CITY OF YORK COUNCIL

Audit & Governance **12 December 2012**

Report of the Cabinet Member for Corporate Services

Scrutiny of Treasury Management Monitor 2 Mid year Review and Prudential Indicators 2012/13

Summary

1. The Audit & Governance Committee are responsible for ensuring effective scrutiny of the treasury management strategy and policies, as stated in the Treasury Management Strategy 2012/13 approved by full Council on 23 February 2012. The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance ("the Code") stipulates that

   - There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved,
   - Those charged with governance are also personally responsible for ensuring they have the necessary skills and training

2. Attached at Appendix A is the Treasury Management Monitor 2 Mid Year Review and Prudential Indicators 2012/13 report. This information provides Members with an update of treasury management activity for the first six months of 2012/13.

Background

3. The report reviews the economic market conditions in which the treasury management activities of the council are currently operating. It highlights that the environment in which treasury management operates remains volatile due to the continued economic uncertainty. The report states that following the Bank of England Inflation Report for August 2012, the Council's Treasury Management Advisers - Sector, forecast the first rise in Bank Rate to be in Q4 2014.

4. However, following the issue of the latest Bank of England Inflation Report for November 2012, Sector has undertaken a revision of its interest rate

forecasts. In the August Inflation Report, the Bank changed its position significantly in as much as it markedly downgraded its forecasts for the strength and speed of recovery in GDP growth whereas previously it had consistently been forecasting a strong recovery to over 3% p.a. In its November Report, the Bank has continued this shift towards pessimism in the speed and strength of recovery; it is now only forecasting growth at around 1% in 2013 and 2% in 2014.

5. The updated Sector interest rate forecast is based around an expectation that there will not be a disorderly break-up of the Eurozone, but rather a managed, albeit painful, resolution of the current crisis. Under this assumed scenario, growth within the Eurozone will be depressed for the next couple of years and this would also lower UK growth as the EU is our biggest export market. These developments have pushed back the expectations of the timing of the eventual start of increases in Bank Rate and the expected eventual rise in gilt yields and PWLB rates. Consequently, Sector has pushed back the first rise in Bank Rate, from Q4 2014 to Q1 2015 as well as the pace of rises in gilt yields.

6. The position of short term interest rates for investment opportunities continues to remain low and the counterparty list, where the council's surplus funds can be invested, is limited due to the uncertainty surrounding the euro zone and the impact on world market. The limited counterparty list, to high credit rated institutions, ensures the security of the Council's capital. The secondary priority being on interest rate return predicted at 1.5% for 2012/13. Further details on the Council's investments are included in Appendix A paragraphs 8 to 16.

7. Borrowing rates are also at historically low levels and Appendix A, paragraph 21 details that no loans have been taken in 2012/13. This is due to loan rates remaining higher than investment rates and also the interest rate forecast predicting that borrowing rates will continue to stay low. In addition at Appendix A, paragraph 25 explains that the government have also introduced "Certainty Rates" which is where Public Works Loan Board borrowing rates can be taken at 20 basis points lower from 1 November 2012. This clearly also reduces the borrowing rates available so opportunity will remain in the future to take loans at favourable rates.

8. The information provided in the paragraphs above is a brief summary of the "Treasury Management Monitor 2 Mid Year Review and Prudential Indicators 2012/13" report at Appendix A for scrutiny by Audit & Governance Committee Members.

Consultation

9. Not applicable

Options

10. It is a statutory requirement under Local Government Act 2003 for the council to operate in accordance with the CIPFA prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice “the Code”. The revised “code” was originally approved at full Council on 26 February 2010. At this time the Council also approved the Treasury Management Strategy Statement and Prudential Indicators for 2010/11 to 2014/15 which stated that “The Treasury Management Reporting arrangements set out in paragraph 16, table 1, as described by “the Code” and the terms of reference in the Constitution be amended to include that Audit & Governance Committee scrutinise the Treasury Management Strategy and Monitoring reports.” No alternative options are available.

Council Plan

11. Treasury management is an integral part of the council’s finances providing for cash flow management and financing of capital schemes. It aims to ensure that the council maximises its return on investments, (whilst the priority is for security of capital and liquidity of funds) and minimises the cost of its debts. This allows more resources to be freed up to invest in the Council’s priority areas as set out in the council plan. It therefore underpins all of the council’s aims.

Implications

12. The implications are

- Financial – the security of the Council’s capital funds is a priority, maximising returns on investments is still key along with minimising the finance costs of debt.
- Human Resources - there are no human resource implications to this report.
- Equalities - there are no equality implications to this report.
- Legal - there are no legal implications to this report.
- Crime and Disorder - there are no crime and disorder implications to this report.
- Information Technology - there are no information technology implications to this report.
- Property –there are no property implications to this report.
- Other – there are no other implications to this report.

Risk Management

13. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Recommendations

14. (a) Audit & Governance Committee note and scrutinise the Treasury Management Monitor 2 and Prudential Indicators 2012/13 at Appendix A

(b) Audit & Governance Committee confirm their requirement for a training session to be undertaken by offices on (i) an overview of Treasury Management or (ii) a specific area of Treasury Management

Reason: That those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

Contact Details

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	Report approved	√	Date	12/12/12

Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all* **All** √

For further information please contact the author of this report

Background Working Papers

Local Government Act 2003 and amendments
CIPFA Prudential Code
CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (“the Code”)
Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/17

Annexes

1. Appendix A - Treasury Management Monitor 2 Mid Year Review and Prudential Indicators 2012/13

2. Annex A – Prudential Indicators 2012/13