COUNCIL

Treasury Management Framework 2009/10
04 March 2009

Report of Cabinet

PURPOSE OF REPORT
This report contains the Council's overall Treasury Management Framework for 2009/10, setting out separately each of the component elements that the Council must either formally note or approve by 31 March 2009, in accordance with the relevant legislation and the Code of Practice for Treasury Management in Local Authorities.
This report is public.

RECOMMENDATIONS

(1) That Council notes the Treasury Management Policy Statement and the Treasury Management Strategy Statement, as set out in Appendices B and C of the report.

(2) That Council approves the Prudential Indicators as set out in Appendix D of the report.

(3) That Council approves the Investment Strategy as set out in Appendix E of the report.

1.0 Introduction

1.1 The Code of Practice on Treasury Management for Local Authorities was last updated in 2001 in order to reflect developments in the economic climate at that time.

1.2 The Code was adopted by Council at its meeting on 13 March 2002. The Code requires the Council to create and maintain the following:

- a Treasury Management Policy,
- a Treasury Management Strategy,
- Treasury Management Practices, and
- an Investment Strategy.

1.3 Responsibilities associated with the Code's requirements are set out at ***Appendix A***. Further detail in respect of those documents that require either formal noting or approval by Council is set out in sections 2 to 5 below.

1.4 The proposals regarding the treasury management framework are also to be considered by Budget and Performance Panel at its meeting on 24 February 2009 and any recommendations arising will be fed directly into this meeting.

2.0 Treasury Management Policy Statement

2.1 The Treasury Management Code of Practice requires the Council to set out a Policy Statement outlining the policies and objectives of its treasury management activities. The Code requires a specific form of words for the Policy Statement, which is set out at ***Appendix B***. As such, there is no discretion available to the Council.

2.2 Once adopted, Council needs only to note the Policy Statement each year.

3.0 Treasury Management Strategy Statement

3.1 The Code also requires that an annual Treasury Management Strategy be adopted by 31 March each year, for the forthcoming financial year. This must be approved by Cabinet, but noted by Council. The relevant aspects of the Strategy Statement are attached at ***Appendix C***. The document covers the following activities and forecasts:

- the current treasury position,
- expected movements in interest rates, and
- the Council's borrowing and debt strategy.

3.2 In terms of borrowing, the Strategy takes account Cabinet's final budget proposals, in particular in respect of the General Fund Capital Programme. The proposed strategy needs to provide sufficient flexibility to manage the treasury function over the coming year, however, and therefore a number of scenarios are covered.

4.0 Prudential Indicators

4.1 In developing its budget proposals, Cabinet has reviewed various associated Prudential Indicators, the majority of which are required by statute, and these are set out at ***Appendix D*** for Council's approval. They are also referred to in (and should be considered alongside) the Budget Report contained elsewhere on this Agenda. They will continue to be reviewed at certain times during the course of the year, such reviews being linked to the quarterly reporting of treasury management performance.

5.0 Investment Strategy

5.1 The Council's investment activities are subject to the Local Government Act 2003, which introduced the Prudential Capital Finance system. Under this Act authorities may invest for any purpose relevant to their functions, or to support prudent management of their financial affairs.

5.2 The Act also provides for authorities to carry out their investment activities in accordance with Government guidance rather than with legislation, but it also requires authorities to have regard to any such guidance issued by the Secretary of State.

5.3 The Investment Strategy has been drawn up in line with the relevant guidance and is attached at ***Appendix E***.

5.4 Clearly the recent failure of Icelandic Institutions has had a major impact on the Council and its financial position and future planning. As a result of this, together with recent decisions to repay some capital related debt, as well as expected reductions in the Council's reserves and balances, the Council's cash flow and level of monies available for investment are forecast to be much lower over the coming year. This in itself reduces the exposure to further "counterparty risk" (i.e. the risk of a bank failing), but in addition the following measures are included in the proposals, to reduce the Council's investment risk exposure further:

- The maximum amount to be invested with any one institution (other than the UK Government) has been reduced from £6M to £4M. Generally this maximum would only apply to investments where there is instant access (i.e. not fixed term investments), but with the exception of investments placed with other local authorities or the European Central Bank. Other time / value limits have been similarly reduced.

- The Strategy includes a separate limit of £10M specifically for the Government's Debt Management Accounts Deposit Facility (DMADF). This is included as a 'safe haven', if further major crises occur in the banking sector, as it represents the lowest risk option in the UK. The downside is that its investment rate can be very very low.

- UK institutions will take precedence over other countries, and sovereign ratings (i.e. the credit ratings of countries) will be used. Aside from the UK, only other EU countries would be used, if required.

- No forward deals will be entered into.

- No investments will be made for any period longer than a year (though the bulk of investments are expected to be instant access anyway, to support cashflow needs. There would need to be a major improvement in the Council's financial position to warrant investment periods anywhere near approaching 12 months).

- Various other restrictions have been introduced, centred around restricting the criteria used to determine counterparty lists etc. In addition, the Strategy makes it clear than other restrictions on investment activity may be introduced, should circumstances warrant it.

5.5 It is stressed that in terms of treasury activity, there is no risk free option, but it is felt that the measures set out above provide a sound framework within which to work over the coming year, in response to the turmoil in the global financial sector, and the uncertainty and lack of confidence that surrounds it.

5.6 Finally, it is known that nationally a number of inquiries and reviews are being undertaken in response to the Icelandic banking collapse, and it may well be that further guidance and / or regulations are issued over the coming months. If so, the Council's Treasury Management framework will be reviewed accordingly and any required updates will be presented for Members' consideration in due course.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

None directly arising.

FINANCIAL IMPLICATIONS

None directly arising. The Framework will support the achievement of the estimates for borrowing costs and investment interest included within the proposed budget.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been involved in the formulation of the Treasury Management Framework and has no further comments to add.

LEGAL IMPLICATIONS

Legal Services have no observations to make on this report.

DEPUTY MONITORING OFFICER'S COMMENTS

The Deputy Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS CIPFA Treasury Management Code of Practice CIPFA Prudential Code for Capital Finance in Local Authorities DCLG Guidance on Local Authority Investments	**Contact Officer:** Nadine Muschamp **Telephone:** 01524 582117 **E-mail:** nmuschamp@lancaster.gov.uk **Ref:**