PART A

AGENDA ITEM **11**

Report to: Audit Committee
Date of meeting: 30 June 2009
Report of: Head of Strategic Finance
Title: Treasury Management Quarterly Report

1.0 SUMMARY

1.1 This report provides a brief quarterly review of the Council's Treasury Management performance for 2008/2009 and arrangements up to the present time regarding investment strategy.

2.0 RECOMMENDATIONS

2.1 That the Committee notes the report and endorses the current strategy to concentrate on the security of investments rather than seeking higher levels of performance.

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3.0 **Background**

3.1 The Committee received a report on 14th January 2009 which detailed a Treasury Management and Investment Strategy for 2009/2010. Since that date the Audit Commission has produced a report entitled ''Risk and Return: English Local Authorities and the Icelandic Banks''.

3.2 In Summary:

- 127 authorities were affected (WBC was not one of them).
- Authorities should set the treasury management framework so that the organisation is explicit about the level of risk it accepts and the balance between security and liquidity and the yield to be achieved.
- Authorities should ensure treasury management policies are scrutinised in detail by a specialist committee and are monitored regularly.
- Should train those elected members of authorities who have accountability for the stewardship of public money so that they are able to scrutinise effectively.
- Should use the fullest range of information before deciding where to deposit funds.

3.3 The report to this committee in January 2009 detailed the Treasury Management Strategy to be followed in 2009/2010 and very largely follows best practice. It is not recommended that it be formally reviewed at the present time although some further refinement will be adopted for the remainder of the financial year and this is detailed later in this report.

3.4 With regard to training for members, the Budget panel received a presentation upon treasury management by the Director of Finance at its meeting on 13th November 2008. The Hertfordshire Finance Officers are considering a suggested outline for member training on treasury management in the Autumn and it is suggested that this opportunity be available for all members of the Audit Committee.

4.0 **Treasury Management Performance for 2008/2009**

4.1 The Council's Treasury Management Policy requires that the performance of the investment portfolio is reported to Members. In the 2008/2009 year the Council held an average of £50.975 million, and the average interest achieved was 5.61% compared to a performance target (0.1% above the average base rate figure) of 3.66%. A significant over achievement of 1.95% compared to the target (although budget assumptions had anticipated some of this over performance) and was largely due to exceptional timing in placing investments for fixed 6 to 12 month periods at the highest point of the interest rate curve (6.5% interest rates) This overachievement helped to contribute to the investment income credited to the Revenue Account for the year being in excess of the budgeted figure of £2.258million by approximately £200k.

4.2 The revision to the Council's Treasury Management Strategy for 2009/2010 has placed a greater emphasis upon security of the investment portfolio and this, combined with a general fall in interest rates, will mean such high rates of return will not be achieved in the current financial year when the investments within the current portfolio reach maturity . The Budget for 2009/2010 has been predicated upon achieving an average rate of interest of 2.2%.

5.0 **Treasury Management Practice for 2009/2010**

5.1 It is not the intention to formally revise the Treasury Policy for 2009/2010 but nevertheless, in the light of increased instability in the financial markets, the following variations to current policy will be followed:

- No further investments will be made with Irish banks once the current investments have matured.
- Only the top 6 Building Societies by Group assets will be used. This is a considerable reduction on past practice where investments with the top 30 building societies had been made. Even so, one treasury management adviser (not the Council's) has suggested no building society should be used. This appears unduly restrictive and would mean most investments would earn less than 0.5% rates of interest.
- Due to the restricted nature of the revised counterparty list, it will probably be necessary to place a tranche of our portfolio with the Government Debt Management Office where interest rates of 0.30% are currently on offer. Use of this facility will be kept to a minimum wherever possible.

5.2 In effect treasury management officers would be heavily criticised if an investment were to fail but the alternative is a derisory rate of interest. For example, HSBC are only interested in large blocks of investment for 12 month periods at 0.25% interest rates; Lloyds/ TSB and large foreign banks are not in the market at all. We are currently exploring whether any local authorities are seeking short term funding although most authorities are currently lenders.

5.3 An unwelcome development has been the announcement by one of the three credit rating agencies (Standard and Poor's) that it is putting the UK's Sovereign rating outlook on 'negative' watch—from stable. It currently is classed as AAA and, as such, our Treasury Policy Statement permits investment with Government backed institutions such as Northern Rock. Should the UK's status be downgraded then it would probably be necessary to explicitly permit the continuation of such investments. The same situation currently applies to Irish sovereign debt which has been downgraded to AA. In this instance it is not the intention to re-invest with Irish financial institutions for the foreseeable future.

6.0 IMPLICATIONS

6.1 Financial Issues

The Head of Strategic Finance comments that a high (but essential) priority towards security of investments will inevitably affect the amount of investment interest accruing to the Council's revenue account. For the current financial year £1.1million of interest has been assumed (at an average interest rate of 2.2%). It is anticipated that this will be achieved and will be due to a few investments placed, at high rates of interest for 12 months periods, and not maturing until October 2009). As part of the Council's Medium Term Planning an estimate will be made of levels of investment income for future years.

6.2 Legal Issues (Monitoring Officer)

The Head of Legal and Property Services comments that there are statutory limitations governing cash fund investments and all proposals within this report ensure continued compliance.

6.3 Potential Risks

Potential Risk	Likelihood	Impact	Overall score
Investment with non approved body	2	3	6
Failure to achieve investment interest budget targets	2	3	6
Those risks scoring 9 or above are considered significant and will need specific attention in project management. They will also be added to the service's Risk Register.			

6.4 **Staffing**

6.4.1 None Directly

6.5 **Accommodation**

6.5.1 None Directly

6.6 **Community Safety**

6.6.1 None Directly

6.7 **Sustainability**

6.7.1 None Directly

Background Papers

CIPFA Treasury Management Code of Practice
Audit Commission publication-Risk and Return
Treasury Management Policy, Practice and Strategy (reported to this Committee on 19th January 2009

File Reference

None