

TREASURY MANAGEMENT ANNUAL REPORT 2011/12

INTRODUCTION

1. Forest Heath District Council's Treasury Management Code of Practice is based on the 2009 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 Finance, ICT & Audit), in addition to the delegation and reporting arrangements. The Corporate Services Committee approved the Treasury Management Code of Practice for 2011/12 on 2 February 2011, this was then approved by Council on 2 March 2011. However due to a staff restructure within the Accounts department a revised Treasury Management Code of Practice was required and was approved by Council 21 June 2011.
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. A more detailed breakdown of the requirements for the report can be found on pages 30-31 of the 2011/12 Code.

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 2011 interest was paid to Barclays Bank Plc in the sum of £85,032.33 which was for 183 days, and on the 31 March 2012 a further £84,567.67 which was for 182 days (annual total £169,600).
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 2011/12 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 2012 was £2,550. No loans were repaid during the financial year 2011/12.
11. A list of temporary loans outstanding as at 31 March 2012 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 2011/12 was reported to the Council on 2 March 2011.

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 2011/12. In addition £50 billion of Quantitative Easing was added to the market in February 2012, in an attempt to boost the economy.
15. Inflation continued to head in the right direction with CPI for February 12 at 3.4%, down from 3.6%, and RPI for the same period falling from 3.9% to 3.7%. The MPC still believes that by the end of 2012 inflation will be "significantly below target".
16. During 2011/12 many banks and countries saw credit rating downgrades, however by the end of the financial year the overall mood internationally had improved, primarily due to the initial successful restructuring of the Greek economy together with the recovering US economy gaining traction.
17. Many of the G7 stock markets moved considerably higher during the last 3 months of 2011/12, reflecting investors' optimism that the worst of the financial crisis is behind us. Long term treasury and gilt-edged yields also rose, indicating that the appetite for risk is returning.
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				
2011/12	2012/13	2013/14	2014/15	2015/16
3%	3.15%	3.5%	3.75%	4%

INVESTMENTS SUMMARY

19. The Council had four main investment categories in 2011/12 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
- Co-operative Bank Public Sector Reserve Account.

20. The overall amount of interest on investments (including accrued interest to 31 March 2012) in respect of the 2011/12 financial year totalled £822,115. This represents an increase of £85,206 against the budget of £736,909 as forecast in the Council's Medium Term Financial Strategy.

21. The tables below summarise the interest earned during 2011/12 and compares it to 2010/11 and total investments held as at 31 March 2012 compared to 31 March 2011.

INTEREST SUMMARY		
	2011/12 £	2010/11 £
City Deposit Cash Managers Investments	802,536.52	741,088.93
Internally Managed Temporary Investments	11,005.04	20,102.04
Bank Of Scotland Instant Access Account	2,158.87	32.71
Co-op Public Sector Reserve Account	6,264.42	77.71
Other Investments	149.76	149.76
Total Interest Received/Accrued	822,114.62 *	761,451.15
Interest Paid on Loan	169,600.00	169,600.00
Net Interest Received/Accrued	652,514.62	591,851.15
Net Interest Budget	567,309.00	499,266.00
Budget to Actual Variance	85,205.62	92,585.15
Average Rate of Return on Investments	2.67	2.59

** Figure varies slightly to the Outturn report presented in June 2012, due to year end adjustment of £673.69*

TOTAL VALUE OF INVESTMENTS HELD AT YEAR END		
	At 31 March 12 £	At 31 March 11 £
City Deposit Cash Managers Investments	24,500,000	25,500,000
Internally Managed Temporary Investments	1,500,000	2,753,000
Bank Of Scotland Instant Access Account	5,696	6,558
Co-op Public Sector Reserve Account	1,500,000	0
Other Investments	3,975	3,975
Total Value of Investments	27,509,671	28,263,533

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 £24.5m, as detailed in **Appendix 2**. In addition £25.5m of CDCM investments made prior to 2011/12 were still in place during 2011/12. Interest due and accrued as at 31 March 2011 on these investments totalled £802,537.
23. The average rate of return from investments made through the advice of City Deposit Cash Managers was 2.97%. The graph shown in **Appendix 6** compares the rates returned on the maturing investments during the year, compared to the Benchmark 3 year - 7 Day Average Rate of 0.35%.
24. A list of outstanding investments made on City Deposit Cash Managers advice, as at 31 March 2012 is shown below.

<u>BORROWERS DETAILS</u>	AMOUNT LOANED	DATE LOANED	DATE OF MATURITY
Cater Allen Private Bank	3,000,000	08/04/10	08/07/13
Royal Bank Of Scotland	5,000,000	08/04/10	02/04/15
Progressive Building Society	3,000,000	17/05/10	17/05/12
National Counties Building Society	3,000,000	11/06/10	11/06/14
Principality Building Society	3,000,000	17/11/10	19/11/12
Lloyds TSB Bank	3,000,000	04/02/11	01/08/14
Barclays Capital	3,000,000	04/11/11	16/03/15
Nottingham Building Society	1,500,000	13/02/12	11/02/13
TOTAL	£24,500,000		

INTERNALLY MANAGED TEMPORARY INVESTMENTS

25. Internally Managed Temporary Investments and re-investments totalling £37,717,000 were made during the 2011/12 financial year, as detailed in **Appendix 3**. Interest due and accrued on investments totalled £11,005.
26. The following temporary investments were outstanding as at 31 March 2012.

<u>BORROWERS DETAILS</u>	AMOUNT LOANED	DATE LOANED	DATE OF MATURITY
Nottingham Building Society	1,500,000	27/03/12	05/04/12
TOTAL	£1,500,000		

27. The average rate of return on Internally Managed Temporary Investments was 0.52%.
28. The graph shown in **Appendix 6** illustrates the average monthly rate of return on Internally Managed Temporary Investments, compared to the 3 year - 7 Day Average Rate of 0.35%.
29. During the 2011/2012 financial year there were 2 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
06/05/2011	512,273.15	Retained to cover the next day's payments
23/12/2011	655,589.40	Retained to cover the next day's payments (Christmas closedown period)

30. In addition to the above there was 1 occasion where we were overdrawn due to a banking error, details are shown in the table below:

Date	Amount	Reason Overdrawn
13/03/2012	(1,450,144.45)	CDCM Co-op Investment repayment of £1,536,462.33 was not received on the agreed maturity date, this was an error by the Co-op Bank so no bank charges were incurred.

31. During 2011/12 less temporary investments were made, mainly because the interest rates offered were less than the Co-op Public Sector Reserve Account or the Bank of Scotland Instant Access Account (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 2011 and 31 March 2012 interest amounted to £2,158.87, 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 0.349% by 0.151%.

34. The Treasury Management Code of Practice states that no more than £1.5m should be placed with Bank of Scotland at any one time. On 15 November 2011 quotes were sought to make an internally managed temporary investment of £1.5m for 6 days, the quotes received for this investment were less than the rate offered by this account so the £1.5m was transferred into the account instead of making a temporary investment. However at the time the Officer did not realise that there was already a small balance of £3,071.63 in the account (money left in the account in order to keep it open). Consequently during those 6 days there was £1,503,071.63 in the account, which breached the £1.5m limit required in the Code of Practice.

35. An additional 'balance check' has been added into the treasury procedures, which has been highlighted to all treasury staff, to help ensure that this does not occur again.

THE CO-OPERATIVE BANK PLC PUBLIC SECTOR RESERVE ACCOUNT

36. 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.

37. 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 2011/12 the interest rates for this account were as follows:

- Up to £1m = 0.3125%
- £1m and over = 0.5626%

38. As 0.5626% was higher than many of the interest rate quotes obtained for our internally managed temporary investments this account was often used during 2011/12 instead

of making a temporary investment. The total interest received/accrued was £6,264.42, details in **Appendix 5**.

OTHER INVESTMENTS

39. In addition to the main investment categories the Council also received dividends from minor Government Stocks in 2011/12 which totalled £149.76.