

Treasury Management Strategy

Introduction

The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury management strategy for borrowing and to prepare an Annual Investment Strategy (included as paragraph 3); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2010/11 in respect of the following aspects of the treasury management function is based upon the view of the Group Accountant, Treasury Officer and other financial officers on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor.

The strategy has regard to CIPFA's Treasury Management Code of Practice, which the Council formally adopted in February 2008.

The strategy covers:

- Current Portfolio Position at 31st March 2010;
- Prospects for interest rates;
- Annual Investment Strategy;
- Treasury Limits for 2010/11 to 2012/13
- Borrowing Strategy
- Risk Management
- Treasury Management Arrangements

1. Current Portfolio Position

The estimated Council's treasury portfolio as at 31st March 2010:

External Debt	Amount	Term	Interest Rate
Fixed term – PWLB	£1.6m	5 yrs	2.83%
PWLB	£4m	364 days	0.82%
Local Authorities – Croydon	£3m	364 days	0.55%
Local Authorities – Ealing	£5m	364days	0.60%
Local Authorities – Estimated	£5m	364days	0.70%
Estimate of Interest Payable			
Cumulative payable	£63.5k		
Estimates of Investments			
Fixed interest	£0m		
On call	£0m		
Total investments	£0m		
Estimates of average interest return on investments			
Average on all investments	1.02%		
Estimate of Interest Income			
Cumulative return	£58k		

2. Prospects for Interest Rates

The Council has appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. This advice will be used on an ongoing basis to support investment and borrowing decisions.

The prospects for interest rates over the next twelve months are uncertain, with different views being expressed as to the timing and direction of future interest rate moves. This will therefore require close monitoring and some flexibility regarding decision making.

Sector interest rate forecast – 30th November 2009

	Dec-09	Mar-10	Jan-10	Sep-10	Dec-10	Mar-11	Mar-12	Mar-13
Bank Rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	3.50%	4.50%
5 yr PWLB rate	2.85%	3.05%	3.20%	3.30%	3.40%	3.60%	4.60%	4.85%
10 yr PWLB rate	3.90%	4.00%	4.05%	4.15%	4.30%	4.45%	5.00%	5.15%
25 yr PWLB rate	4.40%	4.55%	4.65%	4.70%	4.80%	4.90%	5.20%	5.35%
50 yr PWLB rate	4.45%	4.60%	4.70%	4.75%	4.90%	5.00%	5.30%	5.45%

Sector's current interest rate view is that Bank Rate: -

- Will gradually increase during the year
- Starting 2009 at 0.50%, Bank Rate is forecast to steadily rise to 1.50% in Q4 2011
- It is then expected to increase to 4.50% by the end of Q4 2013.
- There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

It is however inevitable, in the view of the Head of Financial Services, that in the longer term interest rates will revert to a norm of around 5%. This assumption will underpin decisions regarding the timing of borrowing and investments.

Institutions seeking funds need the security of a longer-term investment. The extent to which the Council should invest or borrow for longer periods in order to secure the better rates available depends on the extent to which we believe rates will move upwards or downwards during the period.

3. Annual Investment Strategy

3.1 Investment Balances/Liquidity of investments

The Council anticipates it will have no net cash in hand at the end of the financial year. Given ongoing expenditure on major capital projects and delays in securing capital receipts, the cash flow forecasts suggest that borrowing will be required by the middle of the financial year. Borrowing will be in line with section 5 of this strategy. Short-term investments will continue to be held in support of revenue cashflow. The Head of Financial Services will keep under review the liquidity of these investments and the period of investment.

In line with recommended Treasury Management Practice (TMP), Corby Borough Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of

funds available to it, which are necessary for the achievement of its business/service objectives.

Monitoring of cashflow is undertaken on a daily basis to ensure monies are available to meet payment schedules.

The Council places cash balances in a higher interest earning account SIBA (Special Interest Bearing Account) with the Council's bankers Natwest. SIBA is linked to the base rate, which is currently 0.50%. This account earns an interest rate of 0.25% above base rate.

The council has an overdraft facility with its bank of £1,000,000. This incurs interest at 1% above base rate.

Interest on the "bank balance" is therefore currently earned at 0.75% or incurred at 1.5%. Given the increased robustness of our cashflow forecasts and the rates that can be earned through money-market investments, we will aim for a cash balance as close to zero as possible.

3.2 Investment Policy

The Council will have regard to the DCLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

- (a) the security of capital and
- (b) the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity. The Council can and has borrowed funds in advance of need, if it can demonstrate this has been done to take advantage of favourable interest rates

The Counterparty list (Appendix B) details the institutions that the authority is authorised to lend to. The council includes on its Counterparty list UK Clearing Banks plus the top 10 building societies, measured by asset size. No investments are made in foreign banks.

The Council uses Fitch ratings to support its counterparty criteria. All credit ratings will be monitored. The Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty representing a significant risk in the view of the Head of Financial Services, its further use as a new counterparty will be withdrawn immediately.

Investments are only made in sterling through UK money markets. Funds are managed in-house.

4. Treasury Limits for 2010/11 to 2012/13

It is a statutory duty under S.3 of the local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount is termed 'Affordable Borrowing', which is set out in Appendix D.

5. Borrowing Strategy

The Council has approved borrowing in support of capital expenditure:

Housing Capital – long-term borrowing of £3m in 2008/09, £0.8m in 2009/10 and £4.995m in 2010/11. These amounts will be subject to annual review, but are linked to the overall

level of Housing capital expenditure, the strategic intent to make this self-financing from HRA resources, and the affordability of funding this borrowing from HRA resources. The timing of the actual loan(s) from PWLB or Other Local Authorities will depend on trends in interest rates, which will be closely monitored.

General Fund Capital – temporary borrowing of £12.894m in 2009/10 and £18.254m in 2010/11 is to fund the Civic Hub/ Parklands Gateway project, Rockingham Triangle and Kickstart. It is intended that this borrowing will be repaid from capital receipts when received during 2011/12 and 2012/13. This will be achieved through a short-term loan from PWLB or other Local Authorities. This will be undertaken early in the financial year in order to benefit from current low rates.

When the Council borrows money to fund capital projects it will borrow from the Public Works Loan Board or other Local Authorities. At present the short-term borrowing rates are very low. However, the Head of Financial Services will need to take a view as to how these will move over time. If longer-term rates are higher in 2 years time then it may be more advantageous to undertake longer-term borrowing earlier.

Sector forecasts indicate that there is a range of options available for the borrowing strategy for 2010/11. Variable rate borrowing is expected to be cheaper than long term borrowing and will therefore be attractive throughout the financial year compared to simply taking long term fixed rate borrowing. Under 10 year PWLB rates are expected to be substantially lower than longer term PWLB rates so this will open up a range of choices for new borrowing for authorities that want to spread their debt maturities away from a concentration in long dated debt. Rates are expected to be slightly lower at the middle to end of the year than earlier on so it may be advantageous to borrow later in the year.

6. Risk Management

Treasury Management Policy 1 (TMP1) - In addition to managing risks in relation to investment timing, interest rates and counterparties as set out above, the Council manages the following risks:

Inflation - The Council will be aware of prevailing levels of inflation and take action where necessary to protect its finances.

Refinancing – The Council will ensure that its borrowing and financing arrangements are negotiated and structured in a manner which are favourable to the Council that can be reasonable achieved in the light of the market conditions prevailing at the time.

Legal and Regulatory - The Council places temporary surplus funds through the services of brokers on the London Money Market. Four brokers are currently used and are listed in the Council's Treasury Management policy. The role of the brokers is outlined in the Bank of England's Non Investment Products Code (NIPs), which the Council complies with. The code is detailed on the Bank of England's Website. All money transactions with brokers to approved banks, building societies and local authorities are evidenced with confirmations from both brokers and borrowers. All payments to institutions are approved by a Senior Officer and documented.

Fraud, error and corruption, and contingency management - Details of systems used and procedures to be followed are held on file. These details will include procedures required in the event of an emergency through system failure. Arrangements are in place for when the designated member of treasury management is absent so sufficient cover is available.

Consideration has been given to treasury management in the Council's Corporate Disaster Plan All personnel responsible for the Treasury Management function are included in the Authorities Insurance Policy.

Market Risk Management - The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market

fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

7. Treasury Management Arrangements

In compliance with Treasury Management Policies (TMP) 2 to 12, the Council has arrangements in place as follows:

TMP 2 – Best Value and Performance Measurement

The Council measures its treasury management activities through analysis of the actual interest received on our total investments, cumulative interest earned and average rate received and actual interest versus budgeted interest

At the beginning of each financial year, a budget will be formulated for the expected interest earned based following assumptions regarding the Bank of England Base Rate, market forces, Treasury Advisory Information and other national statistics.

The council will aim to benchmark against other Local Authorities performance and other managed funds. Information regarding markets and interest rates from the brokers will be considered.

TMP 3 – Decision-making and analysis

The Council will be clear about the nature and extent of the risks it may become exposed to. The Corporate Director (Resources) will inform Members where risks are material and will significantly impact on the Council's Finances.

The Council will record and retain adequate documentation in relation to the basis of decision making and the transactions undertaken. Competitiveness will be ensured by obtaining market rates daily from each of our approved brokers prior to placing the funds with an approved counterparty.

TMP 4 – Approved instruments, methods and techniques

The Council will ensure it uses instruments within the scope of local government investment guidelines and those included under Section 15(1)(a) of the Local Government Act 2003. The Treasury Management Strategy currently limits investments to the money market, but Officers will also review other investments where appropriate and any changes will be brought to committee for approval.

TMP 5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements

One Corby Policy Committee will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year.

The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Head of Financial Service, and for the execution and administration of treasury management decisions to the Head of Financial Services, who will act in accordance with the Council's policy statement and Treasury Management Practices and Cipfa's Standard of Professional Practice on Treasury Management.

Segregation of Responsibilities. - The officers responsible for Treasury management operations are the Group Accountant (Financial Accounting) and the Accountant (Treasury

Management). All transactions are approved separately by two other senior officers. The control accounts for the treasury management function are independently reconciled.

TMP 6 – Reporting requirements and management information arrangements

As a minimum, One Corby Policy Committee will receive an annual report on the strategy and plan for the forthcoming financial year and a half yearly treasury management activity report as part of the budget monitoring cycle.

A quarterly report summarising treasury management activity will be produced for the Head of Financial Services and Financial Services Manager.

TMP 7 – Budgeting, accounting and audit arrangements

The Council will prepare and approve an annual budget for treasury management. Performance of actual interest earned will be measured against budgeted interest expected for the financial year.

TMP 8 – Cash and cash flow management

Cash flow projections will be prepared on a regular and timely basis. The Council as a minimum will prepare cash flow forecasts and actuals to be able to determine the optimum arrangements to be made for investing and managing surplus cash, to assess whether minimum acceptable levels of cash balances plus short term investments might be breached and the adequacy of standby/overdraft facilities or other contingency arrangements.

TMP 9 – Money Laundering

The Council will not tolerate fraud and corruption in the administration of its responsibilities, whether from inside or outside the Council. It's expectation of propriety and accountability is that Members and staff at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices. As a minimum the Council will adopt the practice to serve as a reminder for staff to remain vigilant given that money laundering represents a growing threat. The Monitoring Officer, in consultation with the Head of Financial Services, will develop and maintain an anti-fraud and corruption policy. All suspected irregularities and financial impropriety must be reported to the Head of Financial Services, who will report to Internal Audit, the Chief Executive and Monitoring Officer. The Council will also review how anti-money laundering regulations impact on the authority.

TMP 10 – Staff training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. The Council will seek to employ suitably qualified staff for its Treasury Management function. The Council will continue to invest in training its treasury management staff to enable them to keep up with new developments and new Treasury Management practices.

TMP 11 – Use of External Service Providers

The Council has appointed Sector Treasury Management Advisory service to assist it in making optimum investments decisions based on up-to-date data, who's services are currently being reviewed.

The Council also uses the services of a total of four brokers for the purpose of placing surplus cash investments. This ensures the authority does not have an over-reliance on one or a small number of brokers. The brokers provide interest rates and market economy information. The four brokers currently used are Sterling International, Tullet Prebon, RP Martin and Tradition.

The council does not currently employ an external fund manager to supplement in house skills and resources, but the authority will consider these services should they add value to current operations.

TMP 12 – Corporate Governance

Corby Borough Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

Corby Borough Council has adopted and has implemented the key recommendation of the Code. This is considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.