

Report of the Cabinet Member for Corporate Resources

**Scrutiny of the Treasury Management Annual Report 2011/12 & Review of Prudential Indicators**

**Summary**

1. The purpose of this report is for Members of A&G to scrutinise the “Treasury Management Annual report & Review of Prudential Indicators 2011/12” in accordance with the requirements of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (“the Code”).
2. The revised Code, which highlighted the importance of scrutiny, was published in November 2009 and adopted by the council on 26 February 2010. From 1 April 2010, Audit & Governance Committee have been responsible for ensuring effective scrutiny of the treasury management strategy and policies.
3. Attached at Appendix A is the Treasury Management Annual Report & Review of Prudential Indicators 2011/12, which goes to Cabinet and also Council. It is presented at Audit & Governance Committee to comply with the scrutiny requirement.

**Background**

4. This covering report aims to assist Audit & Governance members in their scrutiny of the Treasury Management Annual Report & Prudential Indicators 2011/12 at Appendix A.
5. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

6. For reporting, scrutiny and training arrangements during 2011/12 the Council has met the minimum reporting requirements and received the following reports:
  - an annual treasury strategy in advance of the year - 24 February 2011
  - a mid year (minimum) treasury update report – 1 November 2011
  - an annual report following the year describing the activity compared to the strategy (this report – 17 July 2012)
7. In addition a quarterly treasury management update report has been produced and published on 14 February 2012. The Council has also complied with member training requirements on treasury management issues, which was undertaken on 13 February 2012 in order to support Members' scrutiny role.
8. The regulatory environment since 2010/1 has placed a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and the prudential indicators and highlights compliance with the Council's policies previously approved by Members.
9. Key points addressed at Appendix A – the Treasury Management Annual Report & Review of Prudential Indicators 2011/12 Report that is presented at Cabinet – include:
  - a. In the current economic climate, interest rates for borrowing and investing have remained at historically low levels during 2011/12.
  - b. The HRA reform resulted in £121.550m being paid to the Government and the equivalent borrowing taken at an average 3.2%
  - c. The borrowing strategy cut the target interest rate for borrowing from 5% to 4.3% during the year and adopted the approach of reducing investment balances.
  - d. Borrowing rate on the overall portfolio reduced from 4.2% to 3.8%. Without the HRA borrowing, the portfolio rate remained at 4.2%.
  - e. Borrowing from external sources was limited during the year to £7m and instead surplus funds, a reduction in investment balances, were used to fund the remaining capital investment requirement of £14.9m.
  - f. Investment rate of return was 1.45%, compared to the base rate of 0.5% and the 3 month LIBOR rate of 0.82%
  - g. Reduction in investment balances and reduced borrowing during 2011/12 protected the treasury management budget as borrowing costs remained higher than investment interest earned.

## **Consultation**

10. Not applicable.

## **Options**

11. 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 approved at full Council on 26 February 2010. The Council approved the current Treasury Management Strategy Statement and Prudential Indicators 2011/12 to 2015/16 on 24 February 2012 which included at paragraph 9 the requirement for a body to scrutinise treasury management. Previously, this Council approved the delegated body as the Audit & Governance Committee on 25 February 2010. No alternative options are available.

## **Council Plan**

12. 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 five priorities as set out in the Council Plan. It therefore underpins all of the council’s objectives.

## **Implications**

13. The implications are
- Financial – the security of the Councils capital funds is a priority, maximising returns on investments and minimising finance costs of debt is key.
  - 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 - the revised code may have implications for the requirements placed on officers and members for the scrutiny and management of the treasury function.

### **Risk Management**

14. 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 2009 (the code) are all adhered to as required.

### **Recommendations**

15. That Audit & Governance Committee note the Treasury Management Annual Report 2009/10 & Review of Prudential Indicators at Appendix A.

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.

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Report  Date 25/7/12  
approved

**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 Annual Report & Review of Prudential Indicators 2011/12