

Agenda Item

Executive Board

10 February 2010



Adoption of Treasury Management Strategy for 2010/11

Summary

The Chartered Institute of Public Finance and Accountancy (CIPFA) produce a Code of Practice for Treasury Management in the Public Services. One of the main recommendations of this Code, as recommended for adoption in the previous agenda item, is the requirement to have an annual Treasury Management Strategy formally adopted by an authority's Executive Board. There is also a requirement to set prudential indicators relating to all Treasury activities that the authority will undertake in the forthcoming financial year. These indicators are appended to the 2010/11 budget report included in this evening's agenda.

Recommendation

The Council adopts this Treasury Management Strategy for 2010/11.

Consideration be given to obtaining quotes from external providers to obtain independent advice on the Council's investment strategy in terms of maximising investment income against the overriding principle of controlling risk.

a) Reasons for Recommendation

The Council is required to formally adopt a Treasury Management Strategy prior to the forthcoming financial year.

b) Alternative Options

To not adopt this Strategy, or amend the Strategy.

c) Risk Considerations

The Council would be failing to comply with CIPFA's recommended "best practice" for Treasury Management.

d) Policy and Budgetary Considerations

Recommending a Treasury Management Strategy provides a clear working framework for officers to adhere to in all aspects of their Treasury Management duties.

In scrutinising the Council's budget the Overview and Scrutiny Co-ordinating Committee Task and Finish Forum suggested a possible future review of income investment. A Strategy needs to be adopted before the beginning of the financial year but members may wish to consider an independent review of the adopted Strategy and may wish to seek an estimate of the costs involved and the services that can be employed.

e) Date for Review of Decision

February 2011.

1 Introduction

- 1.1 The Council has previously adopted CIPFA's Code of Practice for Treasury Management in the Public Services and the revised code is up for adoption in this evenings meeting. An integral part of the code is the formal adoption of an annual Treasury Management Strategy by the authority's Executive Board.
- 1.2 The strategy requires, the authority's Executive Board is informed on; the position on debt and investments, the overall borrowing limits, the prospect on interest rates and whether there are likely to be any material transactions that will be required to or from reserves, or investment portfolios.

2.0 Treasury Management Strategy

- 2.1 The overriding objective is to minimising risks while maximising returns. Therefore the emphasis in 2010/11 will be on the minimisation of financial risk. Obviously, such a policy will ultimately result in lower interest receipts, but will continue to ensure the security of any funds invested.
- 2.2 Therefore, it is the intention to keep the majority of the authority's surplus cash funds with a Fund Manager, who will continue to perform in accordance with our existing contract, which keeps the minimisation of risk exposure as its paramount requirement. Please find attached in Appendix A, a copy of their counterparty list.
- 2.3 We will continue to manage investment for day to day cash flow requirements in accordance with our own internal procedures. These investments can only be made in fixed term deposits with institutions on our counterparty list, a copy of which is included as Appendix B. The Criteria for selecting counterparties is as follows:

Institution Type	Criteria	Lending Limit
Top 20 UK Building Society	Asset bases >£5 billion	£3 million
	Asset bases >£1 billion	£2 million
Banks	Main UK Banks Irish Banks with UK presence.	£2 million
Local, Fire or Police Authority	N/A	£2 million

On the rare occasion where the only option available, in order to invest available funds, is to breach the agreed lending limit of a counterparty, then this will be agreed with the Portfolio Holder for Resources and then be reported to the next available Executive Board meeting.

- 2.4 To date, only 1 investment has been made that exceeded the £2m limit this financial year. This investment was approved by the Portfolio Holder for Resources.

3.0 Current Position on Debt and Investments

3.1 The treasury investment position as at 31 December 2009 was as follows

	31/12/2009 (£'M)	
Short Term Internal Investments		
Bank of Scotland call account	1.30	
Fixed Term Cash Deposits < 1 Month	2.00	
	3.30	9.14%
External Investments (at book value)		
Certificates of deposits < 1 Month	5.40	
Certificates of deposits < 3 Months	9.50	
Certificates of deposits < 6 Months	8.60	
Certificates of deposits < 1 Year	4.78	
Floating Rate Notes (due in August)	1.62	
Commercial Paper (due in February)	2.80	
Cash / Deposits	0.11	
	32.81	90.86%

3.2 We currently have no debt. However in order to finance the capital programme the council will need to borrow and estimated £2.2 million from Public Works Loan Board (PWLB) during 2010/11.

3.3 It should be noted that in order to meet expenditure requirements we will be withdrawing £6 million from our external investments in February 2010.

4.0 Borrowing Limits for 2010/11

4.1 As part of the CIPFA code for Treasury Management it is recommended that the authority's Executive Board is informed on the anticipated borrowing limits required for the forthcoming financial year. These limits are included in the prudential indicators appended to the 2010/11 budget report on the agenda for this meeting.

4.2 In addition to the PWLB loan the Council will still need to make use of short term borrowing in order to meet day to day cash flow shortfalls. The limits on the level of borrowing are stated below:

a) The operational boundary for external debt – estimate of the prudent (most likely) level of external debt. Taken from the authorities' estimate of its capital financing and cash flow requirements.

	Actuals		Per 10/11 Est.		
	2008/09	2009/10	2010/11	2011/12	2012/13
	£000's	£000's	£000's	£000's	£000's
Borrowing	10,000	9,000	11,195	11,235	11,278
Other LTL's	NIL	NIL	NIL	NIL	NIL
Total	10,000	9,000	11,195	11,235	11,278

- b) The authorised limit for external debt – the operational boundary plus headroom to provide for any unusual cash flows.

	Actuals		Per 10/11 Est.		
	2008/09	2009/10	2010/11	2011/12	2012/13
	£000's	£000's	£000's	£000's	£000's
Borrowing	13,000	12,000	14,195	14,235	14,278
Other LTL's	NIL	NIL	NIL	NIL	NIL
Total	13,000	12,000	14,195	14,235	14,278

- c) Actual External Debt as at 31st March 2009 = £10 million.

5.0 Treasury Indicators

- 5.1 As per the CIPFA Code, it is recommended that Executive Board is informed of the limits on fixed and variable interest exposure, the maturity structure of borrowing and the upper limit for the total of principle sums invested longer than 364 days.

- 5.2 These limits are as follows:

- a) Interest rate exposure – In general we only make use of investment & borrowing instruments which are at fixed rates, with the exception of a call account which is linked to the base rate and therefore may vary over the time the money is invested. Based on the projected investment and borrowing requirements of the council over the next three years the upper limit on fixed interest rate exposure is

	Total Year End Borrowing £'000s	Total Investments £'000s	Interest Rate Exposures £'000s	% of investments
2008/09 (actuals)	10,000	(32,511)	(22,511)	(69%)
2009/10	9,000	(26,836)	(17,836)	(66%)
2010/11	11,195	(27,234)	(16,039)	(59%)
2011/12	11,235	(27,574)	(16,339)	(59%)
2012/13	11,278	(27,919)	(16,641)	(60%)

- b) Maturity structure of borrowing – this is the amount of projected long term borrowing that is due for repayment in each period.

		Project Long term Borrowing Maturities £'000's	Total
Current Year	2009/10	0	0.00%
Next yr	2010/11	144	6.67%
Yr 3-5	2011/12 -2013/14	432	20.00%
Y6 -10	2015/16 - 2019/20	720	33.33%
Y11-20	2020/21 - 2028/29	576	26.67%
Y21-30	2029/30 - 2038/09	288	13.34%
		2,160	100.00%

In addition to this the Council has an overdraft limit of £350,000 and can borrow for periods less than 2 months at fixed rates through our brokers, in order to meet daily cash flow requirements.

c) Total principle sums invested for periods longer than 364 days

	Estimate total investments £'000s	Upper limit £'000s
2010/11	(27,234)	(13,617)
2011/12	(27,574)	(13,787)
2012/13	(27,919)	(13,960)

6.0 Prospect for Interest Rates

6.1 The Bank of England's Monetary Policy Committee (MPC) voted in January 2010's meeting, to keep interest rates at the historically low level of 0.5%. This was not unexpected as the bank has signalled before that it would wait until the next quarterly health check, due in February 2010, before making any changes.

This is where the situation gets harder to predict. As if the economy has returned to growth in the last quarter of 2009, as many commentators expect, the MPC will have to consider in addition to the sustainability of the recovery, amongst other factors, when deciding how to proceed to avoid the country slipping back into a recession.

Interest rates are however expected to rise at some point. When though is the question? Initial predictions set it as happening in the spring, but this could fall back into quarter 3 as the bank tries to balance all factors and ensure growth is sustainable. However it will be a long time before we see rates return to the levels seen before the recession, and with the range of predictions being from 1.25% - 2.75% it's hard to predict what might be achieved.

7.0 Transactions to/from Reserves and Investment Portfolio

7.1 The draft 2010/11 budget has been compiled on the basis that the Council's will make the following withdrawals from reserves

	£'M
General Reserves	0.646
Capital Reserves	1.603
	<u>2.249</u>

7.2 The final amount to be withdrawn from the general reserves is subject to the final decision by members on the proposed savings outlined in Appendix B to the 6 January's executive board report.

7.3 The transformation reserve may also be used during the year, as we pursue the shared services agenda.

7.4 We will keep under review the need to withdraw and further funds from our investment portfolio.

Legal Implications

There are no legal implications contained in this report

Financial Implications

As stated within the report

Consultation on Reports to the Executive

None

Background Papers

- ❑ CIPFA's Code for Treasury Management in the Public Services
- ❑ CIPFA's Prudential Code for Capital Finance in Local Authorities
- ❑ e-mail from Investec Asset Management – 7 January 2010

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Executive Board
10 February 2010