

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **WEDNESDAY, 16 JULY 2014**

REPORT BY: **CORPORATE FINANCE MANAGER**

SUBJECT: **TREASURY MANAGEMENT ANNUAL REPORT**
2013/14 AND 2014/15 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 2013/14 and to provide an update on Treasury Management activity in 2014/15 to the end of June 2014.

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 1st March 2013, the Council approved the Treasury Management Policy Statement 2013-2016, Treasury Management Investment Strategy 2013/14 and Treasury Management Practices 2013-2016, following the recommendation of the Cabinet and consideration by the Audit Committee.

2.04 On 18th February 2014, the Council approved the Treasury Management Strategy 2014/15, 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 2014/15 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 2013/14

- 3.02 The draft Treasury Management Annual Report for 2013/14 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 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 0.58%. 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 During quarter 4, the Council sold its claims against the insolvent estate of LBI (Landsbanki) through a competitive auction process. The Council recovered 92% of the amounts that were originally deposited, representing a very large portion of the LBI deposits. The sale of the claims represented a clean break and with the administration of the insolvent estate of LBI likely to continue for several years, removed the uncertainty around the timing of future recoveries. Section 5 provides further details.
- 3.06 The treasury function operated within the limits detailed in the Treasury Management Strategy 2013/14 with one exception; an investment made in early April exceeded the limit with the particular counterparty. The error was identified promptly and immediate action taken to reduce the total invested in accordance with the policy limit. Section 6 provides further details.
- 3.07 Towards the end of 2013/14 the Council gradually reduced its level of investments with building societies. This was in readiness for reform to the building society regulatory framework. The change will remove the preferred creditor status, which the Council would currently benefit from, and takes additional security from, in the unlikely event of a building society defaulting on an investment.

- 3.08 Officers spent time reviewing a new Treasury Management IT system but concluded that for the time being it was more beneficial and less disruptive to service delivery to continue to use the existing system.
- 3.09 A review of the Treasury Management function was completed by Internal Audit during the year and again reported that substantial assurance could be placed in the treasury management systems and controls.

Treasury Management 2014/15 – Quarter 1 update

Investments Update

- 3.10 A statement setting out the Council's investments as at 30th June 2014 is attached at Appendix 3. The investment balance at this time was £56.4m, spread across 13 counterparties and the average investment rate was 0.53% for the quarter.
- 3.11 The Council continues to subscribe to CIPFAs Treasury Management Network, with officers attending regional and national practitioner groups, providing opportunities to share best practice with other Local Authorities.

Borrowing Update

- 3.12 No new borrowing was undertaken during the quarter as the Council continues to use existing cash balances to fund capital expenditure in place of borrowing. Appendix 4 details the schedule of all loans that the Council currently owes.

Interest Rates

- 3.13 In recent months there has been much debate amongst economists, treasury professionals and in the media around when the Bank of England's Monetary Policy Committee (MPC) will decide to increase the UK Bank base interest rate.
- 3.14 Arlingclose, the Council's advisors updated their interest rate forecast on 30th June. They have brought forward the estimated first rise in official interest rates to Q3 2015; in February 2014 when the 2014/15 Strategy was set, no rate increase was predicted until beyond 2016.
- 3.15 The advisors state that there is clear momentum in the economy, with GDP growth averaging 0.8% per quarter since the middle of 2013, a continued rise in employment, and business investment recovering quickly but from a low base. Growth however is largely driven by household consumption which is likely to slow later this year.
- 3.16 Policymakers remain concerned about the sensitivity of the UK economy to a rise in Bank Rate. The focus is the degree of spare capacity in the economy and the speed at which this will be used up, factors prompting some debate on the MPC.

3.17 Our advisors are of the view that spare capacity remains extensive, despite recent large falls in unemployment. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure. The lack of inflationary pressure will be the main reason why policymakers are likely to hold off monetary tightening. This situation is expected to persist for some time, reducing the need for immediate monetary tightening. A slow rise in Bank Rate is projected.

3.18 In light of this revised forecast from Arlingclose, officers will consider and assess the impact of an earlier increase in rates on the Council's investment and borrowing strategies over the medium term and any impact will be included in future update reports.

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 2014/15
Appendix 2 - Draft Treasury Management Annual Report 2013/14
Appendix 3 - Investments outstanding as at 30th June 2014
Appendix 4 - Schedule of debt as at 30th June 2014

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

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