

**FLINTSHIRE COUNTY COUNCIL**

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

**DATE:**                 **WEDNESDAY, 18<sup>TH</sup> MARCH 2015**

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

**SUBJECT:**             **2014/15 TREASURY MANAGEMENT UPDATE**

**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 February 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. 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 1<sup>st</sup> 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 18<sup>th</sup> 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**

Investments Update

3.01    A statement setting out the Council's investments as at 28<sup>th</sup> February 2015 is attached at Appendix 1. The investment balance at this time was £48.8m, spread across 20 counterparties and the average investment rate was 0.54%.

Borrowing Update

3.02    There have been no changes to the Council's long term borrowing in 2014/15. A schedule of outstanding loans as at 28<sup>th</sup> February is attached as Appendix 2.

### Economic Update

- 3.03 Arlingclose Ltd, the Council's treasury management advisors updated their interest rate forecast on 17<sup>th</sup> February. Following the February inflation report and consideration of the latest economic data, they have moved their forecast of the possible path of official bank interest rates. They now estimate the first rise in bank rate in the second quarter of 2016, which has moved from the third quarter of 2015. This is as a result of slow down in the growth of the economy towards the end of 2014 and an expectation that factors such as fiscal austerity, weak global growth and the forthcoming general election will continue to dampen growth.

The risks to this forecast remain weighted to the downside; in particular, as signs of more widespread deflation could prompt a further downward revision to their forecast. They reiterate that the pace of interest rate rises will be gradual and the extent of rises limited.

Arlingclose project gilt yields to be slightly lower than forecast at the end of 2014 (when the Council's 2015/16 Treasury Management Strategy was written) and on a shallow upward path in the medium term, with continuing concerns about the Eurozone, and other geopolitical events, weighing on investors risk appetite. Gilt yields are returns on government bonds, which are more closely linked to the interest rates associated with any future Council borrowing.

### Counterparty Update

- 3.04 As reported in quarters 2 and 3 updates the UK adopted the bail-in regime of the EU Bank Recovery and Resolution Directive (BRRD) in January, a year ahead of other EU countries. This ends government support potentially available should a financial institution fail in the future (similar to support given to institutions during 2008 financial crisis). Investors / creditors classed as senior unsecured bond holders will be bailed-in to secure the future financial stability of an institution in the event of a default. As a result, Standard & Poor's (credit rating agency) placed a number of counterparties on Credit Watch Negative.

The Council's Treasury Management Investment Strategy states that, when a credit rating agency places a counterparty on review for possible downgrade so that it is likely to fall below the minimum criteria, then no further investments will be made until the outcome of the review is announced. 3 of the Council's current counterparties, with current investments totalling £15.4m are now on Credit Watch Negative. The issue has been discussed with Arlingclose and due to the short term nature of the investments involved, no further action was required. The banks involved are no longer on the Council's lending list and no further investments will be made until the review is concluded.

**4.00 RECOMMENDATIONS**

4.01 Members note the report.

**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. Investments as at 28<sup>th</sup> February 2015.  
2. Loans as at 28<sup>th</sup> February 2015.

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

None.

**Contact Officer:** Liz Thomas

**Telephone:** 01352 702289

**Email:** liz.thomas@flintshire.gov.uk