

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **TUESDAY, 25 SEPTEMBER 2012**

REPORT BY: **HEAD OF FINANCE**

SUBJECT: **TREASURY MANAGEMENT MID YEAR UPDATE**

1.00 PURPOSE OF REPORT

1.01 To provide an update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2012/13 to the end of August 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

Treasury Management Mid Year Report 2012/13

3.01 The draft Treasury Management Mid Year Report for 2012/13 is attached as Appendix 1 for review. As required by financial procedures, this Mid Year Report will be reported to Cabinet and Council.

3.02 The Mid Year Report reviews the activities and performance of the treasury management operations during the period 1st April to 31st August 2012.

3.03 In summary, the key points of the report are:

- Performance during the period was broadly in line with the expectations of the Policy Statement 2012/13.
- The continuation of our low risk strategy of investing for a

maximum term of 3 months, with consideration given to suitable longer term investments as appropriate.

- We continue to utilise AAA rated Money Market Funds – as at 31st August 2012, £22.1 million was invested across 4 separate funds.
- Internal Audit reviewed the treasury management function and concluded that in their opinion the operation provides a substantial level of assurance.
- Responsibility for the Council's treasury management function is in the process of being transferred to the Strategy and Technical team in Corporate Finance.
- The treasury function operated within the limits detailed in the Treasury Management Policy and Strategy Statement 2012/13 with one exception; an investment was made with a counterparty that had recently been placed at risk of falling below the Council's criteria because it was on review for possible downgrade. The error was identified the very next day and immediate action was taken to recover the investment. The investment has now been returned and internal controls have been improved to ensure that such an error will not happen again. Further details in paragraph 5.04 of the Mid Year Report.

Treasury Management Policy and Strategy Statement 2012/13

3.04 A statement setting out the Council's investments as at 31st August 2012 is attached as Appendix 2. Members should note the following:

- The investment balance was £62.5 million across 19 counterparties.
- One longer term investment was made - £4 million with the Bank of Scotland at an interest rate of 3%, maturing on 4th July 2013.
- Sterling have revised their base interest rate forecast from that included in the 2012/13 Strategy with no increase in base rate forecast now until the second half of 2013, with a 0.25% increase to 0.75%.

The longer term projection for interest rates has also been revised downwards. A comparison of current forecasts and those at the time the Strategy was produced is included on page 6 of the Mid Year Report.

The financial implications of the change in interest rate forecasts will be reported in the Central Loans and Investment Account in the revenue budget monitoring report.

- Several UK financial institutions that previously met our investment criteria have been subject to downgraded credit ratings. Consequently we have a reduced number of

counterparties with which we can invest and some investments have had to be withdrawn and re-invested with higher rated, more secure financial institutions.

- 3.05 There have been no changes to the Council's long term borrowing in 2012/13.

Landsbanki

- 3.06 Previous reports to the Audit Committee have updated members with the latest position regarding the reimbursement of our investments with Landsbanki and is shown in section 8 of the Mid Year Report.
- 3.07 The legal counsel acting on behalf of all Local Authorities in England and Wales have issued details of the combined legal costs incurred to 31st July 2012 for their work related to releasing distributions to Landsbanki Local Authority creditors. They have also provided an estimate of the combined legal costs for the period August 2012 – March 2013.
- 3.08 Flintshire has incurred legal costs totalling £22,438 for the period 2008/09 to 2011/12.
- 3.09 Although legal counsel have provided an estimate of the combined legal costs for the remainder of 2012/13 as discussed in 3.07, we do not yet know what Flintshire's share of the costs are. A budget of £3,700 has been set to cover our anticipated legal fees for 2012/13 within the Central Loans and Investment Account.

4.00 RECOMMENDATIONS

- 4.01 To review the draft Treasury Management Mid Year Report 2012/13 and identify any matters to be drawn to the attention of Cabinet on 16th October 2012.

5.00 FINANCIAL IMPLICATIONS

- 5.01 As set out in the 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 1. Draft Treasury Management Mid Year Report 2012/13
2. Investments as at 31st August 2012

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

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