

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

18 FEBRUARY 2014

CAB14/134

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY STATEMENTS 2014/2015 AND TREASURY MANAGEMENT CODE OF PRACTICE

(Decisions Plan Reference: FEB14/07)

1. Summary and reasons for recommendation(s)

- 1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management requires that, prior to the start of the financial year, the Council formally approve an Annual Treasury Management and Investment Strategy which sets out its treasury management policy and strategy statements for the forthcoming year.
- 1.2 CIPFA also recommend that all Councils adopt a Treasury Management Code of Practice based on the treasury management practices published by CIPFA and guidance issued in their Code of Practice on Treasury Management.
- 1.3 The purpose of this report is to seek approval for:
 - the Annual Treasury Management and Investment Strategy Statements 2014/15 (including treasury related Prudential Indicators)
 - the adoption of the Treasury Management Code of Practice.

2. Recommendation(s)

- 2.1 That the Cabinet are requested to recommend to Council, the approval of the Annual Treasury Management and Investment Strategy Statements 2014/15 (as set out in Appendix 1 & 2 of this report).**
- 2.2 That the Cabinet are requested to recommend to Council, the approval of the Treasury Management Code of Practice (attached in Appendix 3 & 4 of this report).**

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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 the Council to an unacceptably high level of risk, increases those financial resources.

4. Key issues

4.1 Following the move to a West Suffolk shared finance service, including a shared treasury management function, between St Edmundsbury Borough Council (SEBC) and Forest Heath District Council (FHDC) we have taken this opportunity to align, where possible, the two Councils' Annual Treasury Management and Investment Strategy Statements (Strategy) and Treasury Management Code of Practice (Code). The new Strategy and Code still recognise that the two Councils continue to have different investment criteria and limits due to our different size investment portfolios and different external advisors/fund managers.

4.2 The alignment of the Strategy and Code has resulted in many wording and format changes within the documents but the meaning behind the words remains the same. The new Strategy and Codes are in line with the CIPFA Code of Practice on Treasury Management and the guidance issued from the Department for Communities and Local Government (CLG).

Main changes between the 2013/14 Strategy and the new 2014/15 Strategy

4.3 Following advice from the Council's external fund managers, Tradition, and to bring FHDC closer in line with SEBC, the new Strategy includes increased limits for investments as detailed in the table below. The increase was also driven by the limited availability of institutions which meet the Council's investment criteria whilst offering an investment opportunity at an appropriate rate of return. It is felt that it is more prudent to increase the investment limits on higher rated institutions than reduce the rating criteria for inclusion in the authorised list of institutions for investment.

Institution	PREVIOUS INVESTMENT LIMITS			NEW INVESTMENT LIMITS			Increase In Limit
	CDCM Max.	Internally Managed Max.	Total Max.	CDCM Max.	Internally Managed Max.	Total Max.	
UK Clearing Banks	£M 5	£M 1.5	£M 5	£M 6	£M 2	£M 8	£M +3
(Lloyds/Bank of Scotland)	5	1.5	6.5	7	3	10	+3.5
UK Building Societies (The Top 10 & £1bn Assets)	3	1.5	4.5	4	2	6	+1.5
UK Building Societies (from Top 11 downwards & £1bn Assets)	3	1	4	4	1	5	+1

Institution	PREVIOUS INVESTMENT LIMITS			NEW INVESTMENT LIMITS			Increase In Limit
	CDCM Max.	Internally Managed Max.	Total Max.	CDCM Max.	Internally Managed Max.	Total Max.	
UK Clearing Bank Subsidiaries	3	1	4	4	2	6	+2
Other UK Banks (with links to overseas banks)	3	1	4	4	1	5	+1
Overseas Banks	3	0	3	3	0	3	No Change
Local Authorities	3	1.5	4.5	7	3	10	+5.5
Debt Management Office	No Limit	No Limit	No Limit	No Limit	No Limit	No Limit	No Change

4.4 In line with SEBC the following new criteria has been included:

- No more than 60% of the total value of investments held will be subject to a variable rate of return.

4.5 Due to the reduced amount of money available for investment, the following criteria has been changed:

The following longer term investment restrictions will apply:-

- No more than £20M (nominal) (*previously £25M*) can be invested for periods of 1 year or longer.
- No investments can be made for periods longer than 5 years.
- The total value of funds controlled by any individual advisor/fund manager to the Council shall not exceed £30M (nominal) (*previously £40M*).

On any day:

- No more than £15M (nominal) in total shall be held in investments where the remaining term up to the date of maturity is at least 4 years but not exceeding 5 years.
- No more than £20M (nominal) (*previously £25M*) in total shall be held in investments where the remaining term up to the date of maturity exceeds 1 year.

4.6 Following advice from the Council's external fund managers, interest rate projections have been updated as follows:

	Previous Strategy	New Strategy
2013/14	2.45%	2.45%
2014/15	2.50%	1.90%
2015/16	2.50%	1.75%
2016/17	2.50%	2.15%
2017/18		2.50%

4.7 The Council is changing its bank from 1 April 2014 to Lloyds Bank Plc, consequently the Strategy has been updated to reflect this.

4.8 A summary of the treasury related Prudential Indicators has now been included in the Strategy.

Main changes between the 2013/14 Code and the new 2014/15 Code

4.9 The changes to the Strategy, detailed in paragraphs 4.3 to 4.8 have all been reflected in the Code.

4.10 The Code also details the changes to delegated powers and responsibilities following the recent staff restructure and move to a shared service.

4.11 The timing and amount details in the following paragraph have been updated:

- Daily treasury management procedures will aim to maintain a forecast consolidated balance in the region of £25k to £500k. However, balances over £500K may be retained in the bank account if a maturing investment is being used to cover payments going out within the next week (*previously a day*) and the total interest lost, by retaining this money, does not exceed £50.00 (*previously £25.00*).

This update allows greater flexibility to the treasury team for cash flow management purposes.

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 None.

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

6.2.1 None.

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

6.3.1 None.

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

6.4.1 None.

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

7.1 Treasury management activities are currently undertaken in consultation with Tradition (City Deposit Cash Managers), the Council's appointed treasury management fund managers.

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

8.1 Total budgeted interest receipts from investments for 2014/15 is £476k. This amount has been included within the 2014/15 budget setting process.

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

Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	High/Medium/Low		High/Medium/Low
Fluctuations in interest rates or in projected cashflows having significant impact on budgeted investment income.	High	Spread of investments for periods of up to five years. Budget monitoring and half yearly performance reports.	Medium
Bank / building society failure resulting in loss of Council funds.	High	Use of Tradition advice and counterparty credit ratings (based on Fitch, S&P and Moody ratings) and the setting of lending limits. Use of building societies based on asset base and additional credit ratings.	Medium

9.1 Further details regarding treasury management risks and risk management are included within the Annual Treasury Management and Investment Strategy Statements 2014/15 and Treasury Management Code of Practice.

10. Legal and policy implications

10.1 Approval and adoption of the Annual Treasury Management and Investment Strategy Statements 2014/15 and Treasury Management Code of Practice will ensure compliance with relevant legislation and guidance from professional bodies, in terms of best practice.

11. Ward(s) affected

11.1 All.

12. Background papers

12.1 Annual Treasury Management and Investment Strategy Statements 2013/14 (Report No CAB13/064).

12.2 Treasury Management Code of Practice 2013/14 (Report No CAB13/065).

13. Documents attached

13.1 Appendix 1 - Annual Treasury Management and Investment Strategy Statements 2014/15.

13.2 Appendix 2 - Credit Agency ratings Definitions.

13.3 Appendix 3 - Treasury Management Code of Practice.

13.4 Appendix 4 - List of Approved Organisations for Investments.