
Meeting: Executive
Date: 12 January 2010
Subject: Treasury Management Strategy
Report of: Cllr Maurice Jones, Portfolio Holder for Corporate Resources
Summary: The report proposed a revised strategy in response to changes in two key codes and increased risk in investment markets.

Advising Officer: Clive Heaphy, Director of Corporate Resources
Contact Officer: Matt Bowmer, Assistant Director Financial Services
Public/Exempt: Public
Wards Affected: All
Function of: Executive
Key Decision Yes
**Reason for urgency/
exemption from call-in
(if appropriate)** N/A

CORPORATE IMPLICATIONS

Council Priorities:

Not applicable.

Financial:

None directly arising from the report.

Legal:

Central Bedfordshire's Strategy is in line with the requirements of the Treasury Management in the Public Sector Code of Practice and The Prudential Code for Capital Finance in Local Authorities, both revised 2009.

Risk Management:

The Strategy requires the consideration of risk in all treasury management undertakings.

Staffing (including Trades Unions):

None.

Equalities/Human Rights:

None.

Community Safety:

None.

Sustainability:

None.

Summary of Overview and Scrutiny Comments:

- Corporate Overview and Scrutiny will consider the Strategy at its meeting on 18 January 2010.

RECOMMENDATION(S):**That the Executive:**

- 1. Recommends Council to approve the Treasury Management Policy and the Treasury Management Strategy**
- 2. Recommends Council to adopt the CIPFA Treasury Management in the Public Services Code of Practice 2009 and The Prudential Code for Capital Finance in Local Authorities.**

Reason for Recommendation(s): To put an effective treasury management framework in place for the Council.

Executive Summary

Central Bedfordshire agreed its Treasury Management Policy and Treasury Management Strategy as a new authority in February 2009. In response to the greater risk and uncertainty in investment markets CIPFA has revised both the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities. There is a greater focus on risk in the two codes and this is recognised in the revised strategy

Introduction

1. Local authority investments have been placed under greater scrutiny following the failure of the Icelandic Banks. In March 2009 the Audit Commission published their 'Risk and Return' report, the recommendations from which are addressed in the revised Treasury Management in the Public Sector Code of Practice. The Prudential code for Capital Finance in Local Authorities has also been revised in light of the greater risk now evident in investment markets.

2. Both Codes now have a greater focus on risk. The headline changes are set out in the paragraphs below and a background paper with a more detailed commentary is available. A revised Treasury Management Policy and Treasury Management Strategy are set out in Appendices A and B respectively.

Treasury Management in the Public Services Code of Practice

3. The key revisions are:
- Organisations must nominate a specific committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. For Central Bedfordshire this is proposed to be the Corporate resources Overview and Scrutiny committee.
 - Credit and counterparty risk are placed at the forefront of the eight risks.
 - Credit rating should only be used as a starting point when considering credit risk. Organisations should make use of generally available market information.
 - There are standards sets on reporting with a minimum of a mid year review of treasury activity. Central Bedfordshire will continue to review on a quarterly basis and more regularly where appropriate.
 - All benchmarking should consider risk as well as return. Central Bedfordshire is currently a member of the CIPFA benchmarking club and will be lobbying for performance measures which meet this criterion.
 - The overall responsibility for treasury management must always remain with the organisation. Central Bedfordshire is well served with advice through Arlingclose but they are no more than advisers.
 - Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures. These are in place through the Constitution and underpinning financial Procedures.
 - Consider any optionality in relation to borrowing. Central Bedfordshire has inherited one Lenders Option Borrowers Option (LOBO) loan and will be looking to refinance this when it is called in.
4. There is reassurance that Central Bedfordshire already has a number of processes and procedures in place which meet the requirements of the new Code.

The Prudential Code for Capital Finance in Local Authorities

5. The key revisions are:
- Where there is a significant difference between the net and the gross borrowing position, the risk and benefits associated with this strategy should be clearly stated in the annual strategy.

- Housing Revenue Account Performance Indicators are to be listed separately.
 - Performance Indicators on treasury management (variable rate, fixed rate and investments of less than 365 days) are moved to the Treasury Management Code.
 - There is a refocus on risk management: security is paramount and should be considered ahead of liquidity then yield.
 - Authorities should consider carefully whether they can consider value for money in borrowing in advance of need and can ensure the security of such funds.
 - Treasury Management should be led by a clear and integrated forward treasury management strategy, and recognition of the pre-existing structure of the authority's borrowing and investment portfolios.
6. The change in focus is possibly most marked in the consideration of advance borrowing, where authorities previously took advantage of a small benefit in interest rates to lend out surplus cash. Given the primacy of security this now only undertaken in the most certain circumstances.

Treasury Management Policy

7. No major changes are proposed for the Treasury Management Policy adopted by the Council in February 2010. The Policy has been updated for references to the revised Codes.

Treasury Management Strategy

8. As set out above the current strategy and practices reflect the greater focus on risk demanded in the revised Codes. There are two key areas of change to be made – amendments to lending limits and a revision to the operational boundary.
9. It will be some time before confidence in the investment markets is restored and the number of institutions to whom the Council can lend is restrictive. It is appropriate to raise the lending limits in the following instances:
- (i) Up the counter-party limits as this is currently restrictive.
 - (ii) Money Market Funds increase to £10m per fund.
 - (iii) Lime Property Fund up to £10m (based on value).
10. The operational borrowing limit in the existing strategy was based on an early assessment of the legacy authority's potential balance sheets and Central Bedfordshire's caretaker role for the County Council's assets and liabilities. A more accurate assessment has now been possible with the closure of accounts and disaggregation of the County's Balance Sheet.

11. The Code of Financial Governance in the Council's Constitution makes provision for detailed Financial Procedures. The day to day operational guidance on treasury management practices are set on in Financial Procedure 16: Treasury Management.

Appendices:

Appendix A Treasury Management Policy

Appendix B Treasury Management Strategy, February 2010

Background Papers (open to public inspection):

Treasury Management in the Public Sector Code of Practice, fully revised 2nd edition 2009

The Prudential code for Capital Finance in Local Authorities, fully revised 2nd edition 2009

Key changes to the Treasury Management Code of Practice and the Prudential Code

Location of papers: Priory House, Chicksands