

**TITLE OF REPORT : ANNUAL TREASURY MANAGEMENT REVIEW 2012/13**

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY AND GOVERNANCE

*This report is in draft format and will be presented to Cabinet on 18 June 2013. The Committee are invited to comment as appropriate.*

**1. SUMMARY**

- 1.1 To inform Cabinet of the Treasury Management activities during 2012/13.
- 1.2 To inform Cabinet of the performance against the Prudential and Treasury indicators.

**2. RECOMMENDATIONS**

- 2.1 Cabinet is asked to note the position of Treasury Management activity as at the end of March 2013.
- 2.2 Cabinet is asked to recommend this report to Council and ask Council to:
  - 1) Approve the actual 2012/13 prudential and treasury indicators
  - 2) Note the annual Treasury Report for 2012/13

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 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.

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 Considerations for the Treasury Strategy can be summarised under the headings; Security, Liquidity and Yield. These considerations are listed in order of importance but all have an influence on the adopted Strategy. In particular the yield from investments is an important income stream for the general fund. The current strategy enabled an above average yield compared to other Herts authorities of approximately £1.18M of interest in the financial year and a budgeted investment interest figure of £0.68M in 2013/14. Our Treasury advisors from Sector Treasury Services Ltd promote a more risk adverse approach that would not currently allow investment with most Building Societies. This would result in a yield of approximately £0.53M in 2013/14. This option has been dismissed on the basis of Members' appetite for risk and the impact on the general fund.

## 5. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

- 5.1 There is ongoing dialogue with the Authority's Cash Managers (Sterling and Tradition) and regular meetings with Treasury advisors (Sector).

## 6. FORWARD PLAN

- 6.1 This Report does contain a recommendation on a key decision that was first included in the Forward Plan on 20 May 2013

## 7. BACKGROUND

- 7.1 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 are for a period greater than 2 years.
- 7.2 Sector Treasury Services Ltd were contracted to provide Treasury advice for the financial year 2012/13 and this arrangement has been continued for 2013/14. 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.

## 8. ISSUES

- 8.1 Appendix A provides the Treasury Management update at year end. 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.
- 8.2 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.
- 8.3 The Council generated £1.18M of interest during 2012/13. The average interest rate agreed on new deals during the year by the cash managers (Sterling and Tradition) was 2.43%. The average interest rates on all outstanding investments at the 31<sup>st</sup> March was 2.3 per cent.
- 8.4 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's 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.
- 8.5 The Council's counterparty list comprises mostly UK building societies and UK banks with a Fitch (a credit rating agency) credit rating greater than BBB but also includes other Local Authorities and Public Corporations. During the final quarter the Co-op bank were removed from our list as their credit rating fell below our minimum requirement.

- 8.6 The last few months of the year proved challenging to find counterparties willing to pay a reasonable return on cash investments, either long or short term. Sector advised this could be in part be due to the Government scheme to lend money to counter-parties who are willing to then lend to businesses. As a result there is less of a demand for Local Authority funds. This issue is expected to continue in 2013/14 and is coupled with a reduction in the rate the Council will receive on the Nat West call account (for short term deposits). The rate of interest on this account for the majority of 2012/13 was 0.9%. This was reduced to 0.5% in March.
- 8.7 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.
- 8.8 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 borrowed £2M on 13<sup>th</sup> March for twenty days until 2<sup>nd</sup> April to cover a planned short fall in cashflow. The majority of Council Tax payers pay by ten monthly instalments. This results in a reduction in the amount of Council Tax income received in February and March to meet the Council's expenditure requirements.
- 8.9 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.
- 8.10 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.
- 8.11 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 (out of a total of just over £47M) to be invested for longer than 364 days at any one time. At the end of the year the Council had £8.75M invested for longer than 364 days.

## **9. LEGAL IMPLICATIONS**

- 9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.
- 9.2 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.”
- 9.3 The Prudential Indicators comply with the Local Government Act 2003.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 The amount of investment interest generated during the year was £1.184M and was approximately inline with the working budget of £1.183M. Investment interest is

expected to be considerably lower in 2013/14 as investments rates have fallen. As maturing investments are being renewed at a lower rate, the budgeted investment interest for 2013/14 is expected to be in the region of £0.68M.

- 10.2 The investments outstanding at the 31 March 2013 was £47.33million. This compares to a balance of £47.86million at 31 March 2012.

## **11. RISK IMPLICATIONS**

- 11.1 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003. The risk on the General Fund of a fall of investment interest below the budgeted level is dependant on banks and building societies need for borrowing. The introduction of the Funding for Lending Scheme which allows financial institutions access to low cost funding from Government for an extended period may impact on their need to borrow and the rates at which they are prepared to borrow. This will be monitored throughout 2013/14.

## **12. EQUALITIES IMPLICATIONS**

- 12.1 The Equality Act 2010 came into force on the 1 October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5 April 2011. There is a General duty, described in 12.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.3 There are no equalities implications arising from this report.

## **13. SOCIAL VALUE IMPLICATIONS**

- 13.1 There are no social value implications arising from this report.

## **14. HUMAN RESOURCE IMPLICATIONS**

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

## **15. APPENDICES**

- 15.1 Appendix A - Annual Treasury Management Review March 2013.

## **16. CONTACT OFFICERS**

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## **17. BACKGROUND PAPERS**

Treasury Strategy 2012/13

CIPFA Prudential Code for Capital Finance in Local Authorities