

Report to the Cabinet

Report reference: C-029-2010/11
Date of meeting: 13 September 2010



**Epping Forest
District Council**

Portfolio: Finance & Economic Development

Subject: Revised Council's Treasury Management Strategy Statement and Investment Strategy 2010/11 to 2012/13

Responsible Officer: Brian Moldon (01992 564455).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) That the amended 2010/11 Treasury Management Strategy Statement and Investment Strategy 2010/11 to 2012/13 be recommended to the Council for approval;
- (2) That the deletion of the local performance indicator on investment returns be recommended to the Council for approval; and
- (3) That the Treasury Management Prudential Indicators for 2010/11 to 2012/13 be noted.

Executive Summary:

The Council is required to approve the Treasury Management Strategy and Prudential Indicators each year. This was achieved for 2010/11 when Members approved this in February 2010. However, the Council changed its treasury advisors in May and this report is to bring the Treasury Strategy in line with advice from our new treasury advisors Arlingclose.

The strategies, as amended if necessary, will be scrutinised by the Audit and Governance Committee on 20 September 2010 prior to consideration by Council on 28 September 2010.

Reasons for Proposed Decision:

The proposed decision is necessary to bring our Treasury Management Strategy and Investment Strategy in line with the views of our treasury advisors Arlingclose.

Other Options for Action:

Members could ask for additional information about the Treasury Management Strategy, or not recommend the revised Strategy to the Council for approval.

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management –

revised November 2009). There is a requirement for Council to approve its treasury and investment strategy and prudential indicators each year.

2. The Council approved the Treasury Management Strategy and Investment Strategy for 2010/11 and the Prudential Indicators for 2010/11 to 2012/13 in February 2010 as part of the budget process.

3. The Strategy was prepared in line with advice from our treasury advisors at that time, Butlers. However, the Council appointed Arlingclose to act as treasury advisors from 1 May 2010 for a period of three years. The attached report at appendix 1 shows the revised Strategy in line with our new advisors.

Changes from Original Strategies

4. Although the layout between the strategy approved in February 2010 and the proposed strategy being requested to be approved are different, there are very few changes in relation to how and when the Council can invest. The original strategy had two minimum criteria for credit rated counterparties (i.e. banks) for investments up to £5m and £10m. Under the new revised strategy there will be only one limit up to £10m. The changes in minimum credit ratings are shown in the table below:

Strategy	Limit up to	Rating Agencies					
		Moody's		S & P		Fitch	
		Short term	Long term	Short term	Long term	Short term	Long term
Original	£5 million	P-2	A2	A-1	A	F1	A
	£10 million	P-1	Aa3	A-1+	AA-	F1+	AA-
Revised	£10 million	P-1	A1	A-1	A+	F1	A+

5. There has been a change in the minimum credit score for short and long term ratings. The revised score has reduced when comparing against the original rating required for investments up to £10m, but has increased when compared against the investment up to £5m. This has resulted in a number of counterparties being removed from the approved list, due to their credit ratings. In order to ensure we can invest all our money, it is now necessary to set up new accounts with foreign banks we had not used previously.

6. The maximum investments in a non-UK Country by the Council has also been changed from an original agreed limit of 10% of the portfolio (approximately £5m) to now being £10m per non-UK Country in line with Arlingclose advice.

7. A new investment activity has been added to the strategy, this being the purchase of Bonds issued by multilateral development banks i.e. European Investment Bank. This will have a limit of £10m and can have a maximum maturity of 10 years, although any investments will only be undertaken on advice from our treasury advisors.

8. Previously the Council has included a local performance indicator measuring the Council's performance for average rate of interest earned against the 7 Day LIBID (the London Interbank Bid) rate. Following the changes in the revised Code of Practice on Treasury Management and the refocus on Security and Yield, it is now felt inappropriate for this benchmark to remain. The Council will continue to report at the Outturn, our average rate of interest against the 7 Day LIBID, but to set a target for officers to achieve could

suggest that officers should be concentrating as much on rates, as it would on security and yield.

9. No changes to the Prudential Indicators have been made.

Resource Implications:

None.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's external treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

The original Treasury Management Strategy for 2010/11 and Prudential Indicators for 2010/11 to 2012/13 went to Council on 16 February 2010.

Impact Assessments:

Risk Management

As detailed in the appendices, a risk averse position is adopted to minimise the chance of any loss of the capital invested by the Council.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?

N/A