

## **8. Treasury Management Activities 2011/12**

### **Purpose of report**

1. To review Treasury Management Activities for 2011/12.
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### **Recommendation**

***The Treasurer recommends that the report be noted.***

### **Introduction and Background**

2. The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.
3. The revised guidance issued in November 2011 makes it clear that investment priorities should be security and liquidity, rather than yield and that authorities should not rely solely on credit ratings, but consider other information on risk.
4. In accordance with both the Chartered Institute of Public Finance and Accountancy's Treasury Management Code of Practice, and current Fire and Rescue Authority (FRA) Financial Regulations the Treasury Management Activities are reviewed by Members twice a year.

### **Treasury Management Activities**

5. Treasury Management is about managing the FRA's cash flow and investments to support its finances for the benefit of the Public and the Services that it provides. These activities are structured to manage risk foremost, and then optimise performance.
6. The Treasury Management function strives to ensure the stability of the FRA's financial position by sound debt, cash and risk management techniques. The need to minimise risk and volatility is constantly addressed whilst aiming to achieve the treasury management objectives.
7. Banking arrangements and the Treasury Management functions for the FRA, in respect of lending and borrowing, are carried out by Worcestershire County Council (WCC) under a Service Level Agreement (SLA). All FRA funds are invested or borrowed by the County Council in accordance with their Treasury

Management Strategy, this means that the FRA is subjected to the same levels of risk and return as the County Council. A copy of the current Treasury Management Strategy is included at Appendix 2.

8. At 31 March 2011 the FRA had long-term debt totalling £14.438m, of which £1.467m was repayable within 2011/12. The £1.467m has been repaid and additional borrowing of £2m entered into, increasing the balance outstanding at the end of March 2012 to £14.971m.
9. Surplus cash is invested on a day-to-day basis under a Service Level Agreement with Worcestershire County Council. The average interest rate achieved for the second half of the period was 0.26%.
10. As part of the defined investment risk strategy FRA funds are currently deposited with the Bank of England, and Worcestershire County Council (WCC) Treasury Management keeps this policy under constant review. With the downgrading of several large financial institutions, to comply with the AA credit rating required by the Treasury Management Strategy, which ensures the continued reduction of risk exposure, there are now fewer financial institutions available where investments can be made which increases reliance upon the Bank of England.
11. Historically performance has been measured against the “7-Day London Inter-bank Bid Rate” (LIBID) as a benchmark. However, the very low risk strategy evolved for FRA investment means that at present this measure is less meaningful. The relevant figure for the second half of 2011/12 was an average of 0.41%.
12. However, with investment rates remaining as low as they currently are, a less prudent risk strategy would not greatly increase the expected yield whilst significantly increasing the associated risk.

### **Prudential Indicators**

13. In considering the budget and precept for the year the FRA approves indicators and limits in respect of capital expenditure, borrowing and revenue consequences.
14. These are set by the FRA, as part of the overall budget setting process, in February prior to the start of the financial year.
15. Appendix 1 sets out the relevant indicators as approved and as they out-turn, and demonstrates that they are within the limits of the Medium Term Financial Plan.

### **Conclusion/Summary**

16. The SLA with the County Council and the implied use of its Strategy Statement ensures that the Authority invests its resources within a robust and effective framework to deliver a maximum return on investments within a secure environment. The monitoring of the Prudential Indicators has demonstrated that the Authority has complied with its Treasury Management targets.

## Financial Considerations

Consideration	Yes/No	Reference in Report i.e paragraph no.
There are financial issues that require consideration	No	

## Legal Considerations

Consideration	Yes/No	Reference in Report i.e paragraph no.
There are legal issues e.g. contractual and procurement, reputational issues that require consideration	No	

## Additional Considerations

17. The table below sets out any additional issues arising from the proposals contained in this report and identifies the relevant paragraphs in the report where such issues are addressed.

Consideration	Yes/No	Reference in Report i.e paragraph no.
<b>Resources</b> (e.g. Assets, ICT, Human Resources, Training & Development, Sustainability).	No	
<b>Strategic Policy Links</b> (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	No	
<b>Risk Management / Health &amp; Safety</b> (e.g. risk management and control measures, risk register score).	No	
<b>Consultation with Representative Bodies</b>	No	

## Supporting Information

Appendix 1 – Prudential Indicators 2011/12 Outturn

Appendix 2 – Treasury Management Strategy 2012/13 – Worcestershire County Council

## Background papers

None

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