

Report to the Cabinet

Report reference: C-055-2010/11
Date of meeting: 31 January 2011



Portfolio: Finance & Economic Development

Subject: Treasury Management - Strategy Statement and Investment Strategy 2011/12 to 2013/14.

Responsible Officer: Brian Moldon (01992 564455).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) That Members approve the 2011/12 Treasury Management Strategy Statement and Annual Investment Strategy 2011/12 to 2013/14;
- (2) That Members approve the Council's Statement on the Minimum Revenue Provision contained within the Strategy; and
- (3) That Members adopt the Treasury Management Prudential Indicators for 2011/12 to 2013/14.

Executive Summary:

The Council is required to approve the Treasury Management Strategy and Prudential Indicators and a statement on the Minimum Revenue Provision (MRP) before the start of each financial year.

The strategies, as amended if necessary, will be scrutinised by the Audit and Governance Committee on 14 February 2011 prior to consideration by Council on 22 February 2011.

Reasons for Proposed Decision:

The proposed decision is necessary to ensure we comply with CIPFA Code of Practice on Treasury Management.

Other Options for Action:

Members could ask for additional information about the Treasury Management Strategy, or could decide that alternative indicators are required.

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 Strategy was prepared in line with advice from our treasury advisors Arlingclose. The attached report at appendix 1 shows the Treasury Management Strategy Statement and Annual Investment Strategy 2011/12 to 2013/14.

Changes from the previous years strategy

3. 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 previous strategy had two minimum criteria for credit rated counterparties (i.e. banks) for investments up to £5m and £10m. Under the new strategy there will be only one limit up to £10m. The changes in minimum credit ratings are shown in the table below (explanation of the credit ratings is at appendix 2):

Strategy	Limit up to	Rating Agencies					
		Moody's		S & P		Fitch	
		Short term	Long term	Short term	Long term	Short term	Long term
2010/11	£5 million	P-2	A2	A-1	A	F1	A
	£10 million	P-1	Aa3	A-1+	AA-	F1+	AA-
2011/12	£10 million	P-1	A1	A-1	A+	F1	A+

4. 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, for example, Close Brother, Co-op and some building societies. In order to ensure we can invest all our money, it has been necessary to set up new accounts with highly rated foreign banks we had not used previously.

5. 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.

6. 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.

7. 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 on security and yield.

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

Resource Implications:

The continued low interest rates and use of the same financial instruments will result in an estimated further reduction in investment interest against 2010/11 original of £238,000, giving an estimated interest income for 2011/12 of £659,000.

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:

None

Impact Assessments:

Risk Management

As detailed in the appendices, a risk aware 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

N/A

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

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.