

**TREASURY MANAGEMENT ANNUAL REPORT 2012/13**

**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 Finance, ICT & Audit), in addition to the delegation and reporting arrangements. The Corporate Services Committee approved the Treasury Management Code of Practice for 2012/13 on 8 February 2012, this was then approved by Council on 1 March 2012.
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 28 September 2012 interest was paid to Barclays Bank Plc in the sum of £84,567.67 which was for 182 days, and on the 28 March 2013 a further £84,103.02 which was for 181 days (annual accrued 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 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 2013 was £2,550. No loans were repaid during the financial year 2012/13.
11. A list of temporary loans outstanding as at 31 March 2013 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 2012/13 was reported to the Council on 1 March 2012.

#### 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 2012/13.
15. During 2012/13 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, despite Cyprus, 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, even if the US economic recovery drags us and the Europeans along with it. 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.

<b>CDCM INTEREST RATE AVERAGE RATE OF RETURN PREDICTIONS</b>				
2012/13	2013/14	2014/15	2015/16	2016/17
2.35%	2.45%	2.50%	2.50%	2.50%

## INVESTMENTS SUMMARY

19. The Council had six main investment categories in 2012/13 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.

20. The overall amount of interest on investments (including accrued interest to 31 March 2013) in respect of the 2012/13 financial year totalled £739,312.96. This represents an increase of £52,432.96 against the budget of £517,280.00 as forecast in the Council's Medium Term Financial Strategy.

21. The tables below summarise the interest earned during 2012/13 and compares it to 2011/12 and total investments held as at 31 March 2013 compared to 31 March 2012.

<b>INTEREST SUMMARY</b>		
	<b>2012/13</b>	<b>2011/12</b>
	<b>£</b>	<b>£</b>
City Deposit Cash Managers Investments	713,408.93	802,536.52
Internally Managed Temporary Investments	12,464.44	11,005.04
Bank Of Scotland Instant Access Account	2,350.07	2,158.87
Co-op Public Sector Reserve Account	5,036.35	6,264.42
NatWest Liquidity Select Account	4,401.71	0
Barclays FIBCA	1,501.70	0
Other Investments	149.76	149.76
<b>Total Interest Received/Accrued</b>	<b>739,312.96</b>	<b>822,114.62</b>
Interest Paid on Loan	169,600.00	169,600.00
<b>Net Interest Received/Accrued</b>	<b>569,712.96</b>	<b>652,514.62</b>
Net Interest Budget	517,280.00	567,309.00
Budget to Actual Variance	52,432.96	85,205.62
<b>Average Rate of Return on Investments</b>	<b>2.70</b>	<b>2.67</b>

<b>TOTAL VALUE OF INVESTMENTS HELD AT YEAR END</b>		
	<b>At 31 March 13</b>	<b>At 31 March 12</b>
	<b>£</b>	<b>£</b>
City Deposit Cash Managers Investments	20,500,000	24,500,000
Internally Managed Temporary Investments	0	1,500,000
Bank Of Scotland Instant Access Account	1,128	5,696
Co-op Public Sector Reserve Account	45,000	1,500,000
NatWest Liquidity Select Account	704,373	0
Barclays FIBCA	1,150,047	0
Other Investments	3,975	3,975
<b>Total Value of Investments</b>	<b>22,404,523</b>	<b>27,509,671</b>

## 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 £22.5m, as detailed in **Appendix 2**. In addition £24.5m of CDCM investments made prior to 2012/13 were still in place during 2012/13. Interest due and accrued as at 31 March 2013 on these investments totalled £713,408.93.
23. The average rate of return from investments made through the advice of City Deposit Cash Managers was 3.05%. 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 2013 is shown below.

<b><u>BORROWERS DETAILS</u></b>	<b>AMOUNT LOANED</b>	<b>DATE LOANED</b>	<b>DATE OF MATURITY</b>
Cater Allen Private Bank	3,000,000	08/04/10	08/07/13
National Counties Building Society	3,000,000	11/06/10	11/06/14
Barclays Capital	3,000,000	04/11/11	16/03/15
Lloyds TSB Bank Plc	2,000,000	17/05/12	15/05/17
Nottingham Building Society	1,500,000	08/10/12	08/10/15
The Co-operative Bank	2,500,000	08/10/12	08/01/14
Lloyds TSB Bank Plc	3,000,000	04/02/13	07/05/13
Nottingham Building Society	1,500,000	11/02/13	10/02/14
Clydesdale Bank Plc	1,000,000	15/03/13	14/03/14
<b>TOTAL</b>	<b>£20,500,000</b>		

## INTERNALLY MANAGED TEMPORARY INVESTMENTS

25. Internally Managed Temporary Investments and re-investments totalling £17,532,000 were made during the 2012/13 financial year, as detailed in **Appendix 3**. Interest due and accrued on investments totalled £12,464.44.
26. There were no temporary investments outstanding as at 31 March 2013.
27. The average rate of return on Internally Managed Temporary Investments was 0.69%.
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 2012/2013 financial year there were 3 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 overleaf gives details of those occasions.

<b>Date</b>	<b>Amount</b>	<b>Reason No Investment Made</b>
03/09/2012	819,489.03	Retained to cover the next day's payments
19/11/2012	2,784,209.95	Full Co-op system failure at the bank, unable to get any balances therefore unable to invest.
17/01/2013	566,258.68	Retained to cover the next day's payments

30. In addition to the above there were 4 occasions where we were overdrawn (this is not normal practice, however the overdraft facility is available to the Council), details are shown in the table below:

<b>Date</b>	<b>Amount</b>	<b>Reason Overdrawn</b>
12/04/2012	(332,162.59)	System Error - Transfer from the Co-op Public Sector Reserve to cover shortfall in account was not actioned.
24/04/2012	(32,754.73)	Calculation Error on amount calculated to transfer to Co-op Public Sector Reserve for overnight investment.
22/10/2012	(1,588,596.37)	Bank Error - Recall from Bank of Scotland Instant access account didn't clear till the following day.
05/11/2012	(60,005.68)	Bank Error - Interest due from a CDCM Barclay's Investment didn't clear till the following day.

31. During 2012/13 less temporary investments were made, mainly because the interest rates offered were less than what was available in the Co-op Public Sector Reserve Account, Bank of Scotland Instant Access Account or 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 2012 and 31 March 2013 interest amounted to £2,350.07, 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%.

34. 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

35. 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.

36. 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 2012/13 the interest rates for this account were as follows:

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

37. As 0.5625% was higher than many of the interest rate quotes obtained for our internally managed temporary investments this account was often used during 2012/13 instead of making a temporary investment. The total interest received/accrued was £5,036.35, details in **Appendix 5**.

#### THE NATWEST LIQUIDITY SELECT ACCOUNT

38. 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 2012/13 tended to hover around base rate.

39. Between 17 September 2012 and 31 March 2013 interest amounted to £4,401.71, 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

40. 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.

41. Between 28 January 2013 and 31 March 2013 interest amounted to £1,501.70, 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

42. In addition to the main investment categories the Council also received dividends from minor Government Stocks in 2012/13 which totalled £149.76.