

# Forest Heath District Council

(This report is a key decision. This report has been subject to appropriate notice of publication under the Council's Access to Information Rules)

## Report of the Cabinet Member for Resources, Governance and Performance

### SPECIAL COUNCIL

**26 SEPTEMBER 2012**

**COU12/592**

## **TREASURY MANAGEMENT ANNUAL REPORT 2011/2012** (Forward Plan Reference: SEP12/03)

### **Summary and reasons for recommendation(s)**

This report gives Members an overview of the Treasury Management activities for the 2011/12 financial year.

This report also requests that Members consider an amendment to the Annual Treasury Management and Investment Strategy and supporting Code of Practice.

### **Recommendation(s)**

**It is recommended that:-**

- 1. The Council note the contents of this report.**
- 2. Members consider amending the Annual Treasury Management and Investment Strategy and supporting Code of Practice to include an increased limit for the Lloyds Banking Group of £6.5m as outlined in paragraphs 7-12.**

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## **How will the recommendations help us meet our strategic priorities?**

1. In order for the Council to be able to meet its strategic priorities it is essential that sufficient and appropriate financial resources are available. Optimising returns from investments, without exposing ourselves to an unacceptably high level of risk, increases those financial resources.

## **Wards affected**

2. Not applicable – corporate function.

## **Key issues**

3. Full details of the Council's treasury activities during 2011/12 are included in the Treasury Management Annual Report 2011/12 attached as **Attachment 1**.

## **Summary**

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

<b>TREASURY MANAGEMENT - INTEREST SUMMARY</b>		
	<b>2011/12 £</b>	<b>2010/11 £</b>
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
<b>Total Interest Received/Accrued</b>	<b>822,114.62 *</b>	<b>761,451.15</b>
Interest Paid on Loan	169,600.00	169,600.00
<b>Net Interest Received/Accrued</b>	<b>652,514.62</b>	<b>591,851.15</b>
Net Interest Budget	567,309.00	499,266.00
Budget to Actual Variance	85,205.62	92,585.15
<b>Average Rate of Return on Investments</b>	<b>2.67</b>	<b>2.59</b>

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

5. The actual income from interest on investments was higher than budgeted primarily due to higher than expected cash holdings arising from underspends on the capital programme.

<b>TOTAL VALUE OF INVESTMENTS HELD AT YEAR END</b>		
	<b>At 31 March 12</b>	<b>At 31 March 11</b>
	<b>£</b>	<b>£</b>
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
<b>Total Value of Investments</b>	<b>27,509,671</b>	<b>28,263,533</b>

6. The total amount invested fell between 31 March 2011 and 31 March 2012 due to the net effect of the Council's capital expenditure and asset disposals.

### **Annual Treasury Management and Investment Strategy 2012/13 and Supporting Code of Practice**

7. During the first quarter of 2012/13, the Council invested, via our external fund managers, a further £2m with Lloyds Bank, making the total investment balance with Lloyds Bank £5m. The Lloyds Banking Group owns both Lloyds Bank and the Bank of Scotland along with various other building societies.
8. At the point of considering this investment there was no other investment balances with Members of the Lloyds Banking Group, both for internally managed temporary investments and externally managed investments. The £2m investment made on 17 May 2012, was therefore considered to be inline with the approved Annual Treasury Management and Investment Strategy 2012/13, which allows a £5m exposure limit for any one clearing bank (this exposure limit applies to merged or jointly owned banks).
9. Officers would like to seek clarification from Members regarding the use of the Council's corporate instant access account with Bank of Scotland for short term cash flow management, now that it could be considered that this balance could expose the Council to more than £5m. At present the Annual Treasury Management and Investment Strategy 2012/13 makes reference to 'investment' balances within the exposure limit of £5m and Officers would like Member to confirm if they accept the risks associated with allowing a further £1.5m exposure through the use of this instant access account.
10. Members should note that during the period of 17<sup>th</sup> May and 27<sup>th</sup> June 2012, the Council continued to make use of the corporate instant access account with Bank of Scotland for short term cash flow management. It was at 27<sup>th</sup> June that Officers raised this clarification with management and at that point the balance was removed from the account with the view of seeking this clarification from Members.
11. Our external fund managers have advised the follow: *'The Lloyds Banking Group is 42 % owned by the taxpayer and as such is considered to be one of the safest counter parties with whom to deposit funds. Also, the Bank is a UK clearer and therefore systemic to the UK banking system. Increasing the limit by £2m is not seen as adding to the Council's risk exposure'*

12. Members are requested to consider increasing the exposure limit for the Lloyds Banking Group to £6.5m, consisting of £1.5m for the corporate instant access account and £5m for long term and temporary investment balances.

### **Other options considered**

13. Options for the management of the Council's investments are formally considered within the Annual Treasury Management and Investment Strategy Statement approved by Council 2 March 2011.
14. In addition a Treasury Management – External Support on Treasury Management Activities Report was considered by Corporate Services Committee on 2 February 2011 which approved the continued use of City Deposit Cash Managers as external support for our investments.

### **Community impact**

15. Not applicable.

### **What consultation has been undertaken and what were the outcomes?**

16. Treasury Management activities are undertaken in consultation with our fund manager, City Deposit Cash Managers.

### **Financial and resource implications**

17. As set out within the body of this report and in the Annual Report attached.

### **Risk management implications**

18. Risk management is dealt with in TMP 1 of the Council's Treasury Management Code of Practice. The Code of Practice for the financial year 2011/12 was approved at Council on the 2 March 2011. In addition a revised Code of Practice, following a staff restructure in Accounts, was approved by Council 21 June 2011.
19. The Council regards the successful identification, monitoring and control of risk to be prime criteria by which the effectiveness of its Treasury Management activities will be measured. The main risks to the Council's treasury activities include:
  - Credit and Counterparty Risk – Security of the Council's Investments
  - Market or Interest Rate Risk – Fluctuations in interest rate levels and thereby in the value of investments
  - Liquidity Risk – Inadequate cash resources
  - Inflation Risk – Exposure to inflation
  - Legal and Regulatory Risk – Non compliance with Statutory and Regulatory requirements and the risk of fraud.
20. The environment we are working with continues to be in turmoil and an area of high risk. We have framed our strategy to minimise our exposure where possible but this still remains an area of concern.

## **Legal/Policy implications**

21. As outlined in the body of the report and in the Annual Report attached.

## **Documents attached**

Attachment 1 – Treasury Management Annual Report 2011/12

Appendix 1 – List of Temporary Loans

Appendix 2 – City Deposit Cash Managers Summary of Investments

Appendix 3 – Summary of Internally Managed Investments

Appendix 4 – Bank of Scotland Corporate Instant Access Account Summary

Appendix 5 – Co-op Public Sector Reserve Account Summary

Appendix 6 – Comparison of Rates of Return

Appendix 7 – Statement of Compliance with Treasury Management Code of Practice

## **Background papers**

CIPFA's revised Code of Practice for Treasury Management (the Code) published in November 2009.