

**TITLE OF REPORT: TREASURY STRATEGY MID-YEAR REPORT 2011/12**

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE  
PORTFOLIO HOLDER: COUNCILLOR T.W. HONE

**1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to inform Members of the mid-year Treasury Management position.
- 1.2 To provide Members with the opportunity to scrutinise the Treasury transactions undertaken during the first five months of the year and review whether the Treasury Strategy is still appropriate.

**2. FORWARD PLAN**

- 2.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 1<sup>st</sup> July 2011.

**3. BACKGROUND**

- 3.1 The Treasury Strategy for 2011/12, including the Treasury Management Prudential Indicators as required by the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities, was adopted by full Council on 10<sup>th</sup> February 2011. (A copy is attached as Appendix A)
- 3.2 A Treasury Management report is presented to Cabinet quarterly alongside the Budget Monitoring report but in addition to this, the revised Code of Practice on Treasury Management recommends that a mid-year review is submitted to the body who approved the Treasury Strategy.
- 3.3 The main change to the Treasury Strategy adopted for 2011/12 was:
  - An increase in the allowable level of long term investments placed by Cash Managers from £7.5M per Cash Manager to £20M in total.

**4. ISSUES**

- 4.1 The total interest generated from investments in 2011/12 is expected to be in the region of £1.09million. This is a increase of £88k on the original budget estimate. The original estimate was calculated using a rate of 1.75% for new deals. The actual rates achieved for the first five months are detailed in Appendix B, paragraph 4.2.2. The average interest rate of new deals in the period April to August 2011 was 2.27%.
- 4.2 The total interest expected to be received in 2012/13 is approximately £860k. This is calculated assuming the Cash Managers will achieve 1.75% on new deals during the year.
- 4.3 In-house investments are made to meet cash flow demands and during the first half of 2011/12 have primarily been placed on our Nat West Liquidity Call Account, that pays a rate of 0.9%. This is very favourable compared to short term deposit rates. The account operates to our counter-party investment limits. There have been a couple of instances when we have had to take a reduced rate on the market as we have reached the limited allocated to this account (£9M).

4.4 The effect of the changes to the strategy adopted in February 2012 are as follows:

**An increase in the level of long term investments**

4.4.1 The amount of investments allowed to be invested for longer than 364 days was increased from £15M (£7.5M per Cash Manager) to £20M in total with no specified total per Cash Manager. This is to allow the Cash Managers greater flexibility to take advantage of good long term rates when they arise and not be constrained to £7.5M. At the end of August, Sterling had £4.75M of investments with maturities longer than 364 days still to run. Tradition had £3.5M. The increase to £20M, and the removal of the £7.5M limit per Cash Manager, has enabled the Council to achieve a better rate of interest than would have been possible if the Cash Managers had reached their £7.5M limit and not been able to invest long term. (Tradition had £8.5M invested for longer than 364 days in June and Sterling had £7.25M).

4.5 Despite approaches from Money Market Funds / Liquidity Funds there are no plans to invest in this area at present as the rate of return is less than we currently achieve on the Nat West Call Account. Should the rate of return on these fund accounts increase then the situation will be reviewed.

4.6 The Operational limit for borrowing of £6 million should be sufficient if it should become necessary to borrow for the capital programme in 2011/12. This will be reviewed again before Members are asked to approve the Treasury Strategy for 2012/13.

4.7 There are no proposed changes to the Treasury Strategy as approved in February.

4.8 There have been no breaches to the external debt limits adopted by Council.

4.9 Appendix B details the level of investment balances and average interest rates for the first five months of the year.

**5. LEGAL IMPLICATIONS**

5.1 Section 151 of the Local Government Act 1972 states that:  
“every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.”

5.2 The adopted code of practice complies with this statutory provision.

5.3 The adopted Prudential Indicators comply with the Local Government Act 2003.

**6. FINANCIAL AND RISK IMPLICATIONS**

6.1 Financial implications are considered in the main body of the report.

6.2 There is an anticipated increase in investment interest income of £0.088M in 2011/12 which has been reported in the first quarter 2011/12 revenue monitoring report and will be incorporated into the Medium Term Financial Strategy.

**7. HUMAN RESOURCE AND EQUALITIES IMPLICATIONS**

7.1 There are no direct human resource or equalities implications arising from this report.

**8. RECOMMENDATIONS**

8.1 That there are no amendments to the current Treasury Management Strategy and that Members recommend to Council its continued adoption.

8.2 That Members note the mid-year position on Treasury Management.

## **9. REASONS FOR RECOMMENDATIONS**

9.1 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

## **10. APPENDICES**

10.1 Appendix A - Treasury Strategy Statement – Adopted 10<sup>th</sup> February 2011  
Appendix B - Treasury Management Activity 2011/12

## **11. CONTACT OFFICERS**

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## **12. BACKGROUND PAPERS**

12.1 CIPFA Treasury Management in the Public Services Code of Practice fully revised third addition 2009.

12.2 CIPFA Prudential Code for Capital Finance in Local Authorities fully revised second addition 2009.