

## **FLINTSHIRE COUNTY COUNCIL**

**REPORT TO:**           **AUDIT COMMITTEE**

**DATE:**               **WEDNESDAY, 15 JULY 2015**

**REPORT BY:**       **CORPORATE FINANCE MANAGER**

**SUBJECT:**           **TREASURY MANAGEMENT ANNUAL REPORT**  
**2014/15 AND 2015/16 QUARTER 1 UPDATE**

### **1.00 PURPOSE OF REPORT**

1.01 To present the Annual Report on the Council's Treasury Management Policy, Strategy and Practices 2014/15 and to provide an update on Treasury Management activity in 2015/16 to the end of June 2015.

### **2.00 BACKGROUND**

2.01 The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of Treasury Management Strategy and Policies.

2.02 The Audit Committee has previously agreed to include Treasury Management as a standing item on each quarterly agenda to receive an update.

2.03 On 18<sup>th</sup> February 2014, the Council approved the Treasury Management Investment Strategy 2014/15, following the recommendation of the Cabinet and consideration by the Audit Committee.

2.04 On 17<sup>th</sup> February 2015, the Council approved the Treasury Management Strategy 2015/16, following the recommendation of the Cabinet and consideration by the Audit Committee.

### **3.00 CONSIDERATIONS**

#### Governance

3.01 A schedule for the reporting cycle for Treasury Management reports 2015/16 is attached as Appendix 1 for information. Where Members have any specific items of interest, concern or questions on the Council's Treasury Policy or Investment Strategy these can be addressed within these reports upon request.

## **Treasury Management Annual Report 2014/15**

- 3.02 The draft Treasury Management Annual Report for 2014/15 is attached as Appendix 2 for review. As required by the Council's Financial Procedure Rules, this Annual Report will be reported to the Cabinet and Council.

### **Summary of Key Points**

- 3.03 The UK bank base interest rate again remained at its historic low of 0.5% throughout the year. This was reflected in the low level of interest that the Council was able to generate on its investments; the average interest rate for investments during the year was 0.54%. Section 2 of the annual report provides a review of the economy and interest rates, and Section 4 provides further details of the Council's investment activity during the year.
- 3.04 No new borrowing was undertaken during the year; the Council continued to use cash reserves to fund capital expenditure in place of new borrowing. Debt rescheduling opportunities were considered by officers and the Council's Treasury Management advisors. However, the premia charged for repaying high interest rate debt or replacing it with debt at a lower interest rate was deemed too expensive and therefore made any debt rescheduling unattractive. Section 3 of the annual report provides more information on borrowing and debt management during the year.
- 3.05 The treasury function operated within the limits detailed in the Treasury Management Strategy 2014/15.

### **Treasury Management 2015/16 – Quarter 1 update**

- 3.06 Investments Update  
A statement setting out the Council's investments as at 30<sup>th</sup> June 2015 is attached at Appendix 3. The investment balance at this time was £44.3m, spread across 18 counterparties and the average investment rate was 0.45% for the quarter.
- 3.07 Members will be aware from recent quarterly updates to the Committee of the introduction of banking reform, the so called 'bail-in' regime and the impacts it has had on Flintshire's lending list; with a number of counter parties suspended following reviews by the credit rating agencies.
- 3.08 The effect of reduced counterparties is to reduce the yield earned on investments shown in Appendix 3. In mitigation other types of investments are being considered as opportunities arise, examples include T-bills and Certificates of Deposits (CDs). Security and liquidity of funds must remain the focus however.

## Borrowing Update

### 3.09 **Welsh HRA Subsidy Reform and Introduction of Self Financing**

It was reported in the 2015/16 Treasury Management Strategy that the UK and Welsh Governments, along with all 11 stock retaining authorities in Wales were preparing to sign a voluntary agreement to change the financing arrangements for council housing in Wales in early 2015/16.

The negative subsidy system in operation, which required Flintshire to make annual payments of circa £6m in to Welsh Government ceased at the end of 2014/15. The Council was required to buy itself out of the arrangement by making a one-off 'settlement payment' to the Welsh Government on 2<sup>nd</sup> April 2015.

Part of the agreement was that the Council would borrow in full for the settlement payments from the PWLB at special Welsh HRA Subsidy Reform interest rates. These were set at a margin above PWLB Standard rates due to the methodology adopted by the Welsh Government and HM Treasury in determining the settlement amounts.

Flintshire's settlement payment amounted to £79.2m, and the Council was required to draw down loans that would deliver a minimum interest payment to the PWLB of £3.3m for each of the first five years following settlement.

A schedule of Loans outstanding as at 30<sup>th</sup> June 2015 is attached as Appendix 4 which includes the new loans taken out on 2<sup>nd</sup> April, and the updated Debt Maturity Profile as Appendix 5.

The agreement will generate revenue savings allowing the Council to increase its investment in existing stock and support the delivery of additional supply of housing.

- 3.10 Appendix 4 shows the Council's borrowing as at 30<sup>th</sup> June 2015. The total amount of loans outstanding is £251.3m and the average interest rate payable was 5.02%.

### **4.00 RECOMMENDATIONS**

- 4.01 That Members note the report.

### **5.00 FINANCIAL IMPLICATIONS**

- 5.01 None directly as a result of this report.

### **6.00 ANTI POVERTY IMPACT**

6.01 None directly as a result of this report.

7.00 **ENVIRONMENTAL IMPACT**

7.01 None directly as a result of this report.

8.00 **EQUALITIES IMPACT**

8.01 None directly as a result of this report.

9.00 **PERSONNEL IMPLICATIONS**

9.01 None directly as a result of this report.

10.00 **CONSULTATION REQUIRED**

10.01 Arlingclose Limited.

11.00 **CONSULTATION UNDERTAKEN**

11.01 Arlingclose Limited.

12.00 **APPENDICES**

Appendix 1 - Treasury Management Reporting Cycle 2015/16

Appendix 2 - Draft Treasury Management Annual Report 2014/15

Appendix 3 - Investments outstanding as at 30<sup>th</sup> June 2015

Appendix 4 - Schedule of debt as at 30<sup>th</sup> June 2015

Appendix 5 - Debt Maturity Profile

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985  
BACKGROUND DOCUMENTS**

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