

TREASURY MANAGEMENT ANNUAL REPORT 2015/16

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 2015/16 on 27 February 2015, (report COU/FH/15/003 refers).
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 2015 interest was paid to Barclays Bank Plc in the sum of £84,567.67, and on the 31 March 2016 a further £85,032.33 was paid.
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 2015/16 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 2016 was £2,000. One loan of £300 was repaid during the financial year 2015/16.
11. A list of temporary loans outstanding as at 31 March 2016 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 2015/16 was reported to the Council on 27 February 2015.

INTEREST RATES

14. The Bank of England Base Rate remained at its historic low of 0.50% for the whole of 2015/16. Investment rates fluctuated during the year with investment returns on short term investments typically one or two basis points either side of the base rate. The Bank of England also announced that the Funding for Lending Scheme would remain open until 31 January 2018. This could mean that the reliance of financial institutions on the borrowing of wholesale funds (such as local authority investments) remains unchanged, resulting in a continued dampening of investment rates.
15. The Council's predicted average rate of return for the next 3 years, include in the Annual Treasury Management and Investment Statements 2016/17, is as follows:

CDCM INTEREST RATE AVERAGE RATE OF RETURN PREDICTIONS		
2016/17	2017/18	2018/19
1.50%	1.75%	2.00%

16. However following the recent referendum result there may be a need to revise these predictions. The treasury team will continue to closely monitor the situation and provide updated information as it becomes available.

COMPLIANCE WITH THE TREASURY MANAGEMENT STRATEGY & CODE OF PRACTICE

17. During the financial year 2015/16 the Council operated within the requirements of the approved Annual Treasury Management & Investment Strategy and Treasury Management Code of Practice.

INVESTMENTS SUMMARY

18. The Council had five main investment categories in 2015/16 as follows:-

- Investments made on the advice of the brokers firm CDCM (Tradition)
- Internally Managed Temporary Investments by the Council
- NatWest Liquidity Select Call Account
- Barclays FIBCA Call Account
- Lloyds 95 day Notice Account
- Santander 180 day Notice Account

19. The overall amount of interest earned from investments (including accrued interest to 31 March 2016) in respect of the 2015/16 financial year totalled £417,402. This represents an increase of £37,902 against the budget of £379,500 as forecast in the Council's Medium Term Financial Strategy.

20. The tables below summarise the interest earned during 2015/16 and compares it to 2014/15 and total investments held as at 31 March 2016 compared to 31 March 2015.

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY		
	2015/16	2014/15
	£	£
CDCM/ Tradition Investments	348,117.67	432,188.69
In-House Investments	43,990.05	20,294.63
Lloyds 95 day Notice Account	11,168.00	9,521.76
Barclays FIBCA	8,264.24	8,944.07
NatWest LSA	555.41	1,562.28
Santander 180 day Account	5,324.66	
TOTAL INTEREST EARNED/ACCRUED	£417,402.03	£472,511.43

TOTAL VALUE OF INVESTMENTS (PRINCIPAL) HELD AT YEAR END		
	At 31 March 16	At 31 March 15
	£	£
City Deposit Cash Managers Investments	16,000,000	20,500,000
Internally Managed Temporary Investments	8,900,000	4,600,000
Lloyds 95 day Notice Account	1,900,000	1,500,000
NatWest Liquidity Select Account	0	0
Barclays FIBCA	1,690,000	1,985,000
Santander 180 day Notice Account	1,000,000	
Total Value of Investments	29,490,000	28,585,000

INVESTMENTS MADE THROUGH CITY DEPOSIT CASH MANAGERS (TRADITION) ADVICE

21. Maturing investments re-invested through City Deposit Cash Managers advice during the financial year totalled £13.0m. In addition £7.5m of CDCM investments made prior to 2015/16 were still in place during 2015/16. Interest earned during the year

on CDCM investments amounted to £348,117.67. **Appendix 2** contains details of individual investments.

22. The average rate of return from investments made through the advice of City Deposit Cash Managers was 1.699%. The table in **Appendix 4** compares the rates returned on the maturing investments during the year, compared to the Benchmark 3 year - 7 Day Average Rate of 0.484%.

23. A list of outstanding investments made on City Deposit Cash Managers advice, as at 31 March 2016 is shown below.

CDCM Investments Held as at 31 March 2016				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Lloyds TSB Bank Plc	2,000,000	3.65%	17/05/12	15/05/17
Close Bros	3,000,000	2.05%	08/01/15	09/01/17
National Counties Building Society	2,500,000	1.75%	09/02/15	09/02/17
Principality Building Society	2,500,000	1.02%	10/08/15	08/08/16
Progressive Building Society	3,000,000	0.72%	01/12/15	01/06/16
West Bromwich Building Society	3,000,000	0.72%	01/12/15	01/06/16
TOTAL	16,000,000			

INTERNALLY MANAGED TEMPORARY INVESTMENTS

24. Internally Managed Temporary Investments and re-investments totalling £41,800,000 were made during the 2015/16 financial year. Interest earned during the year on these investments amounted to £43,990.05. **Appendix 3** contains details of individual investments.

25. A list of outstanding Internally Managed Temporary Investments as at 31 March 2015 is shown below.

Internally Managed Investments Held as at 31 March 2016				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Nottingham Building Society	1,500,000	0.57%	19/01/16	22/04/16
National Counties Building Society	500,000	0.45%	23/02/16	22/04/16
Newcastle Building Society	1,200,000	0.45%	15/03/16	15/04/16
Yorkshire Building Society	2,000,000	0.25%	15/03/16	01/04/16
Nottingham Building Society	500,000	0.40%	18/03/16	01/04/16
Coventry Building Society	1,200,000	0.41%	24/03/16	15/04/16
Principality Building Society	2,000,000	0.39%	31/03/16	22/04/16
Santander 180 day Account	1,000,000	1.15%	15/10/15	Call
Lloyds 95 Day Account	1,900,000	0.62%	Call	
Barclays FIBCA	1,690,000	0.40%	Call	
TOTAL	13,490,000			

26. The average rate of return on Internally Managed Temporary Investments was 0.574%.

27. The table in **Appendix 4** illustrates the average monthly rate of return on Internally Managed Temporary Investments, compared to the 3 year - 7 Day Average Rate of 0.484%.
28. During the financial year there have been occasions when higher levels of funds have been held in the Council's current account (Lloyds General Account). This has been due to two main factors; funds have been required on consecutive days to cover cash flow requirements and it would not have been economically viable to make a short term fixed term investment or rates offered on short term investments were lower than the rate being paid by the current account, currently 0.4%. The Treasury Management Code of Practice does allow for this if the loss of interest (if there is any) does not exceed £25.

THE NATWEST LIQUIDITY SELECT ACCOUNT

29. The NatWest Liquidity Select Account (NatWest LSA) was opened 17 September 2012 to take advantage of the 0.85% rate of interest offered. As with all interest rates the NatWest LSA's rate has dropped over the course of last 2 years and remained at 0.25% during 2015/16.
30. Due to the low interest rate, limited use was made of this account during the year. Consequently interest earned on this account amounted to only £555.41.

THE BARCLAYS FIBCA ACCOUNT

31. 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. The rate during the year was 0.40% which is still comparable to some instant access/short term investment rates available in the market.
32. Interest earned on this account during the year amounted to £8,264.24.
33. The balance held on the account as at the 31 March 2016 was £1,690,000.

THE LLOYDS 95 DAY NOTICE ACCOUNT

34. The Lloyds 95 Day Notice Account was opened 2 April 2013 to take advantage of the 0.75% rate of interest offered. The rate has reduced during to year to 0.62% which is still comparable with short term investment rates available in the market.
35. Interest earned on this account during the year amounted to £11,168.00.
36. During the course of the year an additional investment of £400,000 was made in this account. The balance held on the account as at the 31 March 2016 was £1,900,000.

SANTANDER 180 DAY NOTICE ACCOUNT

37. In October 2015 the Council opened a Santander 180 day Notice Account that offers a return of 1.15%, which is comparable to one year, fixed term rates currently available.
38. Interest earned on this account during the year amounted to £5,324.66.
39. The balance held on the account as at the 31 March 2016 was £1,000,000.