)	0.13%
In House	£60,337,479	£287,603	£351,412	£63,809	1.01%
<b>Total</b>	<b>£72,177,548</b>	<b>£321,144</b>	<b>£366,408</b>	<b>£45,264</b>	

- 3.9 For Quarter 2, Appendices 1 and 2 show the counterparties that the Council has invested with.

### **Treasury Management Strategy 2014-15**

- 3.10 The proposed draft strategy for 2014-15 is based upon the views of the Council's Treasury Management Team. This is informed by market forecasts provided by the Council's treasury advisor, Sector.
- 3.11 In consultation with Sector and with full reference to the CIPFA Code of Practice, the Council has reviewed its risk appetite and associated priorities in relation to security, liquidity and yield in respect of returns from various financial instruments.
- 3.12 The draft strategy meets the requirements included within the CLG's Guidance on local government investments.

### **Icelandic Investments**

- 3.13 There is currently no further update in respect of funds remaining within Iceland. As reported previously, out of the £6.5m original capital investment £5.7m has been returned to the Council. The remaining capital balance of £729,000 along with associated interest relating to the investment is still held within Iceland and is accruing interest on an annual basis.
- 3.14 The Council continues to work with the LGA and Bevan Brittan on the potential for transfer to the UK.

## **4.0 Conclusion and Reasons for Recommendations**

- 4.1 This report details the Treasury Performance for the Council for the quarter ended 30 September 2013

## **5.0 Consultation**

None

## **6.0 Alternative Options and Reasons for Rejection**

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

## 7.0 Implications

### Financial and Resource Implications

- 7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:

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### Legal Implications

- 7.2 Presentation of this report is in line with the CIPFA Code of Practice.

Comments checked by:

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### Risk Management Implications

- 7.3 It is essential that this report is considered by AARC as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by:

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## 8.0 Decision Information

### Wards Affected

All wards are affected

### Links to Corporate Plan and Policy Framework

All corporate plan themes.

### Lead Councillor

None

### Document Information

Appendix No	Title
Appendix 1	Treasury Advisor Q2 Report – Inhouse RESTRICTED
Appendix 2	Treasury Advisor Q2 Report – Investec RESTRICTED
Appendix 3	Treasury Management Strategy 2014-15 RESTRICTED

<b>Background Papers</b>	
None	
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