

Audit Governance & Standards Committee

**23rd November
2015**

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Treasury Management Strategy Mid Year Review 2015/16

Final Decision-Maker	Audit Governance & Standards Committee
Lead Head of Service	Paul Riley, Head of Finance & Resources
Lead Officer and Report Author	John Owen, Accountant (Systems)
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

1. Notes the position of the Treasury Management Strategy as at 30th September 2015.
2. No amendments to the current procedures are necessary as a result of the review of activities in 2015/16.

This report relates to the following corporate priorities:

- An effective Treasury Management Strategy assists with all financial implications of the Council which will enable it to achieve its priorities.

Timetable

Meeting	Date
Audit Governance & Standards Committee	23 rd November 2015

Treasury Management Strategy Mid Year Review 2015/16

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 on the Treasury Management function covering activities during the year are reported to an appropriate committee.
 - 1.2 The Council has delegated this role to the Audit, Governance and Standards Committee.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 This report sets out the activities of the Treasury Management function for the first 6 months of 2015/16 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 6 months.
- 2.2 The key elements of 2015/16 Strategy are:
 - Invest additional core cash of up to £3m for over 1 year if rates were to improve, potentially using this amount to invest in property funds;
 - Include overseas institutions within the Council's counter party list who are listed on Capita's credit quality listing and where the Country's sovereignty rating is equal or above the UK rating AA+;
 - The Head of Finance & Resources be given delegated authority to invest within the certificate of deposit market to access highly secure counterparties.
- 2.3 An Economic Overview of 2015/16

UK growth rates in 2013 and 2014 were the strongest growth rates of any G7 Country. However, quarter 1 of 2015 growth was weak to around +0.4% (+2.9 y/y) which has then increased again within quarter 2 to 0.7% (+2.4 y/y). It is shown that growth has fallen again within quarter 3 to around 2.3%.

CPI has fallen to or near zero and there has also been a recovery in wage inflation over the last quarter. CPI has now fallen further to -0.1% in September which was mainly due to lower fuel prices.

Unemployment fell slightly in the 3 months leading up to August, the lowest since mid2008. Wage growth has increased, including bonuses to 3% during the same period, an increase from 2.9% previously. Excluding bonuses, average wage earnings have fallen to 2.8%.

2.4 Interest Rate Forecast

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

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

This latest forecast shows a first increase in Bank Rate in quarter 2 of 2016 which has shifted back from the previous forecast of October 2015.

Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate.

Capita will be reviewing this forecast in December 2015 as there are expectations of a rate increase in the US at this time.

2.5 Maidstone Borough Council Overview

All new investments during the first 6 months of 2015/16 have been short term (less than one year). Total investments as at 30th September 2015 were £34.55m. A list of these can be found within **Appendix I**.

The Council has invested in one overseas bank as per the Treasury Management Strategy. This institution is The Commonwealth Bank of Australia. This is a highly rated institution which the Council can invest up to £5m for a duration of 1 year. Details of this investment can also be found within **Appendix I**.

The average rate on Council investments is 0.75% which is in line with performance and is benchmarked against other authorities within Kent and Sussex.

Investment income up to 30th September 2015 is £116k.

The Council has used highly rated institutions to invest its funds and have kept the majority of investments under 1 year in case funds are needed to fund the potential property purchases and to react to potential changes within market rates.

The Council reviewed Property Funds during 2014/15, which at this point the net returns were deemed to be insufficient to justify the risks in tying up funds for a longer period of time. Due to the increase in returns, these are currently being reviewed again. The Head of Finance & Resources already has delegated authority to enter in these instruments via the authorisation Members had given to him within Treasury Management Strategy 2015/16.

The Council had to borrow for short term liquidity reasons on the following occasions:

Amount of Borrowing	Dates	Duration	Interest Charged
£1.5m	22-25 May 2015	4 days	£106.85
£1.5m	22 September 2015	1 day	£32.88

2.6 Annual Investment Strategy

The Treasury Management (TM) Strategy was approved for 2015/16 by Council in March 2015. The Council's Annual Investment Strategy, which is incorporated in the TM Strategy and 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 2015/16 as there were sufficient internal resources available to finance the capital programme. The Council did however borrow for short term purposes as listed within 2.5 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 2015/16, 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.
-

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 a review of activities within the first 6 months of 2015/16.
- 3.2 The Audit, Governance and Standards Committee proposes changes to the current procedures as a result of a review of activities within the first 6 months of 2015/16.
-

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 a review of activities within the first 6 months of 2015/16 as there are no justifications to make any changes.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 None
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 If The Audit, Governance and Standards Committee agree that no amendments to current procedures of the Treasury Management function are necessary, then there will be no further action.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	None	
Risk Management	<p>Risk management is included within the Treasury Management Practices to which the Council adheres. These risks comprise of:</p> <ul style="list-style-type: none"> • 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 	Head of Finance & 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.	Section 151 Officer
Staffing	None	
Legal	Compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury management in local authorities.	Mid Kent 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 30th September 2015
 - Appendix II: The Prudential and Treasury Indicators
-

9. BACKGROUND PAPERS

None