Audit Governance & Standards Committee		20th July 2015
Is the final decision on the recommendations in this report to be made at this meeting?		**Yes**

Treasury Management Annual Review 2014/15

Final Decision-Maker	
Lead Director or Head of Service	Paul Riley, Head of Finance & Resources
Lead Officer and Report Author	Ellie Dunnet, Chief Accountant/John Owen, Accountant (Systems)
Classification	Non-exempt
Wards affected	All Wards

This report makes the following recommendations to the final decision-maker:

1. The Audit, Governance and Standards Committee note the review of the financial year 2014/15 in accordance with CIPFA's Code of Practice on Treasury Management.
2. The Audit, Governance and Standards Committee agrees that no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2014/15.

This report relates to the following corporate priorities:

- Great People
- Great Place
- Great Opportunity

Timetable	
Meeting	***Date***
Policy and Resources Committee	N/A
Council	N/A
Other Committee	N/A

Treasury Management Annual Review 2014/15

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 The Council has adopted CIPFA's Treasury Management Code of Practice which recommends that a Mid Year Review and an Annual Review on the Treasury Management function covering activities during the previous year are reported to an appropriate committee.

1.2 The Council has delegated this role to the Audit, Governance and Standards Committee.

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2. INTRODUCTION AND BACKGROUND

2.1 This report sets out the activities of the Treasury Management function for 2014/15 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 12 months.

2.2 The key elements of 2014/15 Strategy are:

- Increasing maximum durations limits with part nationalised institutions from 1 year to 2 years;
- Investing up to £5m of core cash for over 1 year if rates were to improve. Possibility of using property funds;
- To consider the use of core cash during 2014/15 for internal borrowing if not used for longer term investments;
- All other investments short term (less than 1 year);
- No borrowing requirements for the year necessary except for short term.

2.3 An Economic Overview of 2014/15

After strong UK GDP growth in 2013 at an annual rate of 2.7%, growth continued in 2014 at a rate of 0.6% in Q1, 0.8% Q2, 0.6% Q3 and 0.6% Q4 (annual rate for 2014 of 2.8% - the strongest rate since 2006). The Bank of England maintained its GDP forecast for 2015 at 2.9%, but revised up its forecasts for 2016 and 2017 to 2.9% and 2.7% respectively, from 2.6% in both years.

CPI had fallen to 0% in February 2015, the lowest since 1960. This may well lead to the UK experiencing negative inflation, however this has yet to happen.

2.4 Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	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%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%
5yr PWLB rate	2.20%	2.30%	2.50%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	2.80%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%
25yr PWLB rate	3.40%	3.60%	3.80%	3.90%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%	4.70%
50yr PWLB rate	3.40%	3.60%	3.80%	3.90%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%	4.70%

This latest forecast includes a move in the timing of the first increase in Bank Rate from quarter 4 of 2015 to quarter 1 of 2016 as a result of the sharp fall in inflation, however this may yet slip again into quarter 2 of 2016. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual.

The Monetary Policy Committee is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only starting to gradually increase as a result of wage inflation now running marginally above the depressed rate of CPI inflation.

2.5 Maidstone Borough Council Overview

All investments during 2014/15 have been short term (less than 1 year) with the exception of the following:

- £3m Lloyds Bank for 2 years at a rate of 1.3%
- £2m Royal Bank of Scotland for 2 years. First year rate 1%, second year 1.44%

The use of property funds was looked at during the year, however the net returns (after deducting management fees), were judged to be insufficient to justify the level of risk associated with this type of investment and the length of time funds would have been tied up for.

The balance of investments as at 31st March 2015 was £21.1m. A breakdown of investments is listed within ***Appendix I***.

The average rate on council investments during the year was 0.68%. Investment income for the year was £204k against a budget of £250k. The shortfall is due to the fact that rates have not increased as anticipated.

The only borrowing that occurred during the year was for £1.5m from Rhondda Cynon Taff County Borough Council from 20th June to 27th June 2015 (7 days) at a rate of 0.28%. This was for short term liquidity reasons as a consequence of lower than expected income levels. The total cost of this borrowing amounted to £80.55.

2.6 Annual Investment Strategy

The Treasury Management (TM) Strategy was approved for 2014/15 by Council in March 2014. The Council's Annual Investment Strategy, which is incorporated in the TM Strategy outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

The Council will aim to achieve optimum return on investments after having satisfied 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, information provided by the Council's investment advisors, Capita Asset Services, along with sharing information with other local authorities and being mindful of market intelligence.

2.7 Borrowing

The Council has a provision for long term borrowing of up to £6m for capital investment purposes specified within the strategy, with an overall limit for external borrowing of £10m. No long term borrowing was required during 2014/15 as there were sufficient internal resources available to finance the capital programme. The Council did however borrow for short term purposes as listed within 2.4 above.

2.8 Prudential and Treasury Indicators

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

During the financial year 2014/15, the Council has operated with the prudential and treasury indicators set out in the Treasury Management Strategy Statement and in compliance with the Council's Treasury management Practices. The prudential and treasury indicators are shown within ***Appendix II***.

2.9 Cash Management

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:

- 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 funds being paramount;
- Interest paid on borrowing should be minimised;
- Adequate funds should be available to meet precept, business rates and other payments as they fall due;
- Cash management activities are carried out in accordance with the agreed Treasury Management Strategy.

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3. AVAILABLE OPTIONS

3.1 The Audit, Governance and Standards Committee agrees that no amendments to the current procedures are necessary as a result of the review of activities in 2014/15.

3.2 The Audit, Governance and Standards Committee proposes changes to the current procedures as a result of the review of activities in 2014/15.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The Audit, Governance and Standards Committee agrees that no amendments to the current procedures are necessary as a result of the review of activities in 2014/15 as there is no justification to make any changes.

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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 None

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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 If Audit, Governance and Standards Committee agrees that no change in current procedures with Treasury management will be made, then there will be no further action.

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7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	None	
Risk Management	Risk management is included within the Treasury Management Practices to which the Council adheres. These risks	Paul Riley, Head of Finance &

	comprise of: • credit and counterparty risk, • liquidity risk, • interest rate risk and • exchange rate risk, refinancing risk (however, the Council only deals in its home currency sterling). • Legal & regulatory risk • Fraud, error and corruption • Market risk management	Resources
Financial	This report relates to the financial activities of the council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Zena Cooke, Dir. of Communities & Regeneration and Corporate Finance
Staffing	None	
Legal	This report is in compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury Management in Local Authorities.	Estelle Culligan, Deputy Head Legal Partnership
Equality Impact Needs Assessment	None	
Environmental/Sustainable Development	None	
Community Safety	None	
Human Rights Act	None	
Procurement	None	
Asset Management	None	

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix I: List of Investments held as at 31st March 2015
- Appendix II: The Prudential and Treasury Indicators

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9. BACKGROUND PAPERS