

Winchester City Council
Treasury Management Strategy for 2006/07

1 Introduction

The Treasury Management Strategy details the current position and the expected activities of the Treasury function in the financial year 2006/07. Its production and submission to Cabinet is a requirement of the Council's approved Treasury Management Policy.

The strategy for 2006/07 is based on the anticipated movements in interest rates and the projected requirements of the City Council. The Strategy covers:

- ❖ the current portfolio position
- ❖ the investment strategy
- ❖ prospects for interest rates
- ❖ external debt
- ❖ prudential indicators

2 Current Portfolio Position

As at 31st December 2005 the Council had no external debt.

The Council had invested cash surpluses at 31st December 2005 as follows:

Non-specified Investments

Local Authorities Mutual Investment Trust	£975,000
Association of District Councils Debenture	£50,000
Longer term investments	<u>£3,000,000</u>
	<u>£4,025,000</u>

Short Term Investments

Investments	£33,500,000
BoS Instant Access Rate Account	<u>£1,821,000</u>
	<u>£35,321,000</u>

3 Investment Strategy

- 3.1 Under Section 15(1)(a) of the Local Government Act 2003 every local authority is required, before the start of each financial year, to draw up an Annual Investment Strategy for the following financial year.
- 3.2 For this investment strategy the Council's priority is geared to the security and liquidity of its investments, although the yield is also a key consideration. The Council maintains only cash flow investments that are not generally considered appropriate for longer term investment. All its investment balances will therefore normally be maintained as short term or specified investments, with the exception of the LAMIT and ADC investments noted in Section 2 above.
- 3.3 As a contingency an upper limit allowing for up to £10 million to be invested for periods longer than 364 days is set as one of the prudential indicators for 2006/07 (see

paragraph 6.1.3 below). In line with this the minimum amount to be held during the year in investments other than long-term investments is 80% of the City Council's overall investments.

- 3.4 An investment is a specified investment if it satisfies the following conditions:
- (a) The investment is denominated in sterling (see TMP1 – section 3)
 - (b) The investment is not a long term investment (364 days or less)
 - (c) The investment does not involve the acquisition of share capital or loan capital in any body corporate
- 3.5 All investments will be made with the UK Government or a local authority, or made with a body with a high credit rating as set out in the third schedule to *TMP4 – Approved Instruments, Methods and Techniques*.
- 3.6 It is proposed that the only non-specified investments to be made in 2006/07 should be the two noted in Section 2 above and longer term investments noted in Section 3.3 above. These latter investments will only be used where the Council's liquidity requirements are safeguarded and will be limited by the investment prudential indicator in 6.1.3 below.

4 Prospects for Interest Rates

- 4.1 The Bank Base Rate fell to 4.5% in August 2005 and remained at that level throughout the rest of 2005.
- 4.2 The current forecast is that there may be a further small drop to 4.25% in the second quarter of 2006 but thereafter the rate should return to the 4.5% to 5% range for a period of years following 2006.

5 External Debt

- 5.1 The Council repaid all external debt to become debt free in March 2002.
- 5.2 The strategy for external debt is to continue as a debt-free authority and to borrow only on a short-term basis to cover temporary shortfalls in cash. For this reason a maximum of £5m has been set for external borrowing, although the operational boundary is in practice believed to be no more than £2m. The need to borrow to fund the Council's capital programme will be kept under review, principally in the light of any changes to Government financing policy which may affect the position.
- 5.3 There is one long term liability of £0.157m which arises from a credit arrangement made with the contractor managing River Park Leisure Centre. However, the authorised limit has been set at £2m in case other credit arrangements need to be entered into.

6 Prudential Indicators

- 6.1 The following treasury management prudential indicators are set for 2006/07:
- 6.1.1 The City Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.
 - 6.1.2 The upper limits on fixed interest rate and variable interest rate exposures are set at 100% for fixed rate and 20% for variable rate exposure.
 - 6.1.3 Upper limit for principal sums invested for periods longer than 364 days is set at £10million, with an operational boundary of £6million.

- 6.1.4 The minimum amount to be held during the year in investments other than long-term investments is set at 80% of the City Council's overall investments.
- 6.1.5 Upper and lower limits for the maturity structure of borrowings – the upper limit is set at 25% for under 12 months, 50% for between 12 and 59 months and 100% for 5 years and above – the lower limit is set at 0% for periods up to 5 years and 0% for periods of 5 years and above.
- 6.1.6 The authorised limit for borrowing is set at £7million, including £2million for other long term liabilities.

7 Performance Indicators

- 7.1 The following treasury management performance indicators are set for 2006/07:-
 - 7.1.1 Average rate earned on investments to be 0.1% above LIBOR 7 day market rate
 - 7.1.2 Investment management costs to be lower than the average for the CIPFA benchmarking club.
- 7.2 The results of these indicators will be reported in the annual Treasury Management Stewardship Report.