

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

25 NOVEMBER 2013

REPORT OF HEAD OF FINANCE & RESOURCES

Report prepared by John Owen

1. TREASURY MANAGEMENT HALF YEARLY REVIEW 2013/14

1.1 Issue for Decision

1.1.1 This report sets out the activities of the Treasury Management function for the 2013/14 financial year in accordance with CIPFA's Code of Practice on Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year.

1.2 Recommendation of Head of Finance & Customer Services

1.2.1 That the Audit Committee notes the position as at 30th September 2013, as detailed with the 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 2013/14 to date.

1.3 Reasons for Recommendation

1.3.1 The council adopted and incorporated the CIPFA Code of Practice on Treasury Management within its Financial Regulations. The Code covers the principles and guidelines relating to borrowing and investment operations.

1.3.2 In March 2013, the council approved a Treasury Management Strategy for 2013/14. 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 2013/14 set out the following changes from the previous year's strategy, which are listed as follows:-

- a) The use of £3m core cash deposits limits with part nationalised institutions can be greater than one year if rates are at a premium over predicted base rates and funds are available for the term.
- b) The use of enhance cash funds which is an extension to the current AAA rated money market funds. These offer higher yields to money market funds due to giving short term notice to withdraw funds.
- c) The assumption is to borrow up to a maximum of £6m through the most economically advantageous method, as decided by the Head of Finance & Resources, from: internal borrowing of core cash balances; PWLB loans; or other reputable sources of lending.

1.4 **2013/14 Overview**

Economic Overview

The first six months of 2013/14 has shown the following:-

- Indicators suggested that the economy has accelerated
- Household spending has increased again.
- Inflation has fallen back towards the 2% target.
- Growth has been confirmed for the second quarter at +0.7%.

The council's current Treasury Advisors, Capita Asset Services, formerly Sector Treasury Services, provide the following rates of forecast up to March 2017.

	NOW	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25
3 month LIBID	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.90	1.00
6 month LIBID	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.70	0.80	1.00	1.20	1.40
12 month LIBID	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.90	1.00	1.20	1.40	1.60	1.80	2.00
5 yr PWLB	2.50	2.50	2.50	2.60	2.70	2.70	2.80	2.80	2.90	3.00	3.20	3.30	3.50	3.60	3.70
10 yr PWLB	3.70	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.60
25 yr PWLB	4.40	4.40	4.40	4.40	4.50	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.10	5.10	5.20
50 yr PWLB	4.50	4.40	4.40	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.20	5.20	5.20	5.30

The bank rate forecast has been revised with the first increase changing from Q4 to Q3 2016. This is due to a managed resolution to the Eurozone crisis and Europe being the UK's biggest export market.

MBC Overview

Reference to the above strategy points, It can be confirmed:-

- a) None of the £3m core cash has been invested longer than one year due to the longer term rates being at a sufficient level to tie up funds for this time.
- b) Two Enhanced Cash Funds have been opened, with Ignis Asset Management and Federated (formally Prime Rate). Initially the rates have been quite low so a minimum balance was deposited. However, rates have started to increase so larger deposits, within the investment criteria, have been deposited.
- c) There have been no investment opportunities so far within the year which has necessitated the Authority to borrow funds.

Actions of the Authority up to 30th September 2013

- All investments have been invested on a short term basis (up to one year), as agreed within the Strategy.
- £3m has been invested with Lloyds TSB (part nationalised bank) for 1 year.
- The current balance on investments as at 30th September 2013 is £28.4m. These are listed within **Appendix A**.
- £16.9m of investments are in accounts which can be called upon immediately or for a short notice period.
- Investment income is still below target with a balance of £119k compared to a budget of £125k. This is due to investment rates falling as financial institutions do not need additional funding due to surplus cash from Government to assist small and medium enterprises.

1.5 **Annual Investment Strategy**

The Treasury Management Strategy for 2013/14 was approved by Council in March 2013. The Council's Annual Investment Strategy, which is incorporated within the Council's 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 Capita Asset Services as well as being mindful of market intelligence.

1.6 **Borrowing**

There has been no need for borrowing within the first half of 2013/14, however there is still a provision to borrow up to £6m if necessary.

1.7 **Prudential Indicators**

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**

The major element of the council's Treasury Management function is the management on the 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 clearance of monies overnight;
- Interest earned on investments should be maximized subject to **security** of funds being paramount;
- Interest paid on borrowing should be minimized;
- 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**

1.11.1 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, Capita Asset Management, 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	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	

1.12.2 **Appendices**

Appendix A – List of Investments
Appendix B – Prudential Indicators

Background Documents

None.

IS THIS A KEY DECISION REPORT?

THIS BOX MUST BE COMPLETED

Yes

No

If yes, this is a Key Decision because:

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Wards/Parishes affected:

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