

Agenda Item

Executive Board

15 February 2006

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Adoption of Treasury Management Strategy for 2006/07

Summary

The Chartered Institute of Public Finance and Accountancy (CIPFA) produced a Revised Code of Practice for Treasury Management in the Public Services in 2004/05. One of the main recommendations of this code was 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 2006/07 budget report included within this agenda.

Recommendation

The Council adopts this Treasury Management Strategy for 2006/07.

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.

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. This will include the continued pursuance of interest maximisation compliant with risk minimisation in all treasury dealings.

e) Date for Review of Decision

February 2007.

1 Introduction

- 1.0 The Council adopted the Revised Code of Practice for Treasury Management in the Public Services, in 2004/05. An integral part of this code is the formal adoption of an annual Treasury Management Strategy by the authority's Executive Board.

- 1.1 Included within this strategy, it is recommended that the authority's Executive Board is advised on the actual strategy that will be pursued, and 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 As agreed by the Executive Board on the 11 February 2004, when they formally adopted CIPFA's revised code for Treasury Management, the key overriding strategy will remain the maximisation of interest receipts, compliant with the minimisation of exposure to risk. With this in mind any Treasury Management reporting or decision making in 2006/07 will place most regard to 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. Also, we will continue to manage investment for day to day cash flow requirements in accordance with our own internal procedures. It is the intention to keep internal lending to a maximum of £2m to any one financial institution and to only lend to the top twenty building societies, as long as their total asset base exceeds £1bn, or the main UK banks and subsidiaries.

3.0 Position on Debt and Investments

- 3.1 In setting the 2006/07 revenue budget a sum of £192,000 has been provided to reflect the financing costs associated with the capital spend of £1.582m on the new refuse and recycling contract. In the main this sum relates to the purchase of rigid bins. This will therefore lose the Council's debt free status, held since 1993. However, due to the introduction of capital receipt pooling in 2004/05 the advantage of remaining debt free, no longer exists.

4.0 Borrowing Limits for 2006/07

- 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 must be included in the prudential indicators appended to the 2006/07 budget report.

- 4.2 In addition to this new longer term borrowing requirement the Council will still require to make use of short term borrowing in order to meet day to day cash flow shortfalls. It is also good treasury management practice to place a limit on the amounts of sums borrowed at a variable limit in order to ensure a degree of predictability of interest repayment. The limits on the level of borrowing and the sums to be placed at a variable interest rate are stated below:

a) the overall borrowing limit – the maximum amount that the Council can have in the way of outstanding borrowings⁽¹⁾

b) the short term borrowing limit – the maximum amount within the overall borrowing limit which may comprise of short term borrowing (amounts repayable within 365 days of the date of borrowing)

c) the variable interest rate proportion – a limit on the proportion of borrowings to be held at variable interest rates.

Note ⁽¹⁾ - this limit is also shown in paragraph 6.2 of the prudential indicators within the 2006/07 budget report.

4.3 With regard to the above three categories it is proposed that the sums for 2006/07 be set as follows:

- a) £10,082,000 (£8,000,000 in 2005/06) - this includes the £1.582m referred to in paragraph 3.1.
- b) £8,500,000 (£8,000,000 in 2005/06)
- c) 25% (25% in 2005/06)

5.0 Prospect for Interest Rates

5.1 Most market commentators are agreed that interest rates will remain at 4.5%, before seeing a small increase in the first quarter of 2007. As in setting the 2005/06 budget, the 2006/07 budgeted investment return has been based on assuming the lowest of the Fund Manager's predictions. This has assumed a return of 4.5%.

6.0 Transactions to/from Reserves and Investment Portfolio

6.1 The 2006/07 budget has been compiled on the basis that no sums will be taken from reserves to support revenue or capital expenditure. It is also anticipated that the Council will not withdraw or increase the investment portfolio managed by Investec.

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
- Letter from Investec Asset Management – 28 October 2005

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