

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

11TH JUNE 2012

REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES

Report prepared by John Owen

1. TREASURY MANAGEMENT ANNUAL REPORT 2011/12

1.1. Issue for Decision

1.1.1. This reports sets out the activities of the Treasury Management function for the 2011/12 financial year in accordance with the CIPFA Code of Practice on Treasury Management in Local Authorities.

1.2. Recommendation of Head of Finance & Customer Services

1.2.1. Audit Committee note the review of the financial year 2011/12 which has been compiled in accordance with the Code of Practice on Treasury Management as adopted by this Authority.

1.2.2. Audit Committee agree to make no recommendations on amendments to current procedures as a result of the review of activities in 2011/12

1.3. Reasons for Recommendation

1.3.1. The Council adopted and incorporated into its Financial Regulations, the CIPFA Code of Practice on Treasury Management in Local Authorities (The Code). This code covers 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 strategy in advance of the year is agreed by Council.
- Quarterly budget monitoring reports adopted and monitored by Cabinet.
- Mid year and annual reports agreed by Council after scrutiny from Audit Committee.

1.3.3. In February 2011 the Council approved a Treasury Management Strategy for 2011/12. 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 2011/12 Strategy

1.4.1. Invest funds short term (up to 1 year) so that funds are available for liquidity purposes.

1.4.2. £3m of core cash may be invested for 1 year or above if rates are at a premium over predicted base rates and these are available for the term.

1.4.3. No borrowing needs have been identified, except for short term liquidity reasons. However if funds were needed, these would be obtained from maturing investments.

1.4.4. An amendment was agreed in June 2011 by Council to increase investment limits on UK banking institutions and AAA rated institutions, including Government Bodies, to enable additional funds to be deposited to highly rated institution and reduce exposure to lower rated organisations. This amendment occurred as a consequence of the annual review of 2010/11 carried out by Audit Committee and it was this Committee's recommendation to Council that resulted in the amendment detailed.

1.5. Economic Background 2011/12

1.5.1. News on the economy as a whole has generally improved over the year. Feedback from our treasury management advisors suggests that:

- Demand on the High Street increased
- Employment rose, but not at a fast enough rate to stop unemployment rising.
- The Chancellor presented a fiscally neutral Budget
- Inflation continued to drop
- The Monetary Policy Committee (MPC) announced another tranche of quantitative easing.
- Eurozone agreed a second bailout for Greece.

1.5.2. Recently arising issues suggest that there are continuing difficulties in achieving growth targets in the UK, further problems exist with the Greek economy and the eurozone and there is support from the IMF for the government's austerity measures along with pressure for specific action on growth and employment.

1.6. MBC Overview 2011/12

1.6.1 Revenue budgets are showing a £4.653m under spend for the year, however there have been carry forward requests of £3.54m. The under spends were due to various reasons which were listed within Provisional Revenue and Capital Outturn Report 2011/12, report to Cabinet in May 2012.

1.6.2 Capital budgets are showing slippage of £0.163m which has been identified since the programme was agreed by Council in February 2012. This is the net effect of slippage to and from 2012/13 as funding for Mote Park Regeneration in 2012/13 will need to be used in 2011/12.

1.7 Annual Investment Strategy

1.7.1. The Treasury Management Strategy (TM) for 2011/12 was approved by Council on 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.

1.7.2. The table below shows investment performance for 2011/12.

	£m	%
Investments as at 1st April 2011	21.015	
Investments as at 31st March 2012	13.62	
Investment Income as at 31st March 2012	0.312	
Ave Balance/ Rate of Investments during year	29.355	1.18

1.7.3. The level of investments as at 31st March 2012, as shown within **Appendix A**, are lower than was originally estimated (£17m) due to the provisional assessment being over estimated within the following areas;

Collection Fund	£1.0m
Council Tax Benefit Grant	£1.2m
Other Income	£1.2m

1.7.4. All new investments throughout the year were short term (less than 1 year) with the exception of the £3m core cash set aside for longer term investments. This had been invested with Lloyds TSB Bank for 1 year at a rate of 2.1%.

1.7.5. Despite investments being at a lower level than expected, the investment income is higher than budgeted (£0.25m) due to the Council receiving premium rates on short term investments from institutions, including Lloyds TSB Bank.

1.8. Borrowing

1.8.1. The Council did borrow short term funds on two occasions due to liquidity reasons, which is permitted within the strategy. Details are as follows:

<u>Name</u>	<u>Amount</u>	<u>Rate</u>	<u>No. of Days</u>
Surrey County Council	£1,000,000	0.50%	1
Rhondda Cynon Taff CBC	£2,000,000	0.30%	2

1.8.2 Council had agreed to increase the limits with UK institutions and AAA institutions which has decreased the Council's level of risk exposure to lower credit rated organizations.

1.9. Prudential Indicators

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

1.10. Alternative Action and why not Recommended

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

1.11. Impact on Corporate Objectives

1.11.1. 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 within the Council's budget.

1.12. Risk Management

1.12.1. 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.

1.13. 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. Relevant Documents

1.14.1. Appendices

Appendix A – List of Investments
Appendix B – Prudential Indicators

1.14.2. Background Documents

Working papers held in the Corporate Finance Office

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:

.....