

**Open Report on behalf of the Executive Director Resources & Community Safety**

Report to:	<b>Councillor K J Smith, Executive Councillor for Finance and HR</b>
Date:	<b>23 March 2011</b>
Subject:	<b>Treasury Management Strategy Statement and Annual Investment Strategy 2012/13</b>
Decision Reference:	<b>02010</b>
Key decision?	<b>No</b>

**Summary:**

The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2012/2013. It is prepared in accordance with the 2011 CIPFA Code of Practice for Treasury Management in the Public Sector, the requirements of which are included as part of Financial Regulations within the Constitution of the Council. These requirements were adopted by the Council in May 2011 as part of the agreement to revisions to the Council's Constitution.

The Annual Investment Strategy is an annual statement that sets out the Council's policies for investing its surplus cash for the year ahead and has been prepared in accordance with the Local Government Act 2003, effective from 1st April 2004.

**Recommendation(s):**

That Executive Councillor approval is given to:

(1) The Treasury Management Strategy Statement for 2012/2013, as detailed in Section 2 of Appendix A to this report.

(2) The Annual Investment Strategy Statement for 2012/2013, as detailed in Section 3 of Appendix A to this report.

**Alternatives Considered:**

1. To approve an Annual Investment Strategy for 2012/2013 that includes a relaxation of the Council's Long Term Rating minimum for UK Banks and Building Societies to A.

**Reasons for Recommendation:**

In order to comply with Financial Regulations.

**1. Background**

The Annual Treasury Management Strategy Statement and Annual Investment Strategy for 2012/13, prepared for consideration and approval, is attached as Appendix A.

Sector Treasury Services Ltd, the Council's Treasury advisors, delivered a presentation in support of the Strategy Statement and Annual Investment Strategy at the Value for Money Scrutiny Committee on 21<sup>st</sup> February 2012, which has been attached as Appendix B.

In 2010/11, the majority of UK and European Banks lost their Fitch AA- Long Term Rating, mainly due to the risks that these banks face in the current uncertain market conditions, as perceived by Fitch. This resulted in the UK Banks/Building Societies listed below being removed from the Council's Lending List (with the exception of part-nationalised banks), leaving the Council's List exposure weighted towards overseas banks rather than UK institutions.

- Barclays Bank plc
- Santander Bank plc
- Nationwide Building Society

If the Council's Long Term Rating minimum of AA- was lowered to A (which is Sector's recommended minimum) for these UK Institutions and Sector's Creditworthiness policy was followed for these counterparties, then returns would increase but at the expense of a small increased risk of lending to UK counterparties with a lower credit rating quality. The merits of dealing with UK institutions rather than overseas banks, over the perceived additional risk of accepting their lower credit rating quality was considered by the Value for Money Committee. Its view on this issue was not to relax the Council's minimum rating criteria at this time of market and economic uncertainty and to accept that the Council's Lending List is weighted to overseas banks at present, albeit with high credit quality.

Officers also support this view and consequently the Annual Investment Strategy for 2012/13 has been prepared on this basis.

**2. Conclusion**

The Treasury Management Strategy, determining appropriate borrowing and investment decisions, and the Annual Investment Strategy, outlining the Council's policy for investments, has been set for 2012/13 in light of the anticipated economic environment and movement of interest rates for the year ahead. Based on officer recommendation, this report is presented to the Executive Councillor with responsibility for finance for approval in order to comply with Financial Regulations.

### **3. Legal Comments:**

The Council's Financial Regulations require the Council to annually produce a Treasury Management Strategy setting out expected treasury activities in accordance with the requirements of the CIPFA Code of Practice. The strategy statement must be submitted to the Executive Councillor with responsibility for finance for approval prior to the commencement of each financial year.

The Financial Regulations also require the production of an Annual Investment Strategy to ensure that Section 15 (1) of the Local Government Act 2003 is complied with, that is that all authorities must "have regard to guidance on investment issued by the Secretary of State" when investing their surplus cash. The strategy must be approved by the Executive Councillor with responsibility for finance.

This report enables the Council to meet its legal obligations in accordance with the Financial Regulations. The recommendations are lawful and within the remit of the Executive Councillor with responsibility for finance.

### **4. Resource Comments:**

Appendix A to this report sets out the Treasury Management Strategy and Investment Strategy of the Council for the year ahead. The Council requires a Treasury Management Strategy and Investment Strategy for the year ahead in order to comply with Financial Regulations.

### **5. Consultation**

#### **a) Has Local Member Been Consulted?**

n/a

#### **b) Has Executive Councillor Been Consulted?**

Yes

#### **c) Scrutiny Comments**

The Value For Money Scrutiny Committee is responsible for monitoring and scrutiny of the operation of the treasury management policies and practices and as such considered the draft strategies, at their meeting on 21 February 2012.

Members were supportive of the Treasury Management Strategies for 2012/2013.

A clear majority of members supported the view not to relax the Council's Long Term Minimum Credit Rating requirement for UK Banks at this time due to the uncertain market and economic conditions prevailing. This would have allowed some UK Banks, which have been removed due to credit downgrades, back on the Council's lending list.

**d) Sector Treasury Services Ltd**

This report is a technical financial document and as such external independent advice from the Council's Treasury Management Advisors, Sector Treasury Services Ltd, has been sought in its preparation.

**e) Policy Proofing Actions Required**

Not Applicable.

**6. Appendices**

These are listed below and attached at the back of the report	
Appendix A	Treasury Management Strategy Statement and Annual Investment Strategy 2012/13.
Appendix B	Presentation on the Treasury Management Strategy provided by Sector Treasury Services Ltd for Value for Money Scrutiny Committee 21st February 2012.

**7. Background Papers**

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Council Budget 2012/13 - 2014/15 - 17th February 2012	Lincolnshire County Council, Resources & Community Safety Directorate
Minimum Revenue Provision - 12th January 2009	Lincolnshire County Council, Resources & Community Safety Directorate
LCC Treasury Management Policy Statement and Treasury Management Practices	Treasury and Financial Strategy Section, Resources & Community Safety Directorate

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