

Report of Treasurer

10. Treasury Management Activities 2012/13

Purpose of report

1. To review Treasury Management Activities for 2012/13.
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Recommendation

The Treasurer recommends it be noted that the Authority's Treasury Management Activities during 2012/13 were in accordance with the prudential indicators previously agreed.

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 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 2012 the FRA had long-term debt totalling £14.971m, none of this debt was repayable within 2012/13. There has been no additional borrowing requirement during this financial year, so the balance that remains outstanding at the end of March 2013, remains at £14.971m.
9. Surplus cash is invested on a day-to-day basis under an SLA 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 2012/13 was an average of 0.39%.
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.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	None.
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	None.
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	None.
Consultation (identify any public or other consultation that has been carried out on this matter)	None.
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	None N/A

Supporting Information

Appendix 1 – Prudential Indicators 2012/13 Outturn

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

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