

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 24 NOVEMBER 2014

REPORT OF DIRECTOR OF REGENERATION & COMMUNITIES

Report prepared by John Owen

1. TREASURY MANAGEMENT STRATEGY MIDYEAR PERFORMANCE 2014-15

1.1 Issue for Decision

1.1.1 This report sets out the activities of the Treasury Management function for the 2014-15 financial year in accordance with CIPFA's Code of Practice (The Code). The Code suggests that members should be informed of Treasury Management activities at least twice a year.

1.2 Recommendation of Director of Regeneration & Communities

1.2.1 That the Audit Committee notes the position as at 30 September 2014, as detailed within this report.

1.2.2 That the Audit Committee agrees no amendments to the current procedures are necessary as a result of the review of activities in 2014-15 to date.

1.3 Reasons for Recommendation

1.3.1 The Council has adopted The Code as part of its Treasury Management Strategy and this has been incorporated into the financial regulations of the Council. The Code specifies the principles and guidelines relating to borrowing and investment activity.

1.3.2 In March 2014, the Treasury Management Strategy for 2014-15 was approved by full Council. The strategy requires members to be kept informed of Treasury Management activities through a mid-year review and an annual report, as well as a quarterly update within the budget monitoring report.

1.3.3 The Strategy for 2014-15 incorporated the following changes from the previous year's strategy:-

- a) Increasing the maximum duration limits with some part-nationalised groups to 2 years from 1 year;
- b) Investing up to £5m of core cash for over 1 year if rates were to improve with the possibility of using property funds as financial instruments to secure more favourable returns;
- c) Considering the use of core cash during for internal borrowing if not used for longer term investments;

1.4 2013-14 Overview

1.4.1 Economic Overview

The following trends have been observed during the first six months of 2014-15:-

- a) Continued growth in the UK economy of 0.7% in quarter one and 0.9% in quarter two (annual rate of 3.2% in quarter two). This is mainly attributable to consumer spending and increased activity in the housing market;
- b) A reduction in CPI, which reached 1.5% in May and July, the lowest rate since 2009;
- c) Continued decrease in unemployment, which is expected to give rise to future pay increases.

1.5 Interest Rate Forecast

1.5.1 The Council's treasury advisors, Capita Asset Services, have provided the following forecast:

	NOW	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
BANK RATE	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	2.00	2.25	2.50
3 month LIBID	0.50	0.50	0.60	0.80	0.90	1.10	1.30	1.40	1.60	1.90	2.10	2.10	2.30	2.40	2.60
6 month LIBID	0.65	0.70	0.80	1.00	1.10	1.20	1.40	1.50	1.80	2.00	2.20	2.30	2.50	2.70	2.80
12 month LIBID	0.93	0.90	1.00	1.20	1.30	1.40	1.70	1.80	2.10	2.20	2.30	2.40	2.60	2.80	3.00
5 yr PWLB	2.40	2.50	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.50	3.50	3.50
10 yr PWLB	3.00	3.20	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.10	4.10	4.20	4.20	4.30	4.30
25 yr PWLB	3.70	3.90	4.00	4.10	4.30	4.40	4.50	4.60	4.70	4.70	4.80	4.80	4.90	4.90	5.00
50 yr PWLB	3.70	3.90	4.00	4.10	4.30	4.40	4.50	4.60	4.70	4.70	4.80	4.80	4.90	4.90	5.00

1.5.2 It was previously predicted that interest rates would increase either in the latter part of 2014 or the beginning of 2015.

1.5.3 Capita subsequently revised this forecast to an initial increase in the Bank Rate during the second quarter of 2015 with a gradual rise thereafter. This followed an expression of caution by the Monetary Policy Committee over increasing the Bank Rate too early, given the potential impact that this could have on UK growth in the context of recent worldwide events including the ongoing conflict in Syria/Iraq, Ebola and the international threat of terrorism.

1.6 MBC Overview

1.6.1 With reference to the above strategy, £3m core cash was invested with Lloyds Bank (part nationalised) for two years at a rate of 1.3% on 22 July 2014. (See **Appendix A**).

1.6.2 With the exception of the above, all other cash has been invested short term. This is due to existing rates not being sufficient to justify the increased risk of fixing longer term.

1.6.3 At 30 September 2014, the council held investments totalling £29.83m, as listed within **Appendix A**. Income generated on these investments to 30 September is £101k against a budget of £125k. The adverse variance is a result of interest rates not increasing as expected, which is due the Bank Rate remaining static at 0.5%, as previously noted in paragraph 1.5.2. The average rate of return on investments over this period is 0.69%.

1.6.4 The Council is a member of the Capita Assets Services Local Authority Benchmarking Group alongside seven other authorities in Kent and Sussex. The benchmarking exercise compares the council's investment performance on a number of factors, taking into account the weighted average rate of return and the level of risk each authority is prepared to take. The analysis report as at 30 September 2014 shows that this Council is outperforming in its weighted average rate of return against a very low level of risk. At September 2014, Maidstone's portfolio yielded the third highest rate of return and was assigned second lowest risk profile in the group.

1.7 Treasury Management Strategy Statement and Annual Investment Strategy

1.7.1 The Treasury Management Strategy for 2014-15 was approved by Council in March 2014. The Council's Annual Investment Strategy, which is incorporated within the Council's Strategy outlines the council's investment priorities in the following order:

- Security of Capital
- Liquidity
- Yield

- 1.7.2 The Council will aim to achieve optimum return on investments only after satisfying proper levels of security and liquidity. It was agreed to keep investments short term with highly credit rated financial institutions, using the credit worthiness list and information provided by Capita Asset Services as well as being mindful of market intelligence.
- 1.7.3 There have not been any policy changes to the strategy since it was approved in March 2014 and the details within this report update the position in the light of the updated economic position and budgetary changes already approved.
- 1.7.4 The treasury management strategy for 2015-16 will be considered by the Audit Committee in January 2015. As part of this process, consideration will be given to the council's approach to optimising investment performance in line with the priorities listed in paragraph 1.7.1.

1.8 Borrowing

- 1.8.1 The Treasury Management Strategy includes a provision for borrowing of up to £6m for investment purposes. It has not been necessary to utilise the facility during the six months to 30 September 2014.
- 1.8.2 Short term borrowing of £1.5m was necessary during the week from 20 June 2014 to 27 June 2014 to cover a cash flow shortfall in the current account over this period. Funds were borrowed from another local authority at a rate of 0.25%, with total interest payments amounting to £71.92.

1.9 Prudential Indicators

- 1.9.1 The Council has a statutory duty to determine and monitor its affordable borrowing limits. These are detailed within **Appendix B**.

1.10 Cash Management

- 1.10.1 The major element of the Council's Treasury Management Function is the management on a daily basis of the cash requirements of the Council. The policy objectives are listed below:-
- a) The daily credit balance on the council's current account should be minimised, subject to clearance of monies overnight;
 - b) Interest earned on investments should be maximised, subject to **security** of funds being paramount;

- c) Interest paid on borrowing should be minimised;
- d) Adequate funds should be available to meet precept payments and other payments as they fall due;
- e) Cash management activities should be carried out in accordance with the agreed Treasury Management Strategy.

1.11 Alternative Action and why not Recommended

1.11.1 No alternative action is proposed relating to the historic activity covered in this report.

1.12 Impact on Corporate Objectives

1.12.1 The Treasury Management Strategy will impact upon all corporate objectives through the resource it provides from the investment of all the Council's balances. These resources are incorporated in the Council's budget.

1.13 Risk Management

1.13.1 Risk management is included within the Treasury Management Practices which the Council adheres to. The main risks to the Council being counterparty risk, liquidity risk and interest rate risk which are closely monitored on a regular basis using the Council's Treasury advisors, Capita Asset Management and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken.

1.14 Other Implications

1. Financial	X
2. Staffing	
3. Legal	X
4. Equality Impact Needs Assessment	
5. Environmental/Sustainable Development	
6. Community Safety	
7. Human Rights Act	
8. Procurement	
9. Asset Management	



1.14.2 Appendices

- Appendix A – List of Investments
- Appendix B – Prudential Indicators

1.14.3 Background Documents

None

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, this is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			