

**MAIDSTONE BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**MONDAY 15 JULY 2013**

**REPORT OF THE HEAD OF FINANCE & RESOURCES**

**Report prepared by John Owen**

**1. TREASURY MANAGEMENT ANNUAL REPORT 2012/13**

1.1 Issue for Decision

1.1.1 This report sets out the activities of the Treasury Management function for the 2012/13 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities

1.2 Recommendation of Head of Finance & Resources

1.2.1 Audit Committee note the review of the financial year 2012/13 which has been compiled in accordance with the Code of Practice on Treasury Management as adopted by this Authority.

1.2.2 Audit Committee agrees that no amendments to current strategy are necessary as a result of the review of activities in 2012/13.

1.3 Reasons for Recommendation

1.3.1 The council has adopted and incorporated into its Financial Regulations, the CIPFA Code of Practice on Treasury Management in Local Authorities (The Code). This Code covers the principles and guidelines relating to borrowing and investment operations.

1.3.2 It was previously agreed by Council that the following reporting requirements are made:

- An annual treasury management strategy in advance of the year is agreed by the Council.
- Quarterly budget monitoring reports are provided to allow monitoring by Cabinet
- Mid year and annual reports are considered Audit Committee and if required recommendation is made to Council to amend the current strategy.

1.3.3 In February 2012 the Council approved a Treasury Management Strategy for 2012/13. The Code requires a report to be presented reviewing the strategy that was approved, the previous year's activities and endorsing or amending current procedures for the forthcoming year.

#### 1.4 Key Elements of 2012/13 Strategy

1.4.1 The key objectives of the approved strategy for 2012/13 are set out below. Performance against these objectives is set out in section 1.6.

- a) Keep investments short term (up to 1 year) to help fund the existing capital programme when needed and to make funds available to invest if rates increased;
- b) Use up to £3m from core cash balances to be invested for 1 year or above if rates are at a premium over predicted base rates and funds are available for the term.
- c) No planned borrowing, other than for short-term cashflow purposes. The council is currently debt-free;
- d) Group limits placed in institutions within the same ownership group;
- e) The Head of Finance & Customer Services be given delegated authority to add or withdraw institutions from the counterparty list when ratings change, either as advised by Sector or from another reliable market source.

#### 1.5 Economic Overview

1.5.1 During the quarter ended 31<sup>st</sup> March 2013

- Indicators show that the economy was very near to a second consecutive quarter of negative growth
- Unemployment rose for the first time in a year
- Retail spending has increased
- Inflation is still over 2% target
- Three members of the Monetary Policy Committee voted for further quantitative easing

1.5.2 The council's current Treasury Advisers, Sector, provide the following rates forecast:

	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
<b>Bank rate</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
<b>5yr PWLB rate</b>	1.80%	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%	2.40%
<b>10yr PWLB rate</b>	2.90%	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.50%
<b>25yr PWLB rate</b>	4.10%	4.10%	4.10%	4.20%	4.20%	4.30%	4.40%	4.60%
<b>50yr PWLB rate</b>	4.20%	4.20%	4.20%	4.40%	4.40%	4.50%	4.60%	4.70%

- The first bank increase is expected to be in March 2015.
- Long term PWLB rates are expected to steadily increase to reach 4.70% by the first quarter of 2015.

## 1.6 MBC Overview

- 1.6.1 Expenditure levels began 2012/13 at a slow pace picking up later in the year. This had the effect of creating temporary cash balances for investment that were higher than expected. By the end of the year expenditure was significantly on target with a positive revenue cash flow of £1.1m greater than estimated and in excess of £5m in capital resources being carried forward to future years of the programme.
- 1.6.2 The average rate of interest received on the council's investments over the period was 1.17% compared to a forecast level of 1.0%. Due to additional resources available for investment during the year and the correction of a misstated interest accrual from 2011/12 investment income for 2012/13 is £400,000 against a budget of £250,000.
- 1.6.3 In reviewing the key elements of the strategy, as set out in section 1.4, the following paragraphs detail the outcome for 2012/13.
- a. All investments have been on a short-term basis to be used, as agreed within the Strategy which includes £3m invested with Lloyds TSB (part nationalised bank) for 346 days at a rate of 3.0%.

- b. £2m of core cash funds were invested for 367 days also with Lloyds TSB at a rate of 2.85%.
- c. There was no borrowing during 2012/13 not even for temporary cash flow purposes.
- d. Investments remained within the group limits set during the year. The current balance of investments as at 31<sup>st</sup> March 2013 is £13.520m. These are listed within **Appendix A** with no two investments being within the same group of companies.
- e. During 2012/13 the Head of Finance & Resources did not act upon the delegation given in the strategy.

## 1.7 Annual Investment Strategy

1.7.1 The Treasury Management Strategy for 2012/13 was approved by Council on February 2012. The council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy, outlines the council's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

1.7.2 The council will aim to achieve optimum return on investments with 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 Sector as well as being mindful of market intelligence.

## 1.8 Borrowing

The Council is currently debt free so there is no need for long term borrowing. The council did not borrow any funds during 2012/13.

## 1.9 Prudential Indicators

1.9.1 It is a statutory duty for the council to determine and keep under review the "Affordable Borrowing Limits".

1.9.2 During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown 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 in this respect are:-

- The minimisation of the daily credit bank balance, subject to the clearance of monies overnight;
- Interest earned on investments should be maximised subject to the **security** of the funds being paramount;
- Interest paid on borrowing should be minimised;
- Adequate funds should be available to meet precept payments and other payments as they fall due;
- Cash management activities are carried out in accordance with the agreed Treasury Management Strategy.

#### 1.11 Strategy for 2013/14

1.11.1 No significant issues have arisen during 2012/13 and none of the outcomes set out in this report give cause for concern. It is therefore recommended that Audit Committee that no amendments to the 2013/14 strategy are required at this time.

#### 1.12 Alternative Action and why not Recommended

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

#### 1.13 Impact on Corporate Objectives

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

#### 1.14 Risk Management

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

#### 1.15 Other Implications

1.15.1

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

X
-
X
-
-
-
-
-
-
-

1.16 Relevant Documents

1.16.1 Appendices

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

**IS THIS A KEY DECISION REPORT?**

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because: .....

.....

Wards/Parishes affected: .....

.....