

Executive Committee

No Direct Ward Relevance

10th March 2010

TREASURY MANAGEMENT STRATEGY 2010/11

(Report of the Head of Resources)

1. Summary of Proposals

Members are asked to approve the Treasury Management Strategy for 2010/11.

2. Recommendations

The Committee is asked to **RECOMMEND** that

the Treasury Management Strategy for 2010/11 be approved.

3. Financial, Legal, Policy, Risk and Climate Change / Carbon Management Implications

Financial

3.1 The financial implications are contained throughout the report

Legal

3.2 Section 151 of the Local Government Act 1972, the authority has to make arrangements for the proper administration of its financial affairs. The Council has previously resolved to comply with the CIPFA Code of Practice on Treasury Management. Under the Code of Practice the Council is required to approve the Treasury Management Strategy and Annual Investment Strategy before the start of the financial year.

3.3 Guidance issued under Section 15 (1) (a) of the Local Government Act 2003 requires the Council to approve an Annual Investment Strategy before the start of the financial year.

3.4. Local authorities have a specific requirement to adopt the CIPFA Code of Practice on Treasury Management in the Public Services under the Prudential Code for Capital Finance in Local Authorities which authorities are required to comply with under Part 1 of the Local Government Act 2003.

3.5. The treasury management code of practice requires all organisations covered by it to have a treasury management strategy stating the policies and objectives of its treasury management function.

- 3.6. On the 16th November 2009 the Department for Communities and Local Government issued a consultation paper on various changes to the prudential Capital Finance system introduced by the Local Government Act 2003. The revised guidance impacts on an authority's investment strategy.

Policy

- 3.7 There are no direct policy implications.

Risk

- 3.8 The Council needs to ensure that the risks associated with the treasury function have been properly identified and evaluated. The risks include interest rate exposure, counterparty or credit risk, liquidity (insufficient cash to meet liabilities) risk, funding (inability to repay or replace loans) risk, and the failure of internal controls.

Climate Change / Carbon Management

- 3.9 There are no Climate Change / Carbon Management implications.

Report

4. Background

- 4.1 Treasury Management is:-

“the management of the local authority's cash flows, its bankings, money market and capital market transactions and loan management; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks”.

- 4.2 The approved activities of the Treasury Management operation are as follows:-

- a) Cash flow (daily balances and long term forecasting).
- b) Investing surplus funds in Approved Investments.
- c) Borrowing to finance cash deficits.
- d) Funding of capital expenditure through borrowing, capital receipts, grants or leasing.
- e) Management of debt (including rescheduling and monitoring)
- f) Interest rate exposure management.
- g) Dealing procedures with brokers, banks, building societies and the Public Works Loans Board.

- 4.3 On the 1st April 2004 the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code was introduced to support the new system of capital finance embodied in part 1 of the Local Government Act 2003. This introduced a number of prudential indicators that impact on treasury management activity.
- 4.4 The revised guidance issued in draft on the 16th November 2009 makes it clear that investment priorities should be security and liquidity, rather than yield and that authorities should not rely just on credit ratings, but consider other information on risk.
- 4.5 The draft guidance requires investment strategies to comment on the use of treasury management consultants and on the investment of money borrowed in advance of spending needs.
- 4.6 The investment strategy for periods commencing 1st April 2010 are to be approved by full council and published.

5. Key Issues

- 5.1 The turmoil within financial markets, in particular the failing of a number of Icelandic banks and the issue with Northern Rock has highlighted the risks associated with treasury management activities.
- 5.2 The strategy adopted by many local authorities has been to protect capital sums with minimal returns on investments. There are now only a handful of institutions with a F1+ credit rating.
- 5.3 The bank base rate has remained at 0.5% since 5th March 2009.
- 5.4 The Council currently has £15 million which it invests for periods up to one year. These monies are currently invested with a number of banks and building societies at rates ranging from 0.37% and 2.25%.
- 5.5 Despite other Authorities experiencing significant potential losses on investments, the Council's investments have remained secure.

Capital Resources

- 5.6 The Council's capital programme for 2010/11 shows a requirement for capital resources of £7.5 million. In order to fund the 2010/11 capital programme the Council will need to undertake further prudential borrowing of £3.6 million. The availability of capital receipts from asset disposals is limited because of market conditions.
- 5.7 The Council currently has £5.0 million of long term borrowing. The remainder of the Council's borrowing is currently undertaken on a

short-term basis. Further long term borrowing will be undertaken when market conditions are favourable.

- 5.8 The decision on when borrowing will be taken up will depend on expenditure plans and market conditions. The Council only has the power to borrow to fund capital expenditure.

6. **Other Implications**

Asset Management - None identified.

Community Safety - None identified.

Health - None identified.

Human Resources - None identified.

Social Exclusion - None identified.

Environment /
Sustainability - None identified.

7. **Lessons Learnt**

None.

8. **Background Papers**

Changes to the capital finance system – Consultation [Department for Communities and Local Government

Treasury Management Code - CIPFA

9. **Consultation**

Relevant Borough Council Officers have been consulted in the preparation of this report.

10. **Author of Report**

The author of this report is Teresa Kristunas (Head of Resources) who can be contacted on extension 3295 (e-mail:teresa.kristunas@redditchbc.gov.uk) for more information.

11. **Appendices**

Appendix 1 - Treasury Management Strategy 2010/11