CABINET

TREASURY MANAGEMENT STRATEGY 2009/10
17 February 2009

Report of Head of Financial Services

PURPOSE OF REPORT					
This report sets out the position regarding the 2009/10 to 2011/12 Treasury Management Strategy for Cabinet's approval.					
Key Decision	✓	**Non-Key Decision**		**Referral**	
Date Included in Forward Plan	February 2009				
This report is public.					

RECOMMENDATIONS OF OFFICERS

1. **That Cabinet approves the Treasury Management Strategy for the period 2009/10 to 2011/12, including the Investment Strategy, and as updated for Cabinet's final budget proposals, for subsequent referral to Council.**

REPORT

Introduction

It is a requirement of the CIPFA Code of Practice on Treasury Management that a strategy outlining the expected treasury activity for the forthcoming 3 years is adopted, but that this be reviewed annually. The proposed Treasury Management Strategy for the period 2009/10 to 2011/12 will need to reflect Cabinet's final budget proposals and associated Prudential Indicators, but it will cover the following activities and forecasts:

- the current treasury position
- expected movement in interest rates
- the borrowing and debt strategy
- the investment strategy
- specific limits on treasury activities

The Strategy will be referred on to Budget Council on 04 March.

As context, Members also need to note the Treasury Policy Statement each year, as set out at ***Appendix A***. This will also be included in the Council report accordingly.

Proposal/Details

It is proposed that Cabinet approves the Treasury Management Strategy Statement for 2009/10 to 2011/12, including the Investment Strategy, as updated to reflect Cabinet's final budget proposals. A current draft is attached at ***Appendix B***. Responsibilities for Treasury Management are set out at ***Appendix C;*** these are broadly unchanged from previous years, although the reporting arrangements have been updated to tie in with current practice.

Borrowing Aspects of the Strategy

At present, there is only a very small increase assumed in the Council's underlying need to borrow, to support the capital programme proposals to date. In general terms this increase would be covered through cash flow, rather than taking out new borrowing. 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. Furthermore, the Strategy will need to be updated to reflect Cabinet's final budget proposals, in particular in respect of the General Fund Capital Programme.

Investment Aspects of the Strategy

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 these maximums 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 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.

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.

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.

Consultation

Officers have liaised with Butler's, the Council's Treasury Advisors, in developing the proposed Strategies. The proposals 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 Budget Council.

Options and Options Analysis

As part of the adoption of the CIPFA Code of Practice on Treasury Management it is a statutory requirement that the authority has a Treasury Management Strategy Statement and Investment Strategy. In this regard, Cabinet may put forward alternative proposals or amendments to the proposed documents, but these would have to be considered in light of legislative, professional and economic factors. As such, no further options analysis is available at this time.

Furthermore, the Strategies must fit with other aspects of Cabinet's budget proposals, such as investment interest estimates and underlying prudential borrowing assumptions, feeding into Prudential Indicators. It should be noted that the Prudential Indicators will also be covered in the Budget report, elsewhere on this agenda.

Officer Preferred Option and Justification

To approve the annual Treasury Management Strategy Statement as set out, including the Investment Strategy, for referral on to Council, but as updated for Cabinet's final budget proposals.

RELATIONSHIP TO POLICY FRAMEWORK

This report is in accordance with the Council's Treasury Management Policy.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)

No direct implications arising.

FINANCIAL IMPLICATIONS

None directly arising. The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the draft base budget.

DEPUTY SECTION 151 OFFICER'S COMMENTS
This report and its content forms part of the S151 Officer's responsibilities.

LEGAL IMPLICATIONS
Legal Services have been consulted and have no observations to make regarding this report; there are no implications directly arising.

MONITORING OFFICER'S COMMENTS
The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS CIPFA Code of Practice	**Contact Officer: Nadine Muschamp** **Telephone:01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**