

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: HEAD OF FINANCE

REPORT NO: HOF214

DATE: 6th December 2012

TITLE:	Revision of the Treasury Management Strategy 2012/13	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Assets and Resources Portfolio Holder	
CONTACT OFFICER:	Richard Wyles, Head of Finance r.wyles@southkesteven.gov.uk 01476406210	
INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
Equality and Diversity	N/A	No
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	HOF189 - Budget Council	

1. RECOMMENDATION

Governance and Audit committee is asked to approve the amendments to the 2012/13 Treasury Management Strategy as identified in the report.

2. PURPOSE OF THE REPORT

Treasury Management is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services. In line with the Code the Council has adopted a treasury management policy statement that requires regular reports on treasury and debt management operations during the financial year.

Additionally, under Part 1 of the Local Government Act 2003, the Council is required to have regard to the Prudential Code for Capital Finance including the setting of Prudential Indicators. Relevant treasury management indicators were incorporated

into the Treasury Management Strategy 2012/13 approved by Council on 1st March 2012

One of the key sections within the Treasury Management Strategy is the Annual Investment strategy which we have updated following work with the Councils Treasury Management advisors. We are seeking approval from the committee incorporated the changes with the strategy for 2012/13.

3. DETAILS OF REPORT

Section 3 on the Treasury Management Strategy report focuses on the Annual Investment Strategy which has been updated in conjunction with advice from the Councils Treasury Management advisors on the approach to managing the Councils investments. Subsequently paragraphs 62-72 and annex 3 (where relevant) have been updated to take into account more information sources to greater assist in selecting counterparties to invest with based on a creditworthiness methodology.

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Councils Treasury Advisor ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the Council recognises that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors which show the varying degrees of suggested creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk whilst providing security of investment and minimisation of risk.

In addition to this paragraph 44-46 on Prospective Interest Rates along with Annex 1 and 2 on economic background has also been updated to reflect the latest forecasts.

If approved, the changes outlined above will also be incorporated into the Treasury Management Strategy for 2013/14 which will be presented to Council on the 3rd March 2013 as part of the budget framework proposals.

4. OTHER OPTIONS CONSIDERED

None

5. RESOURCE IMPLICATIONS

None

6. RISK AND MITIGATION (INCLUDING HEALTH & SAFETY AND DATA QUALITY)

There are no specific high risks associated with this report.

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

None

8. CRIME AND DISORDER IMPLICATIONS

None

9. COMMENTS OF FINANCIAL SERVICES

The detail presented within this report is in line with best practice and takes into account guidance from the Councils Treasury Management Advisors.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

The Council must have a Treasury Management Strategy under the Local Government Act 2003. This needs to be reviewed as required and must be reviewed, at least, annually to ensure it is fit for purpose. The Governance and Audit Committee is authorised by Council to carry out such reviews and make amendments to the strategy as detailed at page 54.1 of the Constitution

11. APPENDICES:

Appendix A – Updated Treasury Management Strategy Report 2012-13