

Audit, Governance & Standards Committee

11th July 2016

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

Yes

Treasury Management Annual 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, Finance Manager
Classification	Public
Wards affected	All Wards

This report makes the following recommendations to this Committee:

1. The Audit, Governance and Standards Committee note the review of the financial year 2015/16 in accordance with CIPFA's Code of Practice on Treasury Management.
2. The Audit, Governance and Standards Committee agrees that no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2015/16.

This report relates to the following corporate priorities:

- Securing a successful economy for Maidstone Borough - ensuring the safeguarding of the Council's finances and the liquidity of funds when liabilities become due will enable the Council to provide a successful economy for Maidstone Borough.

Timetable

Meeting	Date
None	

Treasury Management Annual Review 2015/16

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code requires that authorities report on the performance of the treasury management function at least twice a year (at mid-year and year-end).
 - 1.2 The Council has delegated the role of considering these reports to the Audit, Governance and Standards Committee.
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2. INTRODUCTION AND BACKGROUND

- 2.1 This report sets out the activities of the Treasury Management function for 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 12 months.
- 2.2 The Authority's Treasury Management Strategy for 2015/16 was approved by full Council on 25th February 2015. The key elements of the Strategy are:
 - Invest up to £3m of core cash for over 1 year if rates were to improve, possibly in property funds;
 - Include overseas institutions within the Council's counterparty list who are on the Council's advisor's, Capita, credit quality list and whose sovereignty rating is the same or better than the UK;
 - All other investments short term (less than 1 year);
 - A provision to borrow £6m if it becomes necessary to fund the capital programme.

2.3 Economic Overview of 2015/16

During financial year 2015/16 the following developments took place:

- UK economy slowed with GDP growth falling to 2.3% from 3.0% the year before.
- CPI inflation hovered around 0.0% through the year with deflationary spells in April, September and October.
- The labour market continued to improve through 2015 and in Q1 2016 was the highest rate since comparable records began in 1971. The unemployment rate was at a 12 year low of 5.1%.

- Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

2.4 Interest Rates and PWLB Rates

Date	Bank Rate	PWLB Rates							
		1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs	
30/04/2015	0.50	1.41	2.27	2.90	3.44	3.55	3.50	3.48	
31/05/2015	0.50	1.44	2.26	2.90	3.44	3.54	3.48	3.45	
30/06/2015	0.50	1.48	2.44	3.13	3.65	3.72	3.64	3.60	
31/07/2015	0.50	1.54	2.45	3.07	3.56	3.62	3.54	3.49	
31/08/2015	0.50	1.47	2.30	2.92	3.47	3.54	3.44	3.40	
30/09/2015	0.50	1.44	2.19	2.79	3.42	3.50	3.42	3.39	
31/10/2015	0.50	1.44	2.38	2.93	3.56	3.65	3.56	3.53	
30/11/2015	0.50	1.42	2.23	2.85	3.48	3.54	3.42	3.39	
31/12/2015	0.50	1.41	2.38	3.01	3.61	3.68	3.56	3.53	
31/01/2016	0.50	1.24	1.96	2.62	3.28	3.37	3.23	3.20	
29/02/2016	0.50	1.27	1.73	2.43	3.23	3.36	3.24	3.19	
31/03/2016	0.50	1.33	1.81	2.48	3.21	3.30	3.16	3.12	

Bank of England Bank Rate has not changed over the year due to lower growth than previously expected. The Council's new treasury advisors, Arlingclose, predict in their latest update that a Bank Rate increase will not happen until quarter 2 2018.

PWLB rates have fallen over the year. However, it is expected that these will increase slightly in the medium term.

2.5 Investment Activity

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council has adhered to these principles during 2015/16.

In November 2015, the Council tendered for its Treasury Advisors from 1st January 2016. Two companies gave presentations to the finance team: Capita Asset Services and Arlingclose. Both companies offered a very similar service. However, Arlingclose gave a very good presentation and were selected as the Council's new advisors, replacing Capita who had acted as the Council's advisors for over 15 years.

The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Authority's investment balances have ranged between £18m and £47m. The average investment balance for the year was £33.7m. The Council held investments totalling £18.68m as at 31st March 2016. A full list of these can be found within **Appendix I**.

Investment income for the year totalled £252k against a budget of £270k. This is due to interest rates not increasing in line with the original forecasts made by the Council's advisors.

All investments during 2015/16 have been short term due to rates not being sufficiently appealing to justify the risk of investing funds for longer periods. Property funds have been considered and discussed with Arlingclose during the year, but it appears that yields have peaked due to the property market slowing down. There is also a consideration that funds will need to be invested for a minimum of 3 – 5 years in order to earn a modest return and the property market can fluctuate over this time.

The Council has invested fixed term deposit funds with overseas institutions in accordance with the 2015/16 Strategy. These amounts are invested with highly secure institutions within AAA rated Sovereign countries. Details of these investments are as follows:

Commonwealth Bank of Australia - £1,000,000 15/09/2015 to 15/07/2016 @0.71%

United Overseas Bank Ltd - £2,000,000 28/01/2016 to 28/10/2016 @0.75%

2.6 Borrowing Activity

The Council has not needed to borrow within 2015/16, except for short term cashflow purposes. Details of these borrowings are as follows:

London Borough of Tower Hamlets - £1,500,000 4 days @ 0.65% cost of borrowing £106.85.

London Borough of Havering - £1,500,000 1 day @ 0.80% cost of borrowing £32.88.

2.7 Prudential and Treasury Indicators

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the indicators that must be set and monitored each year.

The Council has operated within its Prudential and Treasury Indicators set in the Treasury Management Strategy 2015/16 and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **Appendix II**.

2.8 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.
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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 the review of activities in 2015/16.
- 3.2 The Audit, Governance and Standards Committee proposes changes to the current procedures as a result of the review of activities in 2015/16.
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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 the review of activities in 2015/16 as there is no justification to make any changes.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 None.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 If Audit, Governance and Standards Committee agrees that no change in current procedures with Treasury management will be made, then there will be no further action.
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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 	Paul Riley, 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.	Mark Green Director of Finance and Business Improvement
Staffing	None	
Legal	This report is in compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury Management in Local Authorities.	Legal Section
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 as at 31st March 2016
 - Appendix II: Prudential and Treasury Indicators
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9. BACKGROUND PAPERS