

**TITLE OF REPORT: FIRST QUARTER TREASURY MANAGEMENT REPORT 2012/13**  
**REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE**

**1. SUMMARY**

- 1.1 To inform Cabinet of the Treasury Management activities in the first quarter of 2012/13 to the end of June.
- 1.2 To inform Cabinet of the performance against the Prudential and Treasury indicators.

**2. FORWARD PLAN**

- 2.1 This Report does contain a recommendation on a key decision that was first included in the Forward Plan on 1 June 2012.

**3. BACKGROUND**

- 3.1 Members adopted the 2012/13 Treasury Strategy at the meeting of full Council on the 9 February 2012. The Treasury Strategy Statement contained no major changes from the 2011/12 version, except for the insertion of an additional control whereby the Section 151 Officer must approve investment deals that were for a period greater than 2 years.
- 3.2 Sector Treasury Services Ltd have been contracted to provide Treasury advice for the financial year 2012/13. The service includes regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies, advice on rescheduling, information and prudent parameters in respect of investment counterparty creditworthiness, document templates, access to technical updates and to the Technical Advisory Group.
- 3.3 This is the first standalone Treasury quarterly report Cabinet will have received. In previous quarters the update on Treasury activity has been embedded within the quarterly revenue monitoring report. While there are revenue budget consequences from Treasury activity it is also a separate activity in its own right and this is demonstrated by the fact the Council approves an annual Treasury Strategy. As a result of economic turmoil in recent years the profile of Treasury activity has grown. It would, therefore, seem appropriate to provide a quarterly update to Members as an individual item.

**4. ISSUES**

- 4.1 Appendix 1 provides the Treasury Management update at the end of the first quarter. This document contains economic background, an interest rate forecast and summary outlook, provided by Sector for background context to Treasury activities. The remainder of the document contains an update on the Council's investment strategy.

- 4.2 In summary the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.
- 4.3 The Council has earned £331k of interest on the £55million of cash investments. The average interest rate agreed on new deals in the quarter was 2.27%. This is above the benchmark of 1.7% provided by Sector.
- 4.4 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authorities appetite for the level of exposure to these risks. Firstly, **Credit Risk** – The possibility that other parties fail to pay amounts due to the Authority.
- 4.5 The Council's counterparty list comprises mostly UK building societies and UK banks with a Fitch credit rating greater than BBB but also includes other Local Authorities, Public Corporations and Discount Houses. During the first quarter of 2012/13 investments were placed with the following counterparties:

Counterparty	Amount of Investment £m	Term	Interest Rate %	Fitch Credit Rating at the time of investment
Cambridge Bldg Soc	2.5	365 Days	2.4	Not available
Lloyds TSB	1.25	367 Days	3 month LIBOR Min 2.15% - Max 4.5%	A
Melton Mowbray Bldg Soc	2.0	364 Days	2.5	Not available
Lloyds TSB	2.25	15 Months	3 month LIBOR Min 2.25% - Max 4.5%	A
Barclays	2.0	364 Days	1.73	A
Newbury Bldg Soc	2.0	364 Days	2.3	Not available
Melton Mowbray Bldg Soc	1.0	365 Days	2.6	Not available
Co-op Bank	1.5	4 Days	0.45	A-
Manchester Bldg Soc	1.0	365 Days	2.4	Not available
Coventry Bldg Soc	0.5	14 Days	0.4	A
Nat West Liquidity Account	Various amounts totalling 30.98M	Various	0.9	A
HSBC Call Account	Various amounts totalling 6.71M	Various	0.25	AA-

- 4.6 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.

- 4.7 Investments are split between two Cash Managers and the In-House team. The In-House investments cover the day to day cash flow activity of the Council whilst the Cash Managers' investments take advantage of higher long term interest rates when they become available. The Council was able to meet all its commitments to make payments during the first quarter without any additional borrowing.
- 4.8 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.
- 4.9 Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risk of long term deals are two fold:
- (i) The longer the time period the longer the investment is exposed to default.
  - (ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.
- 4.10 Members have indicated that they are prepared to accept this risk within the limits expressed in the Treasury Strategy which allows no more than £20m to be invested for longer than 364 days at any one time. At the end of the first quarter the Council had £9.25 million invested for longer than 364 days. Five deals were placed during the first quarter for longer than 364 days, see paragraph 4.5.

## **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 Prudential Indicators comply with the Local Government Act 2003.

## **6 FINANCIAL AND RISK IMPLICATIONS**

- 6.1 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1. The risk on the General Fund of a fall of investment interest below the budgeted level is unlikely since the estimates are based on low interest rates which reflect the low Base Rate of 0.5%.
- 6.2 The amount of interest income generated in the first quarter is greater than was expected and has been reflected in the first quarter revenue monitoring report.

## **7 HUMAN RESOURCE AND EQUALITIES IMPLICATIONS**

- 7.1 There are no direct human resource or equality implications.

## **8 RECOMMENDATIONS**

- 8.1 Cabinet is asked to note the position of Treasury Management activity as at the end of the first quarter of 2012.

## **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 CONTACT OFFICERS**

### Author

- 10.1 Tim Neill, Accountancy Manager, Tel 4744461, email, [tim.neill@north-herts.gov.uk](mailto:tim.neill@north-herts.gov.uk).

### Contributors

- 10.2 Norma Atlay, Strategic Director of Finance, Policy & Governance, Tel 474297, email, [norma.atlay@north-herts.gov.uk](mailto:norma.atlay@north-herts.gov.uk)
- 10.3 Dean Fury, Corporate Support Accountant Tel 474509, email [dean.fury@north-herts.gov.uk](mailto:dean.fury@north-herts.gov.uk)
- 10.4 Andrew Cavanagh, Head of Finance, Performance and Asset Management, Tel 474243, email: [andrew.cavanagh@north-herts.gov.uk](mailto:andrew.cavanagh@north-herts.gov.uk)

## **11 BACKGROUND PAPERS**

Treasury Strategy 2012/13  
CIPFA Prudential Code for Capital Finance in Local Authorities

## **12 APPENDICES**

- 12.1 Appendix A Treasury Management Update as at 30 June 2012