

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

28 NOVEMBER 2011

REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES

Report prepared by John Owen
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1. TREASURY MANAGEMENT STRATEGY MID YEAR PERFORMANCE 2011/12

1.1 Issue for Decision

- 1.1.1 This report sets out the activities of the Treasury Management function for the 2011/12 financial year in accordance with CIPFA's Code of Practice on Treasury Management issued in November 2009. The revised Code suggests that Members should be informed of Treasury Management activities at least twice a year, but preferably quarterly.

1.2 Recommendation of Head of Finance & Customer Services

- 1.2.1 That Audit Committee notes the position, as detailed within the report.
- 1.2.2 That Audit Committee agrees that no amendments to the current procedures are necessary as a result of the review of activities in 2011/12.

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 2009 (Revised) in Local Authorities. This Code covers the principles and guidelines relating to borrowing and investment operations.
- 1.3.2 In February 2011 the council approved a Treasury Management Strategy for 2011/12. The Strategy requires Members to be kept informed of Treasury Management activities through a mid-year review and an annual report.

1.3.3 The Strategy for 2011/12 set out the following objectives:-

- 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 responsibility to add or withdraw institutions from the counterparty list when ratings change, either as advised by Sector or from another reliable market source.

1.3.4 The council's Treasury Management Practices are amended to reflect these decisions.

1.4 2011/12 Overview

Economic Overview

- The UK economy grew by a 0.1% in the first quarter of 2011/12, which was less than expected, and this provided a knock on effect to future growth prospects. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.
- CPI (Consumer Price Index) Inflation is rising and heading for a peak of around 5%.
- MPC (Monetary Policy Committee) announcement of second round of quantitative easing of £75bn.

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

- The first bank increase is expected to be in September 2013, which has slipped from June 2012 as previously forecast.
- Rates are expected to steadily rise reaching 2.5% by mid 2015.
- Long term PWLB rates are expected to steadily increase to reach 5.30% by the first quarter of 2015.

There are still uncertainties within the economic forecasts due to risk of another recession in the UK and the speed of recovery of banks' profitability.

MBC Overview

- All investments have been on a short-term basis to be used, as agreed within the Strategy.
- £3m of core cash funds were invested for 1 year with Lloyds TSB (part nationalised bank).
- The current balance of investments as at 30th September 2011 is £26.275m. These are listed within **Appendix A**.
- The average rate of interest received on the council's investments over the period was 1.18% compared to a forecast level of 1.0%. Investment income for the first half of 2010/11 is £150,000 compared to a budget of £125,000.
- There has been continued concern with all financial institutions within the UK having their credit ratings reduced. This is mainly due to the current economic situation in Europe. It is Sector's view that the semi nationalised banks, e.g. RBS and Lloyds groups, will be safe but there is uncertainty with other UK institutions. With this in mind, the Head of Finance and Customer Services (in line with his delegated authority) has reduced the exposure to these other institutions down to a maximum of three month term deposits, as recommended by Sector, and the use of building societies down from top 10 to top 5. This ensures that the greater part of the Council's finances will be very liquid and placed with higher rated institutions.

1.5 Annual Investment Strategy

1.5.1 The Treasury Management Strategy (TM) for 2011/12 was approved by council in February 2011. 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 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.

1.6 Borrowing

- 1.6.1 The Council is currently debt free so there is no need for long term borrowing. The Council did borrow £1m for a period of one day due to repayment of over claimed NNDR grant from 2010/11.

1.7 Prudential Indicators

- 1.7.1 It is a statutory duty for the council to determine and keep under review the "Affordable Borrowing Limits". These are listed within **Appendix B.**

1.8 Cash Management

- 1.8.1 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.

1.9 Alternative Action and why not Recommended

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

1.10 Impact on Corporate Objectives

- 1.10.1 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.

1.11 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.

1.12 Other Implications

1.12.1

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

1.13 Relevant Documents

1.13.1 Appendices

Appendix A - List of Investments
Appendix B - Prudential Indicators

1.13.2 Background Documents

Working papers held in the Corporate Finance office.

IS THIS A KEY DECISION REPORT?

Yes

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No

X

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

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This is a Key Decision because:

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Wards/Parishes affected:

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