

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **10TH DECEMBER 2014**

REPORT BY: **CORPORATE FINANCE MANAGER**

SUBJECT: **TREASURY MANAGEMENT - MID YEAR REPORT
2014/15**

1.00 PURPOSE OF REPORT

1.01 To provide an update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2014/15 to the end of September 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. The Audit Committee has previously agreed to include Treasury Management (TM) as a standing item on each quarterly agenda to receive an update.

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

2.03 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

Treasury Management Mid Year Report 2014/15

3.01 The draft Treasury Management Mid Year Report for 2014/15 is attached as Appendix 1 for review. This Mid Year Report will be reported to Cabinet and Council in January 2015.

3.02 The Mid Year Report reviews the activities and performance of the treasury management operations during the period 1st April to 30th September 2014.

3.03 In summary, the key points of the Mid Year Report are:

- Performance during the period marginally exceeded the expectations of the TM Strategy 2014/15.
- The UK economy saw stronger economic growth during the first half of the year with falling unemployment but this is against a backdrop of historically low interest rates, low inflation and depressed wages. A number of global factors exist which have the potential to impact on the continued recovery as outlined in the economic update in section 3 of the report.
- No new borrowing has been undertaken so far during 2014/15, therefore total long term borrowing stands at £172.1m with associated interest costs of £3.553m paid during the 6 month period at an average interest rate of 5.42% as expected.
- Preparations are being made for the abolition of the Housing Revenue Account Subsidy (HRAS) system in Wales and the introduction of 'Self Financing' for the Housing Revenue Account, which will have an impact on the Council's level of debt. Section 4 of the report provides further information.
- Investments in general were made with UK banks and building societies up to periods of 12 months. When appropriate, suitable longer term investments will be made. The average rate of return was 0.54% generating investment income of £0.170m which is £46k more than that budgeted.
- AAA rated Money Market Funds continue to be utilised. As at 30th September 2014, £20.3m was invested across 4 separate funds.
- The treasury function operated within the limits detailed in the Treasury Management Strategy 2014/15.

Treasury Management Update

- 3.04 A statement setting out the Council's investments as at 30th September 2014 is attached as Appendix 2, the investment balance was £52.9m across 16 counterparties.
- 3.05 There have been no changes to the Council's long term borrowing in 2014/15, and this borrowing strategy, of using internal reserves in lieu of borrowing, will continue for the remainder of the year, as this remains the most cost effective way of funding capital expenditure. A schedule of outstanding loans as at 30th September is attached as Appendix 3.
- 3.06 Officers, along with our Treasury Management advisors, are considering the potential impact of the EU Bank Recovery and Resolution Directive approved by the European Parliament earlier this year. The UK is implementing the '*bail-in*' provisions in January 2015, sooner than other countries; ending government support potentially available should a bank fail in the future (similar to the support given to banks during the 2008 financial crisis). Investors / creditors classed

as senior unsecured bondholders will be bailed-in to secure the future financial stability of a bank in the event of a default.

There is a risk that following the withdrawal of potential government support, the credit rating agencies will downgrade the credit ratings of some institutions on Flintshire's counterparty list to BBB+, below A- the minimum required by the Treasury Management Strategy. Should the risk materialise in year, no new investments will be made with these institutions and, any existing investment will be considered on a case by case basis in consultation with our advisors, in line with the Treasury Management Strategy.

Further consideration will need to be given to any future investments with affected institutions in the 2015/16 Treasury Management Strategy.

- 3.07 Attention now turns towards setting the Treasury Management Strategy for 2015/16.

Member training has been arranged for 21st January 2015 which will be a Treasury Management Workshop presented by Arlingclose Ltd.

The session will be hosted by the Audit Committee but will be open to all Members. The views of the Audit Committee are sought in deciding which particular areas of Treasury Management they would like our London based advisors to cover in more depth.

4.00 RECOMMENDATIONS

- 4.01 Members review the draft Treasury Management Mid Year Report 2014/15 and identify any matters to be drawn to the attention of Cabinet on 20th January 2015.

5.00 FINANCIAL IMPLICATIONS

- 5.01 As set out in the 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 Ltd

11.00 CONSULTATION UNDERTAKEN

11.01 Arlingclose Ltd

12.00 APPENDICES

- 12.01
1. Draft Treasury Management Mid Year Report 2014/15
 2. Investments as at 30th September 2014
 3. Loans as at 30th September 2014

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

None.

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