

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

WEDNESDAY 14TH JULY 2014

**REPORT OF DIRECTOR OF REGENERATION AND
COMMUNITIES**

Report prepared by Paul Riley

1. TREASURY MANAGEMENT PERFORMANCE 2013/14

1.1 Issue for Decision

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 in Local Authorities

1.2 Recommendation of the Director of Regeneration and Communities

That the Audit Committee note the review of the financial year 2013/14 which has been compiled in accordance with the Code of Practice on Treasury Management as adopted by this Authority.

That the Audit Committee agrees that no amendments to current procedures are necessary as a result of the review of activities in 2013/14.

1.3 Reasons for Recommendation

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.

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

- An annual treasury management strategy agreed by the Council in advance of the year.
- Quarterly budget monitoring reports adopted and monitored by Cabinet
- Mid-year and annual reports agreed by Council after scrutiny from Audit Committee.

In March 2013 the Council approved a Treasury Management Strategy for 2013/14. 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 2013/14 Strategy

- To Invest funds short term (up to 1 year) so that funds are available to invest for longer periods if rates increase
- The use up to £3m core cash balances with part nationalised institutions to be invested for a period greater than one year subject to rates being at a premium over predicted based rates and the availability of funds for the term of the investment
- The use of enhanced cash funds which is an extension of the current AAA rated money market funds.

1.5 2013/14 Overview

Economic Overview

During the year 2013/14:

- There was strong UK GDP growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, it appears that strong growth will continue into 2014.
- This strong growth has resulted in unemployment falling much faster towards the threshold of 7% which was initially the government's trigger to increase interest rates. The government has since revised its guidance by including other indicators before increasing rates.
- Also, there has been a sharp fall in inflation (CPI), reaching 1.7% in February; forward indications are that inflation will continue to fall

1.6 Interest Rate Forecast

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

	NOW	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
BANK RATE	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75	2.00	2.00
3 month LIBID	0.50	0.50	0.60	0.80	0.80	1.10	1.10	1.30	1.40	1.60	1.90	2.10	2.25
6 month LIBID	0.58	0.60	0.80	0.90	1.00	1.15	1.20	1.40	1.50	1.80	2.00	2.20	2.30
12 month LIBID	0.80	0.80	1.00	1.00	1.20	1.30	1.40	1.70	1.80	2.10	2.20	2.30	2.40
5 yr PWLB	2.70	2.70	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.50	3.60
10 yr PWLB	3.50	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.20	4.20	4.30	4.40	4.40
25 yr PWLB	4.10	4.40	4.40	4.50	4.60	4.70	4.70	4.80	4.80	4.90	4.90	4.90	5.00
50 yr PWLB	4.10	4.40	4.40	4.50	4.60	4.70	4.70	4.80	4.80	4.90	4.90	4.90	5.00

- This latest forecast now includes a first increase in the Bank Rate in quarter 1 of 2015 (previously quarter 2 of 2016). This change was as a result of Mark Carney's comments on the possibility of rising rates in 2014. However this was a low possibility of happening within this year and Capita believes it would more likely to be next year.
- Capita have revised its forecast on PWLB rates. The longer term rates are currently showing at 4.1% (July 2014) and reaching 5.0% in June 2017. These figures include the certainty rate (minus 20 bps)

1.7 MBC Overview

- All investments have been on a short-term basis, as agreed within the Strategy. The only exception £3m invested with Lloyds TSB (part nationalised bank) for 365 days at a rate of 1.01%.
- The current balance of investments as at 31st March 2014 is £19.175m. A breakdown is listed within **Appendix A**.
- The average rate for Council investments over the year was 0.77%. Investment income for the year was £231k compared to a budget of £250k. The shortfall is due to rates falling again during the year.
- Cash enhanced funds have been utilised throughout the year delivering an average yield of 0.75%.
- There was no need to borrow during the year 2013/14.

1.8 Annual Investment Strategy

The Treasury Management (TM) Strategy for 2013/14 was approved by Council on March 2013. 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.

1.9 Borrowing

The Council is currently debt free so there is no need for long term borrowing. As mentioned earlier in this report, the Council did not borrow during 2013/14.

1.10 Prudential Indicators and Treasury Indicators

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

During the financial year to date the Council has operated within the treasury and prudential 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 B**.

1.11 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 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.

1.12 Alternative Action and why not Recommended

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

1.13 Impact on Corporate Objectives

- 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. 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	

The financial and legal implications are detailed earlier within the report.

1.16 Relevant Documents

- Appendices

Appendix A - List of Investments

Appendix B - Prudential and Treasury Indicators

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, this is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			