CABINET

Treasury Management Framework 2012/13
14 February 2012

Report of Head of Financial Services

PURPOSE OF REPORT					
This report sets out the 2012/13 Treasury Management framework for Cabinet's approval and referral on to Council.					
Key Decision	✓	**Non-Key Decision**		**Referral**	
Date Included in Forward Plan	May 2011				
This report is public.					

RECOMMENDATIONS OF COUNCILLOR BRYNING:

1. **That Council be recommended to approve the Treasury Management Framework as reflected in Appendices B to D, and as updated for Cabinet's final budget proposals.**

1 INTRODUCTION

1.1 The CIPFA Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to cover various forecasts and activities.

1.2 To give context, the Quarter 3 monitoring report for the current year is included at ***Appendix A*** for information.

2 TREASURY MANAGEMENT FRAMEWORK

2.1 The proposed Strategy for 2012/13 to 2014/15 is set out at ***Appendix B*** for Cabinet's consideration. This document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at ***Appendix C*** and the updated policy statement is presented at ***Appendix D***.

2.2 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals. Should there be any changes to the budget, then the treasury framework would need to be updated accordingly before being referred on to Council.

2.3 **Borrowing Aspects of the Strategy**

2.3.1 Based on the draft budget, for now the physical borrowing position of the Council is projected to remain constant over the next three years for the General Fund capital programme, but additional borrowing of £31.2M will be needed to support the HRA self financing buy out.

2.3.2 This position is based on:

- land at south Lancaster being sold in 2012/13;
- no capital growth on schemes funded through prudential borrowing;
- significant amounts of cash being returned from Icelandic bank investments;
- the withdrawal of Lancaster Indoor Market being managed within projected cash resources, or any borrowing need being considered later by Council.

2.3.3 The above points represent major assumptions and depending on their outcome, the debt strategy may need to be varied greatly. If so, Member approval would be sought where appropriate.

2.4 **Investment Aspects of the Strategy**

2.4.1 2011/12 has been dominated by a sovereign debt crisis, which has had a negative impact on the Euro zone as well as the UK economy including widespread downgrading of banks. This means that there is no strong argument for relaxation of the measures taken post Iceland as counterparty strength is still a major risk. There is the need, however, to ensure sufficient flexibility in managing investments without undermining security, and to ensure that risk appetite is appropriate.

2.4.2 Accordingly, the main changes to investment limits for 2012/13 onwards are:

- an increase to the proposed investment limits with the County Council. This will include retaining the option of placing fixed term deposits for up to 1 year with the County, where liquidity will allow. This will enhance yields without exposing the Council to institutions whose counterparty strength could change materially over a 12 month period, such as with banks.

- a move away from banks that had access to the Government's 'guarantee' scheme, but are not part-nationalised UK institutions.

2.4.3 Overall, the strategy put forward follows on from 2011/12 in that it is based on the Council having a low risk appetite with focus on high quality deposits, and with the potential for a core of cash to be placed fixed term with the County Council to enhance yield, as long as this fits with cash flow needs.

2.4.4 There is a cost linked to a low risk strategy as instant access accounts with good quality counterparties have relatively low yields. Markets are starting to offer significantly improved rates for longer term deposits with rates of 1.87% for a 12 month deposit (as at 30 January). This is in comparison to 0.62% being the average return for the Council's balances overall. To illustrate, placing a £6M deposit for 1 year would have a marginal yield of £75K above that for the Council 'average' investment.

2.4.5 Having said that, many of the instant access investments are linked to the bank rate and so a low risk, high liquidity strategy will still benefit from an increase in interest rates. It is judged unlikely, however, that rates will move in the near term and so the County Council facility, where the Council can place a fixed term deposit at a market rate without the risk of such market volatility, is an attractive option.

2.5 It is stressed in terms of treasury activity, there is no risk free approach. It is felt though that the measures set out above provide a sound framework within which to work over the coming year.

3 CONSULTATION

3.1 Officers have liaised with Sector, the Council's Treasury Advisors, in developing the proposed framework. It will be considered by Budget and Performance Panel at its meeting on 21 February 2012.

4 OPTIONS AND OPTIONS ANALYSIS

4.1 Cabinet may put forward alternative proposals or amendments to the proposed Strategy in Appendix B, but these would have to be considered in light of legislative, professional and economic factors, and importantly, any alternative views regarding the Council's risk appetite. As such, no further options analysis is available at this time.

4.2 Furthermore, the Strategy must fit with other aspects of Cabinet's budget proposals, such as investment interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators.

5 OFFICER PREFERRED OPTION AND JUSTIFICATION

5.1 To approve the framework as attached, for referral on to Council. This is based on the Council continuing to have a low risk appetite regarding investments.

RELATIONSHIP TO POLICY FRAMEWORK
This report seeks minor changes to the Council's Treasury Management Policy, and fits with the development of the Medium Term Financial Strategy.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
No direct implications arising.

FINANCIAL IMPLICATIONS
The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the draft budget.

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 as there are no implications directly arising.

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

BACKGROUND PAPERS Treasury Management in the Public Services. CIPFA Code of Practice and Cross-sector Guidance Notes (2011)	**Contact Officer: Nadine Muschamp** **Telephone:01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**