

TREASURY MANAGEMENT ANNUAL REPORT 2013/14

INTRODUCTION

1. Forest Heath District Council's Treasury Management Code of Practice is based on the 2011 Fully Revised Code recommended nationally by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code also incorporates revisions introduced by CIPFA in its document "Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes.
2. Treasury Management in this context 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 the optimum performance consistent with those risks."
3. This Council has adopted the Code fully, and complies with its requirements. The primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement (Treasury Management Code of Practice). This sets out Council and Committee responsibilities, as well as those of the Section 151 Officer (Head of Resources and Performance), in addition to the delegation and reporting arrangements. The Cabinet approved the Treasury Management Code of Practice for 2013/14 on 5 February 2013.
4. A requirement of the Council's Treasury Management Code of Practice is the reporting to the Council of both the expected Treasury activity for the forthcoming financial year (the Treasury Management and Annual Investment Strategy Report) and subsequently the results of the Council's Treasury Management activities in that year (Treasury Management Annual Report).
5. This Report fulfils the requirements in accordance with **TMP6**, of the Treasury Management Code of Practice, which requires the submission of the Treasury Management Annual Report prior to 30 September following a financial year's end.

BORROWING

6. On the 31 March 2008 Forest Heath District Council borrowed £4.0M from Barclays Bank Plc, to part fund the new Newmarket Leisure Centre. It is a long term loan, for 70 years, to the 31 March 2078, at a rate of 4.24%, with interest payable in arrears on the 31 March and 30 September each year. The loan is on a LOBO basis, which stands for Lender's Option Borrower's Option, which gives the lender the opportunity to increase the interest rate at pre-set dates through the period of the loan, but also gives the Council the option to repay the loan and any accrued interest if they do not want to accept these new terms.
7. The first Lender's Option Date is the 31 March 2018 and thereafter, the last Business Day of each successive period of five years. Appropriate requirements for notice periods for the Lender and the Borrower are set out in the loan instrument.

8. On the 30 September 2013 interest was paid to Barclays Bank Plc in the sum of £86,426.30 which was for 179 days, and on the 31 March 2014 a further £84,567.67 which was for 186 days.
9. The only other debt that the Council has is on a short term basis (i.e. 364 days or less) in the form of temporary loans in accordance with the 2012/13 Treasury Management Strategy Report. These are detailed in the following paragraph.

TEMPORARY LOANS – SUMMARY POSITION

10. The balance of principal outstanding for temporary loans as at the 31 March 2014 was £2,300. No loans were repaid during the financial year 2013/14.
11. A list of temporary loans outstanding as at 31 March 2014 is shown in **Appendix 1**.

PUBLIC WORKS LOAN BOARD (PWLB)

12. No loans are outstanding with the Public Works Loan Board.

TREASURY MANAGEMENT STRATEGY

13. The strategy for Treasury Management during 2013/14 was reported to the Council on 5 February 2013.

INTEREST RATES

14. In order to continue to assist the economic recovery the Monetary Policy Committee (MPC) continued to hold the base rate at an all time low of 0.5% during 2013/14.
15. During 2013/14 many banks and countries saw credit rating downgrades, however by the end of the financial year the overall mood internationally had improved.
16. There is a general acknowledgement that the Euro crisis has still not been totally resolved being in temporary respite from the markets. However if, the Euro politicians do move countries more towards fiscal and monetary union, then markets may well then focus on the plight of the UK economy. This could have serious repercussions on our long term borrowing levels.
17. Over the coming few months it is extremely unlikely that money market rates will need to move higher. Our overall strategy remains as high liquidity and a flat yield curve offers no value in investing for very long periods.
18. The Council's Broker, City Deposit Cash Managers (CDCM), have predicted the following for the Council's average rate of return over the next 4 years.

CDCM INTEREST RATE AVERAGE RATE OF RETURN PREDICTIONS				
2013/14	2014/15	2015/16	2016/17	2017/18
2.45%	1.90%	1.75%	2.15%	2.50%

INVESTMENTS SUMMARY

19. The Council had six main investment categories in 2013/14 as follows:-

- Investments made on the advice of the brokers firm City Deposit Cash Managers (Tradition)
- Internally Managed Temporary Investments by the Council
- Bank of Scotland Corporate Instant Access Account
- NatWest Liquidity Select Call Account
- Barclays FIBCA Call Account
- Co-operative Bank Public Sector Reserve Account. This account was closed following the downgrading of the Co-operative Bank

20. The overall amount of interest on investments (including accrued interest to 31 March 2014) in respect of the 2013/14 financial year totalled £551,774.82. This represents an increase of £46,175.82 against the budget of £505,599.00 as forecast in the Council's Medium Term Financial Strategy.

21. The tables below summarise the interest earned during 2013/14 and compares it to 2012/13 and total investments held as at 31 March 2014 compared to 31 March 2013.

INTEREST SUMMARY		
	2013/14	2012/13
	£	£
City Deposit Cash Managers Investments	512,357.90	713,408.93
Internally Managed Temporary Investments	24,282.81	12,464.44
Bank Of Scotland Instant Access Account	171.85	2,350.07
Co-op Public Sector Reserve Account	15.45	5,036.35
NatWest Liquidity Select Account	4,261.67	4,401.71
Barclays FIBCA	10,265.13	1,501.70
Other Investments	420.01	149.76
Total Interest Received/Accrued	551,774.82	739,312.96
Interest Paid on Loan	170,993.97	169,600.00
Net Interest Received/Accrued	380,780.85	569,712.96
Net Interest Budget	335,999.00	517,280.00
Budget to Actual Variance	44,781.85	52,432.96
Average Rate of Return on Investments	2.08	2.67

TOTAL VALUE OF INVESTMENTS HELD AT YEAR END		
	At 31 March 14	At 31 March 13
	£	£
City Deposit Cash Managers Investments	20,500,000	20,500,000
Internally Managed Temporary Investments	2,000,000	0
Bank Of Scotland Instant Access Account	190	1,128
Co-op Public Sector Reserve Account	0	45,000
NatWest Liquidity Select Account	996,515	704,373
Barclays FIBCA	1,508,510	1,150,047
Other Investments	3,975	3,975
Total Value of Investments	25,009,190	22,404,523

INVESTMENTS MADE THROUGH CITY DEPOSIT CASH MANAGERS ADVICE

22. Investments made or re-invested through City Deposit Cash Managers advice during the financial year totalled £11.0m, as detailed in **Appendix 2**. In addition £9.5m of CDCM investments made prior to 2013/14 were still in place during 2013/14. Interest due and accrued as at 31 March 2014 on these investments totalled £512,357.90.
23. The average rate of return from investments made through the advice of City Deposit Cash Managers was 2.502%. The graph shown in **Appendix 8** compares the rates returned on the maturing investments during the year, compared to the Benchmark 3 year - 7 Day Average Rate of 0.33%.
24. A list of outstanding investments made on City Deposit Cash Managers advice, as at 31 March 2014 is shown below.

<u>BORROWERS DETAILS</u>	AMOUNT LOANED	DATE LOANED	DATE OF MATURITY
Close Bros	3,000,000	08/07/13	08/01/15
Progressive B/Society	2,500,000	08/01/14	09/02/15
Barclays Capital	3,000,000	04/11/11	16/03/15
Lloyds TSB Bank Plc	3,000,000	04/02/14	06/05/14
Principality B/Society	1,500,000	10/02/14	10/08/15
Principality B/Society	1,000,000	14/03/14	10/08/15
National Counties B/Society	3,000,000	11/06/10	11/06/14
Nottingham B/Society	1,500,000	08/10/12	08/10/15
Lloyds TSB Bank Plc	2,000,000	17/05/12	15/05/17
TOTAL	£20,500,000		

INTERNALLY MANAGED TEMPORARY INVESTMENTS

25. Internally Managed Temporary Investments and re-investments totalling £33,919,963 were made during the 2013/14 financial year, as detailed in **Appendix 3**. Interest due and accrued on investments totalled £24,282.81.
26. A list of outstanding Internally Managed Temporary Investments as at 31 March 2014 is shown below.

<u>BORROWERS DETAILS</u>	AMOUNT LOANED	DATE LOANED	DATE OF MATURITY
Lloyds TSB Bank Plc	1,500,000	19/04/13	Notice Acc
Principality B/Society	500,000	04/03/14	14/04/14
TOTAL	£2,000,000		

27. The average rate of return on Internally Managed Temporary Investments was 0.65%.
28. The graph shown in **Appendix 8** illustrates the average monthly rate of return on Internally Managed Temporary Investments, compared to the 3 year - 7 Day Average Rate of 0.33%.
29. During the 2013/2014 financial year there were 4 occasions where available funds exceeded £500k but no investment was made. The Treasury Management Code of

Practice does allow for this if the balance is being used to cover successive day's payments and if the loss of interest does not exceed £25. The table below gives details of those occasions.

Date	Amount	Reason No Investment Made
02/05/2013	626,304	Retained to cover the next day's payments.
17/06/2013	1,711,708	Funds held over to cover NNDR Pooling payment the next day.
22/07/2013	927,556	Low rates quoted, so held over to cover payments over the following days.
23/08/2013	600,959	Retained to cover the next day's payments.

30. In addition to the above there were 2 occasions where we were overdrawn, details are shown in the table below:

Date	Amount	Reason Overdrawn
19/06/2013	(325,884)	Transfer of funds to cover shortfall was not actioned in time by the bank. Funds were made available over-night.
09/01/2014	(2,218,715)	Bank Error - Co-operative bank failed to repay a maturing, internal investment. Funds were available for following day, no charges were incurred.

31. During 2013/14 less temporary investments were made, mainly because the interest rates offered were less than what was available in the NatWest LSA Account, Barclays FIBCA and other Call accounts available (for further details see sections below).

BANK OF SCOTLAND INSTANT ACCESS ACCOUNT

32. The interest on this account is the same as base rate.

33. Between 1 April 2013 and 31 March 2014 interest amounted to £171.85, which is shown on **Appendix 4**, which produced an average rate of 0.5% which was higher than the 3 year - 7 day benchmark average of return of 0.333% by 0.167%.

THE CO-OPERATIVE BANK PLC PUBLIC SECTOR RESERVE ACCOUNT

34. The Public Sector Reserve Account (PSRA) is administered internally, and is used for Overnight Treasury Deposits or longer term deposits if a better interest rate is not offered by a temporary fixed term investment.

35. The interest paid on the PSRA is broken down into bands and adjusted according to the base rate. As the base rate remained at 0.5% during 2013/14 the interest rates for this account were as follows:

- Up to £1m = 0.3125%
- £1m and over = 0.5625%

36. Following the downgrading of the Co-operative Bank, funds were withdrawn from the Public Sector Reserve Account on 9 April 2013, details in **Appendix 5**.

THE NATWEST LIQUIDITY SELECT ACCOUNT

37. The NatWest Liquidity Select Account (NatWest LSA) was opened 17 September 2012 to take advantage of the 0.85% rate of interest offered. As the rates obtained for making temporary investments throughout 2013/14 tended to be below base rate, the NatWest LSA was used throughout 2013/14.
38. Between 1 April 2013 and 31 March 2014 interest amounted to £4,261.67, which is shown on **Appendix 6**, which produced an average rate of 0.835% which was higher than the 3 year - 7 day benchmark average of return of 0.333% by 0.502%.

THE BARCLAYS FIBCA ACCOUNT

39. The Barclays Fixed Interest Bearing Call Account (Barclays FIBCA) was opened 28 January 2013 to take advantage of the 0.7% rate of interest offered.
40. Between 1 April 2013 and 31 March 2014 interest amounted to £10,265.13, which is shown on **Appendix 7**, which produced an average rate of 0.7% which was higher than the 3 year - 7 day benchmark average of return of 0.333% by 0.367%.

OTHER INVESTMENTS

41. In addition to the main investment categories the Council also received dividends from minor Government Stocks and staff loans in 2013/14 which totalled £420.01.