

CABINET

8 February 2005

TREASURY MANAGEMENT

REPORT OF THE DIRECTOR OF FINANCE

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RECENT REFERENCES:

CAB776 Treasury Management 11 February 2004

CAB923 Treasury Management Stewardship Report 15 September 2004

EXECUTIVE SUMMARY:

This report covers the Policy Statement and Treasury Management Strategy for 2005/06, considers them in the light of the Prudential Code published by CIPFA and the ODPM Investment Guidelines and recommends them for adoption by the Council.

RECOMMENDATIONS:

That Cabinet recommends to Council approval of the Treasury Management Strategy for 2005/06, including the prudential indicators contained therein, as detailed in Appendix 2.

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TREASURY MANAGEMENT

REPORT OF THE DIRECTOR OF FINANCE

1 Introduction

- 1.1 The regulatory framework for capital finance and investment in local government is covered by a system based largely on self regulation. This system requires local authorities to make sure their capital spending plans are affordable, prudent and sustainable.
- 1.2 Key aspects of the system are the *Code of Practice for Treasury Management in the Public Services* and the *Prudential Code for Capital Finance in Local Government*, both developed by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the *Guidance on Local Government Investments* drawn up by the Office of the Deputy Prime Minister (ODPM).
- 1.3 The City Council complies with these codes and the investment guidance.

2 Prudential Code

- 2.1 Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Prudential Code has been developed as a professional code of practice to support local authorities in taking their decisions. They are required by Regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.
- 2.2 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 2.3 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out indicators that must be used and factors that must be taken into account. These indicators are designed to support and record local decision making in a manner that is publicly accountable.
- 2.4 The Prudential Code includes the following as required indicators in respect of treasury management:
 - Compliance with the CIPFA *Code of Practice for Treasury Management in the Public Services*.
 - Upper limits on fixed interest rate and variable interest rate exposures.
 - Upper and lower limits for the maturity structure of borrowings.
 - Upper limit for principal sums invested for periods longer than 364 days.
 - Authorised borrowing limits, including other long term liabilities.

3 Treasury Management Policy

- 3.1 The City Council's Constitution contains Financial Procedure Rules in Part 4. Within those rules Section 5 refers to Borrowing and Investments. The CIPFA Code of Practice covering Treasury Management has been adopted by the City Council under Financial Procedure Rule 5.4 and the City Council applies its principles to all investment activity.
- 3.2 The treasury management policy statement referred to in Financial Procedure Rule 5.5 is attached as Appendix 1 to this report. It was approved by the Council on 25 February 2004.

4 Treasury Management Strategy for 2005/06

- 4.1 The Code of Practice recommends that the annual strategy should also be reported to full Council. The annual strategy report is tied in with the budget process.
- 4.2 The Treasury Management Strategy Report for 2005/06 is attached as Appendix 2, and is recommended for approval by Cabinet and Council. Within the strategy is a statement of the proposed Treasury Management Prudential Indicators in 2005/06 for the City Council that must be approved by Council.

5 Annual Investment Strategy

- 4.1 One of the key requirements of the *Guidance on Local Government Investments* issued by the Office of the Deputy Prime Minister (ODPM) is that each local authority shall, before the start of each financial year, draw up an Annual Investment Strategy for the following financial year.
- 4.2 The strategy sets out the City Council's policies for giving priority to the security and liquidity of its investments, rather than to the yield.
- 4.3 The Annual Investment Strategy for 2005/06 has been incorporated in the Treasury Management Strategy for 2005/06 which is being recommended for approval by Council.

OTHER CONSIDERATIONS:

6 CORPORATE STRATEGY (RELEVANCE TO):

- 6.1 Treasury Management supports the Corporate Strategy by demonstrating high standards in managing the taxpayers money.

7 RESOURCE IMPLICATIONS:

- 7.1 It will still be the case that interest rate changes will have a significant effect on the annual budget, with a change of 1% altering income to the GF by £10,000 for every £1m invested, which on an investment of, say, £25m, equates to £250,000. This would approximate to a council tax increase of 5%.

BACKGROUND DOCUMENTS:

Operational and financial records held in the Finance Department

APPENDICES:

Appendix 1 Treasury Management Policy Statement.

Appendix 2 Treasury Management Strategy for 2005/06.

Winchester City Council
Treasury Management Policy Statement

1 Definition of Treasury Management Activities

1.1 This Council defines its treasury management activities as :-

The management of the organisation's cash flows, its banking, money market and capital market transactions; the effective management of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks.

2 Policy Objectives

2.1 The City Council regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. It also has regard to the rate of return on its investments. Accordingly, our policies and practices make clear that the effective management of risk, having regard to return, is the primary objective of our treasury management activities.

2.2 The City Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2 Treasury Management Practices (TMPs)

2.1 The City Council has adopted suitable treasury management practices setting out the manner in which it seeks to achieve the treasury management policies and objectives, and prescribing how it manages and controls those activities.

2.2 Treasury Management Practices are included in the Treasury Management Manual and cover:-

TMP1 Risk Management.

TMP2 Best value and performance management.

TMP3 Decision making and analysis.

TMP4 Approved instruments, methods and techniques.

TMP5 Organisation, clarity and segregation of responsibilities, dealing arrangements.

TMP6 Reporting requirements and management information arrangements.

TMP7 Budgeting, accounting and audit arrangements.

TMP8 Cash and cash flow management.

TMP9 Money laundering.

TMP10 Staff training and qualification.

TMP11 Use of external service providers.

TMP12 Corporate governance.

Note The wording in 1. Above differs slightly from the wording proposed by CIPFA in that the words "effective management of the risks..." are included rather than "effective control of the risks..." These words have been recommended by our brokers as controlling risk is regarded as an unachievable objective.