

# **MAIDSTONE BOROUGH COUNCIL**

## **COUNCIL**

**22 JUNE 2011**

### **REPORT OF THE AUDIT COMMITTEE HELD ON 6 JUNE 2011**

#### **TREASURY MANAGEMENT**

The Committee considered the report of the Head of Finance and Customer Services setting out details of the activities of the Treasury Management function for the 2010/11 financial year in accordance with the CIPFA Code of Practice on Treasury Management in Local Authorities as adopted by the Council in February 2009. It was noted that:-

- The report included a summary of the objectives set out in the Strategy for 2010/11; an economic overview for 2010/11 together with an overview of the Council's revenue and capital outturn position and of its level of investments; details of compliance with treasury limits and of the Council's debt management and cash management arrangements; and an examination of current issues.
- The overall consequence of the outturn on Treasury Management activity was that slippage in both revenue and capital expenditure during the year meant levels of investment had been higher than estimated (£21m compared to the estimate of £18m) enabling additional short term investment. However, since interest rates were significantly lower than predicted (average 1.34%), the result was that income from the investments was £42,000 below the revised estimate of £400,000. Greater levels of cash available for investment did increase the difficulty of mitigating the risk posed by the placement of funds. Increasing the limits on highly rated UK and AAA rated institutions, along with Government Bodies, would be a method of mitigating this risk for the Council should levels of investment remain high. However, the duration limit for depositing funds with these institutions should not increase. The proposed amendments to the limits, extracted from the full list set out in Appendix A to the report, were as follows:-

<b>Institution Name</b>	<b>Previously Agreed Limit</b>	<b>Suggested Limit</b>
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#### **UK INSTITUTIONS MEETING MINIMUM RATING CRITERIA**

Bank of Scotland Plc	£4,000,000	£5,000,000
Lloyds TSB	£4,000,000	£5,000,000
National Westminster Bank	£4,000,000	£5,000,000
Royal Bank of Scotland plc	£4,000,000	£5,000,000
Ulster Bank Ltd	£4,000,000	£5,000,000

#### **OTHER PUBLIC BODIES**

UK Government	£5,000,000	£8,000,000
UK Local Authorities (Inc. Police & Fire Authorities)	£5,000,000	£8,000,000

**EURO-STERLING BOND ISSUERS (AAA RATED)**

European Investment Bank	£5,000,000	£8,000,000
Inter-American Development Bank	£5,000,000	£8,000,000
International Finance Corporation	£5,000,000	£8,000,000
European Bank for R&D	£5,000,000	£8,000,000
International Bank for R&D	£5,000,000	£8,000,000
GTD Export Finance Corporation	£5,000,000	£8,000,000

**MONEY MARKET FUNDS (AAA RATED)**

Goldman Sachs	£5,000,000	£8,000,000
Prime Rate Capital Management	£5,000,000	£8,000,000

The Committee asked a number of questions of the Officers relating to the implications of expected capital receipts; the Council's cash management arrangements; the approach to depositing funds with building societies; and the risks associated with placing funds with bank groups.

**RECOMMENDED: That the proposed increase in the limits on UK banking institutions and AAA rated institutions, including Government Bodies, to enable additional funds to be deposited into highly rated institutions whilst reducing the exposure to lower rated institutions, be approved.**