

**Report of the Director of Customer & Business Support Services**

**Scrutiny of Treasury Management Monitor 3 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 3 Review and Prudential Indicators 2012/13 report. This information provides Members with an update of treasury management activity for the first nine months of 2012/13.

**Background**

3. Points of interest to note in the Treasury Management Monitor 3 Review and Prudential Indicators are:
  - (a) Paragraph 5 – Bank Base rate is not scheduled to increase before Q1 2015 to 0.75%
  - (b) Paragraph 6 – Equity price as and gilt yields will remain volatile during 2013, which will give opportunities for favourable borrowing rates to be achieved
  - (c) Paragraph 7 - Sector – treasury management advisers – believe that the longer run trend is for gilt yields and PWLB rates to rise

(d) Paragraph 9 - The Council will aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity

(e) Paragraph 13 - The average level of funds available for investment purposes in the nine months of 2012/13 was £42.936m (£58.085m in 11/12)

(f) Paragraph 14 - The average level of funds has fallen compared to a year ago due to using the Council's surplus funds to support capital expenditure rather than taking external borrowing

(g) Paragraph 16 – Investment activity earned 1.5% in first 9 months of 2012/13 compared to 7 day LIBID of 0.41%

(h) Paragraph 20 - Interest rates available for investment have markedly fallen in the last quarter of 2012. Banks have access to cheaper funding which in turn has driven down market rates significantly in the last quarter.

(i) Paragraph 27 - To minimise investment risk, no new borrowing has been taken during 2012/13 and it is anticipated that no further borrowing will be undertaken during this financial year

(j) Paragraph 31 - The HRA amounts to 54% of the borrowing portfolio at £140.3m and the GF is 46% with borrowing at £118.3m, a total of £258.6m

(k) Paragraph 36 - During the financial year 2012/13 to date the Council has operated within the treasury limits and Prudential Indicators.

4. Training can be provided as previously requested by Members:
  - (a) to increase Members knowledge of the Local Government Pension Scheme (LGPS) to be able to understand how the LGPS works and how it relates to the Councils Annual Financial Report – Statement of Accounts
  - (b) to raise awareness of all aspects of Treasury management and also specifically focus on individual topics such as the Capital Financing Requirement and the need to borrow or Investments policy including creditworthiness of counterparties
5. Training can be arranged prior to A&G Meetings on 17 April 2013 or 27 June 2013 or a date as Members recommend.

### **Consultation**

6. Not applicable

### **Options**

7. 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**

8. 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**

9. The implications are
  - Financial – the security of the Councils capital funds is a priority, maximising returns on investments is 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**

10. 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

11. (a) Audit & Governance Committee note and scrutinise the Treasury Management Monitor 3 and Prudential Indicators 2012/13 at Appendix A
- (b) Audit & Governance Committee confirm the date for the suggested training session as detailed in paragraph 4.

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 13/02/13

**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 3 Review and Prudential Indicators 2012/13
2. Annex A – prudential Indicators 2012/13