
REPORT TO THE MEETING OF THE EXECUTIVE 3 DECEMBER 2014**PORTFOLIO: FINANCE****REPORT FROM HEAD OF FINANCE****SUBJECT: MID YEAR TREASURY MANAGEMENT REVIEW****1 DECISION BEING RECOMMENDED**

- 1.1 That, subject to any comments by the Executive, the Mid Year Treasury Management Review be recommended to Full Council for approval.

2 REASON/S FOR RECOMMENDATION

- 2.1 The Council has adopted the Code of Practice on Treasury Management. A requirement of this is to produce a mid year review looking at the Authority's performance in line with the strategy agreed by Council in February.

3 SUMMARY

- 3.1 This report was considered by the Review Committee's Treasury Management Task and Finish Group at its 25 November meeting. The Group had a number of questions which are recorded in the Minutes.
- 3.2 The Council operates a balanced budget, which broadly means that cash raised during the year will meet its cash expenditure. Part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 3.3 The second main function of the treasury management service is the funding of the Council's capital plans. These plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations.
- 3.4 Accordingly treasury management is defined as:-

'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

4 INTRODUCTION

- 4.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:-

- An economic update for the 2014/15 financial year to 30 September 2014;

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2014/15;
- A review of the Council's borrowing strategy for 2014/15;
- A review of compliance with Treasury and Prudential Limits for 2014/15.

4.2 The Council employs treasury advisors, Capita Treasury Services Ltd (Capita), formerly known as Sector Treasury Services Ltd, to provide advice on its treasury management strategy and analysis of the economy and expectations for interest rates.

5 KEY CHANGES TO THE CAPITAL AND TREASURY STRATEGIES

5.1 There are no changes to the Treasury Management Strategy (TMS) to report. However, with some institutions starting to re-establish themselves and credit rates starting to improve, it is felt useful to clarify part of the TMS to Members.

5.2 The credit worthiness policy in the TMS provides limits and duration of investments dependent on the colour status of an institution. The limits increase with the strength of the counterparty either in duration or the amount to be placed. For a counterparty in one of the higher colour bandings, any limit in the colour bandings below it can also be applied.

Prudential Indicator for Capital Expenditure

5.3 The following table shows the revised estimates for capital expenditure and the changes since the Capital Programme was agreed in January, as well as the implications on the financing of the programme.

5.4 The original budget of £3.159m included the purchase of a fleet of new waste vehicles; this expenditure is now expected to be incurred in 2015/16 upon delivery of the vehicles. The Prudential Borrowing original estimate of £1.094m was to cover the purchase of the vehicles.

Capital Expenditure	2014/15 Original Estimate £'000s	Current Position £'000s	2014/15 Revised Estimate £'000s
Total	3,159	725	1,632
Financed by:			
Prudential Borrowing	1,094	-	-
Capital Receipts	1,897	425	1,227
Grants	168	300	405

Changes to the Prudential Indicators for the Capital Financing Requirement and the Operational Boundary

- 5.5 We are on target to achieve the original forecast Capital Financing Requirement, and there is no change to our Operational Boundary Indicator.

Economic performance to date

- 5.6 During 2014/15 economic indicators suggested that the economy is recovering.
- Unemployment is expected to continue its downward trend.
 - Pay growth is increasing.
 - Mortgage interest rates are dropping and mortgage approvals have increased.
 - Inflation has fallen sharply, CPI was 1.2% in September, its lowest for 5 years.

Outlook for the last six months of 2014/15

- 5.7 Financial markets have had a severe downward reaction over the last couple of weeks mainly due to the world scene. The threat of an escalating conflict in the Middle East, back and forth sanctions between Russia and western countries and the risk of Ebola becoming a Pandemic. All of these issues have lead to a concern that we could be entering a period of subdued inflation.
- 5.8 The Monetary Policy Committee (MPC) revealed recently an increase in caution over UK growth prospects, with this in mind, Capita have updated their interest rate forecast, they now advise that a base rate rise is unlikely until May or June 2015.
- 5.9 Capita's interest rate forecast has been updated as follows:

	Sep-14 actual	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Forecast February 2014	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75
Current Forecast	0.50	0.50	0.50	0.75	1.00	1.00	1.25	1.25

Treasury Management Strategy Statement and Annual Investment Strategy update

- 5.10 The Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by Council on 28 February 2014. All areas of the TMS including Prudential Indicators remain the same. No changes to the Capital Indicators have been reported.

Investment Portfolio 2014/15

- 5.11 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 5.6, the economy is starting to improve, however there is still a large element of risk. Given this risk environment, investment returns are likely to remain low.
- 5.12 The Council held £4.55m of investments as at 30 September 2014 (£5.47m at 31 March 2014) and the investment portfolio yield for the first six months of the year is 0.69% against a benchmark of 0.5%.
- 5.13 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2014/15.
- 5.14 The Council's budgeted investment return for 2014/15 is £48,500, and performance to date should see this budget met.
- 5.15 The cost of the Capita contract is currently £6,000 per year. Compared to larger authorities, Rochford District Council does not require a full time Treasury Management Officer. Instead, Accountancy Officers deal with the Treasury Management function as part of their overall duties, with this function not taking more than an hour a day to fulfil.

Investment Counterparty criteria

- 5.16 The current investment counterparty criteria selection approved in the TMS is meeting the requirement of the treasury management function.
- 5.17 The financial institutions that the Authority is investing with are monitored on a regular basis in line with the risk document issued by Capita, the treasury advisors.

6 RISK IMPLICATIONS

- 6.1 The TMS outlines the risks involved in the investments made by the Council and there have been no changes to the assessment of risk.

I confirm that the above recommendation does not depart from Council policy and that appropriate consideration has been given to any budgetary and legal implications.

SMT Lead Officer Signature: Y. Woodhead

Head of Finance

Background Papers:-

None.

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