

Forest Heath District Council

(This report is not a key decision. This report has been subject to appropriate notice of publication under the Council's Access to Information Rules)

Report of the Cabinet Member for Resources, Governance and Performance

CABINET

5 FEBRUARY 2013

CAB13/064

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY STATEMENTS 2013/2014 (Key Decision Reference: FEB13/01)

1. Summary and reasons for recommendation(s)

- 1.1 This report seeks approval for the formal adoption of the proposed Annual Treasury Management and Investment Strategy Statements 2013/2014.

2. Recommendation(s)

2.1 The Cabinet are requested to recommend to Council:

- 2.2 The approval of the Annual Treasury Management and Investment Strategy Statements 2013/2014, as set out in Appendix 1 of this report.**
- 2.3 That the Head of Resources and Performance be given delegated authority, in consultation with the Portfolio Holder for Resources, Governance and Performance, to make investments with BBB+ or a BBB rated institution following.**

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3. How will the recommendations help us meet our strategic priorities?

- 3.1 In order for the Council to be able to meet its strategic priorities it is essential that sufficient and appropriate financial resources are available. Optimising returns from investments, without exposing ourselves to an unacceptably high level of risk, increases those financial resources.

4. Key issues

- 4.1 The CIPFA Code of Practice requires that a treasury management strategy is approved by the Council prior to the beginning of the financial year to which it relates. The proposed Annual Treasury Management and Investment Strategy Statements for 2013/14, attached at Appendix 1 to this report, meets the requirements of the CIPFA code together with the DCLG's Guidance on Local Government Investments.

- 4.2 CIPFA has adopted the following as its definition of treasury management:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

- 4.3 The Strategy gives priority to the security and liquidity of investments whilst at the same time seeking to achieve value for money in treasury management. They also seek to give maximum flexibility in terms of the usage of fixed and variable rate investments and allow for the balancing of certainty of income arising from fixed term investments with the need to retain a core balance that can be easily liquidated should the need arise.
- 4.4 Following advice from the Council's external fund managers, Tradition (City Deposit Cash Managers), the investment criteria for specified (long term) investments has been changed in the 2013/14 Strategy and the situation regarding the use of Building Societies for long term investments has been clarified.
- 4.5 Over the past few years, given the current economic situation, there has been a trend for Rating Agencies to down grade financial institutions. Previously it was quite common for banks to have AAA or AA ratings, these have almost all gone now (HSBC is the only main bank left with a AA rating). Consequently the Council has had to reassess its credit rating criteria in order to ensure that there are enough institutions on our approved list to make investments within our investment limits. This is not deemed to have an unacceptably adverse affect our exposure risk.
- 4.6 The 2012/13 Strategy and Code of Practice required an A rating or above for long term investments. The 2013/14 Strategy and Code of Practice has reduced this requirement to a BBB rating or above (Baa2 or above for Standard & Poor's). However the Head of Resources and Performance will consult with the Portfolio Holder for Resources, Performance and Governance before an investment is made with a BBB+ or a BBB rated institution.

- 4.7 As part of reviewing the Treasury Management Strategy and Code of Practice a contradiction was identified between the wording in the Strategy regarding the use of building societies and the List of Approved Organisations for Investments in the Code of Practice (Appendix 2).
- 4.8 Building Societies are often not rated by the Rating Agencies (or not rated in the same way as banks), consequently the criteria used to ascertain their creditworthiness is related to whether they have assets of £1bn or more.
- 4.9 The 2013/14 Code of Practice Appendix 2 has been adjusted in order to clarify the use of Building Societies with assets of £1bn or more for long term investments. The total investment limit for each institution remains the same.
- 4.10 For Members information, in Oct 2012 the Council, following consultation with the Portfolio Holder for Resources, Performance and Governance and via Tradition, made a 3 year investment with Nottingham Building Society for £1.5m. This is deemed to be in line with the treasury management strategy creditworthiness check of £1bn assets for Building Societies. Members should note that at the time they had a credit rating score from Standard & Poor's of only Baa2 (no ratings were available from Moody's and Fitch).
- 4.5 With effect from 2011 the Council meeting that sets the Council Tax also approves the Strategy and Code of Practice.

5. Other options considered

- 5.1 Not applicable.

6. Community impact

6.1 Crime and disorder impact *(including Section 17 of the Crime and Disorder Act 1998)*

- 6.1.1 Not applicable.

6.2 Diversity and equality impact *(including the findings of the Equality Impact Assessment)*

- 6.2.1 Not applicable.

6.3 Sustainability impact *(including completing a Sustainability Impact Assessment)*

- 6.3.1 Not applicable.

6.4 Other impact *(any other impacts affecting this report)*

- 6.4.1 Not applicable.

7. Consultation *(what consultation has been undertaken, and what were the outcomes?)*

- 7.1 Not applicable.

8. Financial and resource implications *(including asset management implications)*

- 8.1 Periodic forecasts of likely annual interest receipts, as a result of the investment of funds, are made and feed into the Medium Term Financial Strategy. These should highlight any budget or resource implications.
- 8.2 The Council's prudential indicators are monitored on our performance management system, Covalent. These are reported quarterly to the Performance and Audit Committee.

Performance Management Implications

- 8.3 A quarterly report of the rates of return obtained, compared to the benchmark seven day average rate, which is averaged over a 3 year period, will be reported to the Performance and Audit Committee.
- 8.4 A monitoring and annual report in relation to performance on Treasury Management will be reported to Council over the financial year.

9. Risk/opportunity assessment *(potential hazards or opportunities affecting corporate, service or project objectives)*

- 9.1 The Council regards the successful identification, monitoring and control of risk to be prime criteria by which the effectiveness of its Treasury Management activities will be measured. The main risks to the Council's treasury activities are shown below.
- 9.2 The main risks to the Council's treasury activities are:
- Credit and Counterparty Risk – Security of the Council's Investments
 - Market or Interest Rate Risk – Fluctuations in interest rate levels and thereby in the value of investments
 - Liquidity Risk – Inadequate cash resources
 - Inflation Risk – Exposure to inflation
 - Legal and Regulatory Risk – Non compliance with Statutory and Regulatory requirements and the risk of fraud.
- 9.3 The previously mentioned risks have been taken into account when setting the proposed Annual Treasury Management and Investment Strategy Statement **Appendix 1**. The risk that remains the Council's primary focus is that around the credit and counterparty risk and potential loss of its investments in a similar way to that following the Icelandic Banks collapse.

10. Legal and policy implications

- 10.1 The Council will have regard to the Communities and Local Government "Guidance on Local Government Investments" published in March 2010 and CIPFA's "Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes" 2011 Edition.
- 10.2 This report ensures compliance with Forest Heath District Council's Treasury Management Code of Practice and the CIPFA Treasury Management in the Public Services Code of Practice.

10.3 Section TMP6 of the Council's Treasury Management Code of Practice requires that the Section 151 Officer shall, before the 7 March in each year, report the proposed strategy on Treasury Management for the ensuing financial year, to the Council. This is also in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice.

10.4 All treasury activity will comply with relevant statute, guidance and accounting standards.

11. Ward(s) affected

11.1 Not applicable – corporate function.

12. Background papers

12.1 None

13. Documents attached

13.1 Appendix 1 – Annual Treasury Management and investment Strategy Statements 2013/14

13.2 Appendix 2 – Credit Agency Ratings Definitions