

SUBJECT:	Treasury Management Strategy 2012/2013	
REPORT OF:	Officer Management Team	- Director of Resources
	Prepared by -	- Principal Accountant

1. Purpose of Report

- 1.1. To advise the Portfolio Holder on the Treasury Management Strategy & Annual Investment Strategy that should be adopted by the Council for 2012/2013.

2. Links to Council Policy Objectives

- 2.1. The Council's Treasury Management Strategy is a key element to the Financial Strategy, which in turn feeds into the prudent use of Resources, one of the Council's Management Principles.

3. Background

- 3.1. The Council adopted the CIPFA code of practice on Treasury Management in June 2002, which includes the creation of a Treasury Management Strategy, which sets out the policies, and objectives of the Council's treasury management activities for the year ahead.
- 3.2. The Local Government Act 2003 requires the Council to have regard to the Prudential code and to set Prudential Indicators for the next 3 years to ensure that the Council's capital investments plans are affordable, prudent and sustainable.
- 3.3. The Act requires the Council to set out its Treasury Strategy and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 3.4. It is a statutory requirement under section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, section 32 requires a local authority to calculate its budget requirements for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- Loss of investment interest caused by the use of capital receipts to finance additional capital expenditure.
- Any increases in running costs from new capital projects.

Are limited to a level which is affordable within the projected income of the Council for the foreseeable future as part of the Council's overall Financial Strategy.

- 3.5. The DCLG's investment guidance states that authorities could combine the Treasury Strategy Statement and the Annual Investment Strategy (AIG) into one report. The Treasury Management Strategy 2012/13 document is attached to this report.
- 3.6. Following discussions with Sector Treasury Services, the Council's treasury management advisors, the proposed target figure for investment returns for 2012/2013 is £800,000. This

reflects the latest interest rate forecasts. This report seeks approval to the Strategy to achieve this target.

4. Treasury Management Strategy 2012/13

- 4.1. The Treasury Management Strategy 2012/13 attached to this report sets out the target for investment returns for 2012/13 and how this will be achieved against the background for the economy and the prospects for interest rates.
- 4.2. The Strategy sets out the economic background and prospects for interest rates in 2012/13.
- 4.3. The majority of interest is currently generated by Officers placing money in fixed deposits. The current policy is to stay relatively short on these investments in order to have liquid funds available to take advantage of investment opportunities and when interest rates begin to rise.
- 4.4. Due to the recent downgrading of a number of UK banks by the credit rating agencies (including Fitch which the Council uses) the current counterparty matrix no longer reflects the Council's current investment portfolio and continuing with the matrix in its current form would mean having to accept lower returns and raise issues of identifying sufficient number of acceptable counterparties to meet the Council's requirements. A revised counterparty matrix has been proposed in 4.6 of the Strategy for Members consideration and approval.

5. Resources, Risk & Other Implications

- 5.1. The budget for investment interest was set as £900,000 for 2011/12. Current estimated returns shows that there is likely to be an underachievement for the year of £17,000.
- 5.2. For 2012/13 investment income will be based on total core cash reserves of £20m in line with the medium term financial strategy. In addition officers invest surplus cash flow during the year and estimated returns are based on short-term interest rates remaining within the range of 0.50% to 1.10%.
- 5.3. Based upon the recommendations outlined in the Treasury Management Strategy 2012/13 attached the estimated investment returns for 2012/13 are as follows:

	£'000
Fixed Deposits	657
SPMG Bonds & Gilts	66
Short Term Cash Flow	53
Paper Sort Facility Loan £300K @8%	24
Net Total Investment Income	800

- 5.4. This target for investment income reflects the latest forecasts for interest rates. It is regarded as realistic and achievable, but is predicated on the assumption that the reinvestment of investments will be able to achieve a rate equal to that of the maturing investments. Loss of £35K of investment income is equal to £1 Council Tax on a band D property
- 5.5. As stated the investment returns are based upon a level of balances for 2012/13 of £20m. The estimated capital programme shows that this is realistic based on the latest

programme. It is because of the level of balances that the Council hold that it will remain a debt free authority.

- 5.6. As with any budget based on forecasts of future interest rates there is a risk of variation due to factors outside of the Council's control. This risk will need to be taken into account in determining the level of reserves held by the authority.

6. Summary

6.1. The PAG is requested to:

1. Advise the Portfolio Holder to recommend the Treasury Management Strategy 2012/13 to the Cabinet, including :
 - (i) Approving the revised counterparty matrix shown in 4.6 of the Treasury Management Strategy 2012/13 document.
 - (ii) Approving the following appendices:
 - Appendix B the Annual Investment Strategy.
 - Appendix F the Prudential Indicators, including the borrowing limits.
 - Appendix G approve the MRP method to be used in 2012/13.
2. Advise the Portfolio Holder that because of the level of capital balances held that the Council remain a debt free authority.

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Background Papers:	None