

## FLINTSHIRE COUNTY COUNCIL

**REPORT TO:**           **AUDIT COMMITTEE**

**DATE:**               **13 MARCH 2013**

**REPORT BY:**       **HEAD OF FINANCE**

**SUBJECT:**           **TREASURY MANAGEMENT UPDATE 2012/13**

### **1.00   PURPOSE OF REPORT**

1.01   To provide members with a quarterly update on matters relating to the Council's 2012/13 Treasury Management Policy and Strategy Statement up to the end of February 2013.

### **2.00   BACKGROUND**

2.01   The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of Treasury Management Strategy and Policies.

2.02   The Audit Committee has previously agreed to include Treasury Management as a standing item on each quarterly agenda to receive an update.

### **3.00   CONSIDERATIONS**

#### **Treasury Management 2012/13 Update**

##### Economic context

3.01   There has been little change to economic conditions since the last update in January 2013, with the economy remaining subdued, the base interest rate low at 0.5% and expected to stay that way for the foreseeable future.

Mark Carney, the incoming Governor of the Bank of England appeared before the Treasury Select Committee in early February. His testimony suggested that when he takes over in July, with regards to monetary policy, evolutionary change is expected rather than revolutionary change. He appeared keen to provide guidance on the future path for interest rates which should help reduce uncertainty for households and businesses.

### Investments update

- 3.02 A statement setting out the Council's investments as at 22<sup>nd</sup> February 2013 is attached at Appendix A, and shows an investment balance of £66.6m spread across 17 counterparties.
- 3.03 The Council's self-imposed three month maximum term for investments was lifted in January 2013. Since then, a number of investments with terms in excess of three months have been taken out with building societies as detailed below:

Invested	Counterparty	Term	Interest Rate
£2m	Nottinghamshire BS	9 months	0.72%
£1m	Nottinghamshire BS	8 months	0.61%
£1.5m	Nationwide BS	7 months	0.62%
£2.3m	Leeds BS	6 months	0.52%
£2m	National Counties BS	12 months	1.20%

All such investments have been made with building societies rather than banks as currently banks are very liquid with no requirement for local authority cash.

### Borrowing update

- 3.04 Officers, in conjunction with Arlingclose, the Council's treasury management advisors continue to review and assess debt restructuring options that may provide an opportunity for the Council to repay some of its higher interest rate debt or deliver savings by replacing existing debt with new loans at lower interest rates.

Arlingclose have recently provided a debt restructuring proposal which is currently being assessed to establish its viability over the short, medium and longer term given current forecasts for interest and inflation rates. Further updates on the outcome of this particular proposal will be given in future Audit Committee updates.

### Responses to questions arising from previous TM update report

- 3.05 At the January Audit Committee meeting Members were keen to explore the feasibility of the Council pooling its surplus cash to invest with other local authorities and town and community councils in order to access higher interest rates.

Officers have made enquiries with various brokers, unfortunately this is not considered a viable option currently for the following reasons:

- There is no market currently for this kind of investment. The size of the investment needed to generate enough return to make such an investment worthwhile are usually only accepted by major banks such as HSBC and Standard Chartered, both of whom are not currently seeking funding from Local Authorities.

- Differing Investment strategies, policies and appetites to risk from one organisation to another.
- Likely inconsistent counterparty lists might make selecting a suitable counterparty difficult.
- Ensuring that reliable cash flow forecasting is in place in each organisation so that funds can be invested for a long enough period to make the investment worthwhile.
- The legality of such transactions would need to be appreciated and investigated in full as there would be a requirement for one central bid, and as such one organisation to take the lead. As all investments carry an element of risk, in the unlikely event of a default arrangements would have to be in place to manage such a situation.

3.06 The Council subscribes to CIPFAs Treasury Management Network, Officers attend regional and national practitioner groups, all of which provide opportunities to discuss collaboration and share best practice with other Local Authorities.

Officer and Member training

3.07 In mid January, officers attended a CIPFA facilitated Treasury Management training event in London. The training provided an overview of Treasury Management in Local Government, an economic update from Lloyds' Chief Economist and guidance on preparing an effective Investment Strategy.

Officers are planning to attend a half day CIPFA Treasury Management closedown masterclass in early March, in preparation for the closure of the 2012/13 accounts.

3.08 A member training session covering all aspects of local government treasury management was held at the end of January. The training was open to all members, provided an introduction to treasury management and explained in more detail debt management, investment management and member scrutiny of treasury management.

The training was facilitated by the Council's treasury management advisors Arlingclose and tailored specifically to the treasury management strategies of the Council.

Handover arrangements

3.09 Previous Audit Committee updates have informed Members of the ongoing transfer of the Treasury Management function into Corporate Finance, as part of the Finance Function Review.

This transfer has been carefully managed to ensure continuity of service and is now complete. The Clwyd Pension Fund Manager will continue to be available to discuss treasury matters as they arise as part of his role on the Finance Management Team.

Contract for treasury management advice

- 3.10 The Council's contract for treasury management advice with Arlingclose expires in May 2013 which includes an option to extend the contract for a further 2 years. The Head of Finance has decided to proceed with the extension given the need for stability in the treasury management function; following the recent transfer of the function between Finance departments, and the acquisition of Sterling (the Council's previous treasury management advisors) by Arlingclose.

2013/14 Treasury Management Strategy

- 3.11 The Council approved the Treasury Management Strategy 2013/14, Treasury Management Policy Statement 2013-2016 and Treasury Management Practices 2013-2016 on 1<sup>st</sup> March 2013.

**4.00 RECOMMENDATIONS**

- 4.01 That Members note the report.
- 4.02 That Members agree not to pursue joint investments as detailed in 3.05 any further at this time, and Officers continue to monitor the situation in preparation for when market conditions change. Opportunities for collaboration will continue to be discussed within practitioner groups.

**5.00 FINANCIAL IMPLICATIONS**

- 5.01 As set out in this report.

**6.00 ANTI POVERTY IMPACT**

- 6.01 None directly as a result of this report.

**7.00 ENVIRONMENTAL IMPACT**

- 7.01 None directly as a result of this report.

**8.00 EQUALITIES IMPACT**

- 8.01 None directly as a result of this report.

**9.00 PERSONNEL IMPLICATIONS**

- 9.01 None directly as a result of this report.

**10.00 CONSULTATION REQUIRED**

10.01 Arlingclose Limited.

**11.00 CONSULTATION UNDERTAKEN**

11.01 Arlingclose Limited.

**12.00 APPENDICES**

Investments outstanding as at 22<sup>nd</sup> February 2013.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985  
BACKGROUND DOCUMENTS**

**Contact Officer:** Liz Thomas  
**Telephone:** 01352 702289  
**Email:** [liz.thomas@flintshire.gov.uk](mailto:liz.thomas@flintshire.gov.uk)