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## MID YEAR TREASURY MANAGEMENT REVIEW

### 1 SUMMARY

- 1.1 This report seeks the views of the Review Committee on the information contained in the review, before it is presented for approval to the Executive on 4 December 2013.
- 1.2 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.
- 1.3 The Council operates a balanced budget, which broadly means 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.
- 1.4 The second main function of the treasury management service is the funding of the Council's capital plans. These capital 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.
- 1.5 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.”

### 2 INTRODUCTION

- 2.1 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 2013/14 financial year to 30 September 2013;
  - 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 2013/14;
  - A review of the Council's borrowing strategy for 2013/14;
  - A review of compliance with Treasury and Prudential Limits for 2013/14.
- 2.2 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.

### 3 MID YEAR TREASURY MANAGEMENT REVIEW

#### KEY CHANGES TO THE CAPITAL AND TREASURY STRATEGIES

- 3.1 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 necessary to clarify part of the TMS to members.
- 3.2 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.
- 3.3 The Capital Strategy was revised in July, and therefore there are some minor changes to the Capital related Prudential Indicators, as detailed below.

#### Prudential Indicator for Capital Expenditure

- 3.4 This 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.

<b>Capital Expenditure</b>	<b>2013/14 Original Estimate £'000s</b>	<b>Current Position  £'000s</b>	<b>2013/14 Revised Estimate £'000s</b>
Total	1,434	286	1,809
<b>Financed by:</b>			
Capital Receipts	1,284	181	1,659
Grants	150	105	150

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

- 3.5 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**

3.6 During 2013/14 economic indicators suggested that the economy is recovering:-

- Unemployment is reducing
- Pay growth is increasing
- Mortgage interest rates are dropping and mortgage approvals have increased.
- Inflation has fallen

**Outlook for the next six months of 2013/14**

3.7 The overall balance of risks to economic recovery in the UK is now weighted to the upside after five months of robust good news on the economy.

3.8 Capita's interest rate forecast has been updated as follows:

	Sep-13 actual	Dec-13	Mar- 14	Jun-14	Sep-14	Dec-14	Mar- 15	Jun-15
Forecast February 2013	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75
Current Forecast	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

**Treasury Management Strategy Statement and Annual Investment Strategy update**

3.9 The Treasury Management Strategy Statement (TMSS) for 2013/14 was approved by Council on 29 February 2013. All areas of the TMS including Prudential Indicators remain the same. The Changes to the Capital Indicators have been reported above.

**Investment Portfolio 2013/14**

3.10 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 3.6, 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.

3.11 The Council held £5.27m of investments as at 30 September 2013 (£3.8m at 31 March 2013) and the investment portfolio yield for the first six months of the year is 0.77% against a benchmark of 0.5%.

3.12 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2013/14.

3.13 The Council's budgeted investment return for 2013/14 is £63,000, and performance for the year to date is £13,000 above budget.

**Investment Counterparty criteria**

3.14 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

3.15 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.

**4 RISK IMPLICATIONS**

4.1 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.

**5 RECOMMENDATION**

5.1 It is proposed that the Committee **RESOLVES:-**

- (1) To recommend the contents of this Mid Year Treasury Management Review to the Executive.
- (2) To identify any issues on this topic for further consideration and discussion by the Committee.

Yvonne Woodward

Head of Finance

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**Background Papers:-**

None.

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