

**PTA/01/2008**

**KENNET DISTRICT COUNCIL**

**RESOURCES EXECUTIVE COMMITTEE**  
**to be held on 18<sup>th</sup> March 2008**

Report by Debbie Price, Principal Technical Accountant

**Treasury Management Policy Statement and Annual  
Investment Strategy 2008/09**

**1. Purpose of Report**

The purpose of this report is to present Members with the proposed Treasury Management Policy Statement and Annual Investment Strategy for 2008/09, and to seek approval of these documents.

**2. Financial and Staffing Implications**

The financial implications of this report are contained within the body of the report.

**3. Legal Implications**

The Local Government Act 2003, requires the Council to “have regard to” the Prudential Code, the Treasury Management Code of Practice, both issued by CIPFA, and the Guidance on Local Authority Investments (issued by the ODPM, as was). The Prudential Code requires local authorities to set prudential indicators for the next three years to ensure that their capital spending plans are affordable, prudent and sustainable. The Prudential Code has as one of its indicators, the requirement to comply with the Treasury Management Code of Practice (The Code). In addition, the Prudential Code requires all local authorities to set Operational and Authorised Borrowing Limits.

The Code requires the Council to set and approve its Treasury Management Policy Statement annually, and in advance of the following financial year. In addition, the Guidance on Local Authority Investment requires the Council to set an Annual Investment Strategy that gives priority to security and liquidity of investments.

The documents appended to this report, ensure that the Council fulfil these requirements.

## 4. Risk Implications

There is inevitably an element of risk associated with the investment of the Council's surplus capital and revenue reserves. However, the adoption of requirements of the Treasury Management Code of Practice and Guidance on Local Authority Investments both ensure that this risk is minimised. The adoption of the Treasury Management Policy Statement and Annual Investment Strategy ensure that the Council has actively managed its risk in this area.

Specific treasury management risks are identified in the Council's approved Treasury Management Practices, as part of the Treasury Management Policy Statement. These risks include:

- Liquidity Risk (adequate cash resources);
- Market or Interest Rate Risk (Fluctuations in the value of investments);
- Inflation Risks (Exposure to inflation);
- Credit and Counterparty Risk (Security of Investments);
- Refinancing Risks (Impact of debt maturing in future years);
- Legal and Regulatory Risk (Compliance with statutory and regulatory requirements)

## 5. Background

Treasury Management is defined as "*The Management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks*".

The Treasury Management Code of Practice<sup>1</sup> sets out the proper practice to be followed by local authorities in the management of its treasury management functions. This document requires local authorities to create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies and objectives of its treasury management activities;
- Suitable treasury management practices, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The format of the document is prescribed in the Code of Practice.

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<sup>1</sup> Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, published by CIPFA 2001

## **6. Treasury Management Policy Statement**

There have been some minor amendments to the Treasury Management Policy Statement since the document was approved by the Resources Executive Committee in March 2007.

The changes have been made to reflect the fact that Kennet District Council will not exist beyond 31 March 2009. Additional amendments have also been made due to staffing changes within the Corporate Finance Team.

The Treasury Management Policy Statement appended has been amended to reflect these changes.

## **7. Annual Investment Strategy**

It is a requirement of the Treasury Management Code of Practice and Guidance on Local Government Investments issued under section 15(1)(a) of the Local Government Act 2003, that the Council set an Annual Investment Strategy for the coming year prior to the commencement of that financial year. This document is attached as Appendix A to the Treasury Management Policy Statement and Practices.

## **8. Interest Rate Predictions**

The Council currently takes advice from its Fund Managers, Invesco, on the outlook for interest rates. The Bank of England Base Rate was cut to 5.5% during December and again to 5.25% during January. It is currently anticipated that interest rates will bottom out at 4.75% by the middle of 2008/09. Invesco have suggested that the full impact of the 'credit crunch' may require rates to be cut to materially below 4.75%, but such additional cuts could be difficult to implement due to the current position with inflation. On that basis, the outlook for the fund for 2007/08 remains at 6.15%, but the expected return for 2008/09 has been revised to 5.5%.

## **9. Conclusions**

An updated version of Treasury Management Policy Statement and Annual Investment Strategy for 2008/2009 is presented to Members for approval.

## **10. Recommendations**

**IT IS THEREFORE RECOMMENDED THAT** the committee

- (1) Adopt the revised Treasury Management Policy Statement and Treasury Management Practices (Appendix A), including the minor amendments.
- (2) Adopt the Annual Investment Strategy for 2008/2009 (Appendix A of Treasury Management Policy Statement)

March 2008