

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **MONDAY, 25 JUNE 2012**

REPORT BY: **HEAD OF FINANCE**

SUBJECT: **TREASURY MANAGEMENT ANNUAL REPORT
2011/12 AND 2012/13 UPDATE**

1.00 PURPOSE OF REPORT

1.01 To present the Annual Report on the Council's Treasury Management Policy, Strategy and Practices 2011/12 and to provide an update on Treasury Management activity in 2012/13 to the end of April 2012.

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

2.02 On 1st March 2012, the Council approved the Treasury Management Policy and Strategy Statement for 2012/13, following the recommendation of the Executive and consideration by the Audit Committee.

3.00 CONSIDERATIONS

Governance

3.01 A schedule for the reporting cycle for Treasury Management Reports 2012/13 is attached as Appendix 1 for information. Where Members have any specific items of interest, concern or questions on the Council's Treasury Policy these can be addressed within these reports upon request.

Treasury Management Annual Report 2011/12

3.02 The draft Treasury Management Annual Report for 2011/12 is attached as Appendix 2 for review. As required by Financial Procedures, this Annual Report will be reported to the Cabinet and Council. The Treasury Management Mid Year Report for 2011/12 was reported to Council on 22nd November 2011.

- 3.03 The Annual Report compares and measures outcomes and performance with forecasts made in the Policy Statement for interest rates, investment strategy and borrowing strategy and reports on the main treasury activities during the year.
- 3.04 At the time of writing the 2011/12 Treasury Management Policy Statement (the Policy) in early 2011, it was hoped that the global financial environment was starting to stabilise and this confidence was reflected in the implementation of the Policy in the first quarter of 2011/12. The Audit Committee report of 13th July 2011 listed the main activities including two long term investments both at an interest rate of 2.65% which boosted the average interest rate to over 1% compared to 0.8% in 2010/11.
- 3.05 Unfortunately, this optimism was short lived as the risks of a sovereign debt default by Greece and the potential knock on effects to financial stability resurfaced. Sterling, the Council's advisers, changed the counterparty credit risk marker to a 'red flag' status and immediate action was taken to de-risk the approach. As reported to Audit Committee of 14th December 2011, from early September 2011 in anticipation of further deterioration of market conditions the following investment practices were followed:
- Money 'on call' with banks
 - Deposits with other Local Authorities
 - Use of AAA rated Money Market Funds
 - Use of Debt Management Office
- 3.06 This approach was still within the Treasury Management Strategy, however some distance from the planned approach outlined in the Policy. The above low risk approach did mean that the average interest rate would reduce.
- 3.07 By the time of the Audit Committee report of 26th March 2012, the red flag status had been amended to an 'amber status' following steps taken by European policy makers to alleviate some of the risks. The restriction of only having money on call was lifted and as a first step deposits could be made with banks and building societies on the Council's counterparty list for up to 3 months, thus marginally increasing the interest rate that could be achieved. This continues to be the position in 2012/13.
- 3.08 In summary, the Annual Report concluded the following:
- Confirms that the treasury function operated within the limits detailed within the Treasury Management Policy and Strategy Statement 2011/12.
 - The financial environment within which the treasury function operated remained challenging and this is likely to continue for the foreseeable future.

- The Policy was implemented in a pro-active manner with security and liquidity as the focus.

Treasury Management Policy and Strategy Statement 2012/13

3.09 A schedule setting out the Council's investments as at 30th April 2012 is attached as Appendix 3. Members should note the following:

- The investment balance was £51.8 million across 19 counterparties.
- Only short-term (i.e. no longer than 3 months) deposits with UK banks; building societies; highly rated overseas banks; call accounts and Money Market Funds are being used while the credit risk is still on 'amber flag'. However as Money Market Funds are paying lower rates, most of the funds have been invested with banks and building societies whose rates are currently higher.
- As an update on related Treasury Management activities, members are advised that as a result of the Finance Function Review, the treasury management function is in the process of being transferred between sections within the Finance Department. Arrangements are being put in place so that the transfer takes place over a sufficient amount of time to ensure the function is managed appropriately and risks mitigated.
- An Internal Audit of treasury management was completed in the first quarter and gave substantial assurance to the treasury management arrangements.

3.10 A schedule setting out the Council's investments as at 30th April 2012 compared with 29th February 2012 is shown in the table below:

	29/02/2012	30/04/2012
DEBT MANAGEMENT OFFICE	0.0	0.0
UK BANKS & BUILDING SOCIETIES	17.0	22.0
OVERSEAS BANKS	1.0	10.0
OTHER LOCAL AUTHORITIES	12.5	13.4
ICELAND (LANDSBANKI)	2.6	2.6
MONEY MARKET FUNDS	25.4	3.8
	58.5	51.8

3.11 There have been no changes to the Council's long term borrowing in 2012/13. This will be reviewed throughout the year.

Landsbanki

3.12 In late 2011, it was confirmed that Priority status had been upheld by the Icelandic Supreme Court, with Local Authority Investors, including Flintshire County Council, being recognised as preferential creditors. The Winding Up Board of Landsbanki made a distribution to priority creditors on 17th February 2012. Flintshire received £1,087,776.79 of

the £3.7million original investment. In March 2012, the Winding Up board announced that recoveries in the Landsbanki Administration would now likely be 100% of their deposits, subject to potential future exchange rate fluctuations. Although this is only a forecast and not guaranteed, it is marginally higher than the 95% previously forecast. The impact on Flintshire County Council will not be known until the final distribution is made.

- 3.13 The future pattern of distributions is not known. The 2011/12 accounts were to be closed taking account of the guidance from the Wales Audit Office and CIPFA. It was therefore assumed for accounting purposes that the repayment would be made as follows –

Date	%
December 2012	8.00
December 2013	8.00
December 2014	8.00
December 2015	8.00
December 2016	8.00
December 2017	8.00
December 2018	22.00
Total	70.00

- 3.14 However, a further distribution of £458,173.80 was made on 29th May 2012. We are awaiting further guidance on how future distributions should be accounted for.

4.00 RECOMMENDATIONS

- 4.01
- To review the draft Treasury Management Annual Report 2011/12 and identify any matters to be drawn to the attention of the Cabinet on 10th July 2012.
 - That Members note the update on early treasury management activity in 2012/13 up to the end of April 2012.

5.00 FINANCIAL IMPLICATIONS

- 5.01 None directly as a result of 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 Sterling Consultancy Services

11.00 CONSULTATION UNDERTAKEN

11.01 Sterling Consultancy Services

12.00 APPENDICES

12.01 Appendix 1 – Report Dates 2012/13
Appendix 2 – Draft Treasury Management Annual Report 2011/12
Appendix 3 – Investments as at 30th April 2012

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

Contact Officer: Philip Latham
Telephone: 01352 702264
Email: philip.latham@flintshire.gov.uk