

## Agenda Item 9

Executive Board

30 April 2008

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### Adoption of Treasury Management Strategy for 2008/09

#### 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 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 were appended to the 2008/09 budget report agreed by the Executive Board on 30 January 2008.

#### Recommendation

The Council adopts this Treasury Management Strategy for 2008/09.

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

#### e) **Date for Review of Decision**

February 2009.

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#### 1 Introduction

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

- 1.2 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 2008/09 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.
- 2.3 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. The internal lending strategy will also allow the placing of deposits to a maximum of £2m with all Police, Fire and Local Authorities. On the rare occasion where the only option available in order to invest available funds is to breach the £2m limit this will be agreed with the Portfolio Holder for Resources and then be reported to the next available Executive Board meeting.
- 2.3.1 With regard to this final point five investments were made exceeding the £2m limit. Three of these investments were approved by the Portfolio Holder for Resources. The other two were for a two day period when the new officer who placed the deposits was unaware of the need to inform the Portfolio Holder prior to undertaking the transaction.

## **3.0 Position on Debt and Investments**

- 3.1 In setting the 2008/09 revenue budget, a sum of £93,000 has been provided to reflect the financing costs associated with the capital spend of £0.720m on the new refuse and recycling contract. In the main this sum relates to the purchase of rigid bins.

## **4.0 Borrowing Limits for 2008/09**

- 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 were included in the prudential indicators appended to the 2008/09 budget report agreed by the Executive Board in January 2008.

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<sup>(1)</sup>

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 <sup>(1)</sup> - this limit is also shown in the prudential indicators within the 2008/09 budget report.

4.3 With regard to the above three categories it is proposed that the sums for 2008/09 be set as follows:

a) £9,795,000 (£11,182,000 in 2007/08) - this sum has been reduced due to the delay in the “roll out” of the recycling and refuse contract.

b) £9,075,000 (£10,032,000 in 2007/08)

c) 25% (25% in 2007/08)

## 5.0 Prospect for Interest Rates

5.1 Most market commentators are agreed that interest rates will continue there recent fall, but due to the prevailing worldwide money market uncertainties it is extremely difficult to predict how far interest will fall or the timing of these reductions. As in setting the 2007/08 budget, the 2008/09 budgeted investment return has been based on assuming the lowest of the Fund Manager’s predictions. This has assumed a return of 5.8%. However, it should be noted that this advice was given to the Council in early October 2007, when the draft 2008/09 budget was being prepared. Since this time we have had growing worldwide financial uncertainty which has necessitated 3 Bank of England base rate reductions (now at 5.0%), and it is widely predicted that this rate will continue to fall. On this basis, it is very likely that the level of interest earned in 2008/09 will be significantly below the budget of £1.607m. In order to quantify the likely level of this investment shortfall, fund returns at 5% compared with the estimated 5.8% would result in a total interest earned of £1.367m, (i.e. £0.240m below the 2008/09 estimate). Obviously this position will be reported on a monthly basis to the Executive Board.

## 6.0 Transactions to/from Reserves and Investment Portfolio

6.1 The 2008/09 budget has been compiled on the basis that the Council’s capital reserves will remain at the same level and that no material reductions will be made from any revenue balances. It is also anticipated that the Council will not withdraw or increase the investment portfolio managed by Investec.

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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
- EMail from Investec Asset Management – 19 October 2007

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Executive Board  
30 April 2008