

Performance and Audit Scrutiny Committee



Forest Heath
District Council

Title of Report:	Mid Year Treasury Management Monitoring Report 2015/16 and Investment Activity (1 April – 30 September 2015)	
Report No:	PAS/FH/15/036	
Report to and dates:	Performance and Audit Scrutiny Committee	25 November 2015
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Purpose of report:	To present the Council's Mid Year Treasury Management Report summarising the investment activities for the period to 30 September 2015	

Recommendation:	<p>It is RECOMMENDED that,:</p> <p>(1) the Mid Year Treasury Management Monitoring Report be <u>noted</u>; and,</p> <p>(2) the Performance and Audit Scrutiny Committee makes recommendations as appropriate to Cabinet and Council regarding the approval of the Mid Year Treasury Management Monitoring Report 2015-2016, attached as Appendix 1.</p>
<p>Key Decision:</p> <p><i>(Check the appropriate box and delete all those that do not apply.)</i></p>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p>
Consultation:	<ul style="list-style-type: none"> Treasury management activities are undertaken in consultation with CDCM/Tradition (the Council's appointed brokers for longer term investments) and also takes into account information obtained from other investment brokers and economic commentators. Any changes in strategies and policies are subject to approval by the Head of Resources and Performance, Cabinet and full Council.
Alternative option(s):	<ul style="list-style-type: none"> Options for the management of Council investments are formally considered within the Annual Treasury Management and Investment Strategy. This includes key strategies in respect of the Council's borrowings, the continuation of in-house management of funds and the approach to be adopted in establishing the credit worthiness of potential counterparties. The changing nature of the economic climate requires that these key areas are subject to on-going review.
Implications:	
<p>Are there any financial implications? If yes, please give details</p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> Please refer to main report
<p>Are there any staffing implications? If yes, please give details</p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none">
<p>Are there any ICT implications? If yes, please give details</p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none">

<p>Are there any legal and/or policy implications? If yes, please give details</p>		<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none"> This report is inline with the Treasury Management Practice 6, (TMP6), of the Treasury Management Code of Practice, which requires that a current year review of the Treasury Services, against adopted annual strategy, be reported to Council by 30 November each financial year. 	
<p>Are there any equality implications? If yes, please give details</p>		<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p>	
<p>Risk/opportunity assessment:</p>		<p><i>(potential hazards or opportunities affecting corporate, service or project objectives)</i></p>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
Fluctuations in interest rates or in projected cash flows having significant impact on budgeted investment income.	High	Spread of investments for periods of up to two years. Budget monitoring and quarterly performance reports.	Medium
Bank / building society failure resulting in loss of Council funds.	High	Use of CDCM/Tradition advice on counterparty credit ratings (based on Fitch and Moody ratings) and the setting of lending limits. Use of non-rated building societies based on asset base and additional credit checks.	Medium
<p>Ward(s) affected:</p>		<p>All Ward</p>	
<p>Background papers: <i>(all background papers are to be published on the website and a link included)</i></p>		<p>CIPFA's revised Code of Practice for Treasury Management, (the Code), published in 2011.</p>	
<p>Documents attached:</p>		<p>(Appendix 1 – 3 is one document)</p> <p>Appendix 1 – Treasury Management Monitoring Report</p> <p>Appendix 2 – Average Rate of Return</p> <p>Appendix 3 – Investments held as at 30 September 2015</p>	

1. Key issues and reasons for recommendation(s)

1.1 Mid Year Report 2015/16

1.2 Interest Earned from Treasury Investments during the period 1 April to 30 September 2015

1.2.1 The table below summaries the interest earned during the period 1 April to 30 September 2015 on the various Treasury Investments held by the Council.

1.2.2

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	£
CDCM/ Tradition Investments	182,931
In-House Investments	19,353
Lloyds 95 day Notice Account	5,020
Barclays FIBCA	3,926
NatWest LSA	308
TOTAL INTEREST EARNED/ACCRUED	£ 211,538

1.2.3 The budgeted income from investments for the period 1 April to 30 September 2015 was £189,750. Interest actually earned during the period totalled £211,538, an overachievement of £21,788. This overachievement was mainly due to increased cash flow/money available for investment as a result of the timing of large value transactions such as NNDR receipts and payments and capital programme slippage.

1.3 Investment Activity during the period 1 April to 30 September 2015

1.3.1 The table below summaries the investment activities during the period:

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	£m
Opening Balance 01 April 2015	28.58
Investments made during the period (including transfers to business reserve accounts)	29.90
Sub Total	58.48
Investments realised during the period (including withdrawals from business reserve accounts)	26.27
Closing Balance 30 September 2015	32.21

1.4 **Investments held as at 30 September 2015**

1.4.1 The table below shows the investments held as at 30 September 2015;

Investments Held as at 30 September 2015				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Lloyds TSB Bank Plc	2,000,000	3.65%	17/05/12	15/05/17
Nottingham Building Society	1,500,000	3.15%	08/10/12	08/10/15
Rothschild	3,000,000	2.45%	11/06/14	09/06/17
Close Bros	3,000,000	2.05%	08/01/15	09/01/17
National Counties B/Society	2,500,000	1.75%	09/02/15	09/02/17
West Bromwich B/Society	3,000,000	0.68%	01/06/15	01/12/15
Progressive B/Society	3,000,000	0.66%	16/06/15	01/12/15
Principality B/Society	2,500,000	1.02%	10/08/15	08/08/16
Nationwide B/Society	800,000	0.77%	15/06/15	07/03/16
Nationwide B/Society	1,200,000	0.71%	01/07/15	06/02/16
Nottingham B/Society	1,500,000	0.60%	17/08/15	22/12/15
Principality B/Society	500,000	0.47%	24/08/15	15/10/15
National Counties B/Society	500,000	0.68%	07/09/15	23/02/16
Principality B/Society	1,500,000	0.75%	14/09/15	21/03/16
National Counties B/Society	500,000	0.66%	14/09/15	22/02/16
Lloyds 95 Day Account	1,900,000	0.62%	Call	
Barclays FIBCA	1,815,000	0.40%	Call	
NatWest LSA	1,500,000	0.25%	Call	
TOTAL	32,215,000			

2. **Market Activities**

- 2.1.1 Given the current financial climate, the Council, like many others, continues to find itself in one of the most challenging times for Treasury Management activities. The Council continues to hold its general policy objective, which is to invest surplus funds prudently, with security of our investments as our primary objective.
- 2.1.2 Base rate remained at 0.5% throughout the period and most market analysts continue to predict that this will continue throughout 2015/16 with a small staged increase not expected until 2016.
- 2.1.3 Investment returns continue to be one to two basis points above or below base rate, depending on duration. New investments for one year or more are attracting returns around 1%.
- 2.1.4 Markets will continue to be closely monitored and higher rates of return secured whenever possible.

3. **Borrowings**

- 3.1.1 On 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 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 throughout the period of the loan, but also gives the Council the option to repay the loan and any accrued interest if they do not wish to accept these new terms.

3.1.2 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 Borrower are set out in the loan instrument.

3.1.3 Interest paid on the Barclays loan during the period 1 April to 30 September 2015 totalled £84,567.67.

3.2 **Temporary Loans**

3.2.1 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 2015/16 Treasury Management Strategy.

3.2.2 The balance of principal outstanding for temporary loans as at 31 March 2015 was £2,300. No loans were repaid during the period 1 April to 30 September 2015. The table below shows the temporary loans outstanding as at 30 September 2015.

Temporary Loans as at 30 September 2015			
Loan number	Interest Rate Payable	Maturity Date	Loan Amount
1557	0.5% below base rate	7 Days Notice	1,000
1727	0.5% below base rate	7 Days Notice	300
1735	0.5% below base rate	7 Days Notice	1,000
Balance outstanding as at 30 September 2015			£2,300

4 **Average Rate of Return**

The table below shows the average rate of return for the various categories of investment against the 7 day average rate and 3 year – 7day average rate.

Comparison of Average Rate of Return				
	Qtr 1	Qtr 2	Qtr 3	Qtr 4
CDCM Investments	1.77%	1.78%		
In-house Investments	0.50%	0.53%		
Lloyds 95 day account	0.65%	0.60%		
NatWest LSA	0.25%	0.25%		
Barclays FIBCA	0.45%	0.45%		
7 Day Average	0.47%	0.47%		
3 year – 7 Day Average	0.48%	0.48%		
Overall Average return on Investments	1.36%	1.34%		

The interest rate forecast (average rate of return) for 2015/16 was originally set at 1.75%, this has now been revised down to 1.35%. The total interest receivable budget has however not been reduced as the Council is currently holding more funds than initially expected consequently it is envisaged that the budgeted total interest of £379,500 will be achieved.