

Annual Treasury Management Report 2014/2015

1 Introduction

1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 (the Code) was adopted by Council on 23 February 2010.

1.2 The primary requirements of the Code are as follows:

- a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- c. Receipt by Council of an Annual Treasury Management Strategy Report for the year ahead, a mid year review report (as a minimum) and an annual review report of the previous year.
- d. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- e. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Treasury Management Sub-Committee.

1.3 Treasury management in this context is defined as:

'The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

1.4 The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of treasury management activities, for the financial year 2014/15.

2 The Council's Debt Free Status

2.1 The Council became debt free in 1992 and since then has refrained from any borrowing apart from the temporary use of overdraft facilities. This was continued in 2014/15 with the result that the Council had no Prudential Code indicators so far as borrowing was concerned in the year. During the financial year all the Council's investments were managed by in-house staff.

3 Investment Strategy for 2014/15

3.1 The Council's 2014/15 Annual Treasury Management and Investment Strategy was approved by full Council on 11 February 2014 (report E225 refers). The investment strategy for 2014/15 was to give priority to the security and

liquidity of investments whilst at the same time seeking to optimise the return on investments.

Investment Rates in 2014/15

- 3.3 The Bank of England Base Rate remained at its historic low of 0.50% for the whole of 2014/15. Investment rates fluctuated during the year with investment returns typically one or two basis points either side of the base rate. The further extension of the Funding for Lending Scheme until January 2016 has seen the reliance of financial institutions on the borrowing of wholesale funds (such as local authority investments) remain low which has resulted in the dampening of investment rates.
- 3.4 The Council's predicted average rate of return for the next 3 years, include in the Annual Treasury Management and Investment Statements 2015/16, is as follows:

Average Rate of Return Predictions	
2014/15	1.50%
2015/16	0.90%
2016/17	1.50%
2017/18	2.00%

The Council's Lending Criteria 2014/15

- 3.4 The Council's Annual Treasury Management and Investment Strategy requires that deposits are only placed with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers (Sector/Capita) or, for non rated building societies, subject to their meeting minimum financial criteria (based on asset base size).
- 3.5 The continuing unpredictability and volatility of the economy as a whole and the banking sector in particular has forced local authorities to keep their lending criteria under constant review to ensure that the balance between security of capital, liquidity of investments and yield on investment income is adequately maintained.
- 3.6 The below tables shows the credit criteria applicable during 2014/15 as recommended by the Treasury Sub Committee on 20 January 2014 and subsequently approved by Council 11 February 2014.

Credit Criteria: Rated Banks and Institutions

Sector Colour Code Key*	Credit Criteria 1/4/12
Purple	Max £10m for max of 2 years (subject to max 50% of portfolio)
Orange	£9m for max of 2 years (subject to max 40% of portfolio)

Sector Colour Code Key*	Credit Criteria 1/4/12
Red	£8m for max of 1 year (subject to max 35% of portfolio)
Green	£6m for max of 6 months (subject to max 20% of portfolio)
Blue (nationalised / substantially owned by the UK government)	£15m for max 2 years

Credit Criteria: Rated Building Societies

Sector Colour Code Key*	Credit Criteria 1/4/12
Red	£8m for max of 1 year (subject to max 35% of portfolio)
Green	£6m for max of 1 year (subject to max 30% of portfolio)

Credit Criteria: Non- Rated Building Societies

Asset Base**	Credit Criteria 1/4/12
Asset base > £2,500m	£3m for max 6 months
Asset base > £1,000m	£2.5m for max 6 months

* In order to simplify the complex system of commercial credit ratings, Sector has developed a system of colour codings which reflect the relative strengths of individual banking institutions. Details of these colour codings are provided in the Council's Annual Treasury Management and Investment Strategy.

** Further restrictions on non-rated building societies include a requirement for societies to be covered by a Dun and Bradstreet credit rating.

3.7 During the financial year the Council adhered to these lending criteria.

4 Compliance with Treasury Limits

4.1 During the financial year the Council operated within the approved Treasury limits and Prudential Indicators (as set out in the Council's Treasury Policy Statement and Annual Treasury Strategy Statement, including the above approved changes to lending limits). No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

4.2 During the financial year there have been occasions when higher levels of funds have been held in the Council's current 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 investment or rates offered were lower than the rate being paid by the current account, currently 0.4%.

4.3 The decisions to hold these additional funds were made following consultation with the Head of resources and Performance.

5 Investment Outturn 2014/15

5.1 Investments were made with counterparties that met the agreed lending criteria and investment periods. Investment periods range from overnight to two years (one year for new investments), dependent on the Council's cash flows, the view on interest rates and the actual interest rates on offer.

5.2 Market investments in the year are summarised as follows:

	<u>Value (£m)</u>
Opening balance 1st April 2014	34.25
Add: Investments made during the year	24.05
Sub Total	<hr/> 58.30
Investments realised during the year	18.25
Closing balance at 31st March 2015	<hr/> 40.05 <hr/>

5.3 Where possible, investments were made in fixed term investments in order to lock into interest rates as close to the Council's budgeted rate as possible and to provide some certainty of return for a proportion of the Council's investments.

5.4 The Council's instant access and 95 day notice business reserve accounts with Barclays, NatWest and Santander were also used during the year for cash flow purposes or because the rate offered was the same or greater than a fixed term investment. At 31st March 2015 £18.8m was held in these accounts at interest rates between 0.40% and 0.50%.

5.5 The target rate of return for investments for 2014/15 was 1.5%. This target rate was based upon investment rate projections for the year provided by Sector (the Council's treasury management advisors), together with consideration of the profile of the Council's portfolio of investments (i.e. mixture of liquid and fixed term investments). Based upon the anticipated funds available for investment in the year (taking into account planned capital expenditure and receipts from asset disposals) this gave a target investment income of £572k. This figure was used in the preparation of the Council's budget for 2014/15.

5.6 The average rate of return achieved during 2014/15 was 0.75% and interest earned during the year totalled £326,628.53; an underachievement of £245,371.47. This underachievement was mainly due to the continuing low base rate, (0.5%), which has had a dramatic affect on the rates being achieved when re-investing maturing investments.

5.7 The tables below summarise the interest earned during 2014/15 and the list of in investments held as at 31 March 2015.

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	2014/15 £
Bank of Scotland Investments – Term Deposits	155,421.92
Ulster Bank Investments – Term Deposits	25,943.84
Skipton B/Society – Term Deposits	9,631.23
Coventry B/Society – Term Deposits	3,906.30
Nationwide B/Society – Term Deposits	21,246.99
Santander Business Reserve Account	18,329.41
Bank of Scotland Current Account	3,142.54
Barclays Reserve Account	33,959.23
NatWest Call Account	2,083.03
NatWest 95 Day Account	52,958.90
Clydesdale 30 Day Account	4.43
Bank of Scotland Base Plus Account	0.71
TOTAL INTEREST EARNED/ACCRUED	£326,628.53

LIST OF INVESTMENTS HELD AS AT 31 MARCH 2015				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Bank of Scotland	1,500,000	0.95%	11/04/14	10/04/15
Ulster bank	3,000,000	0.86%	01/05/14	30/04/15
Bank of Scotland	2,000,000	0.95%	04/07/14	06/07/15
Nationwide Building Society	2,000,000	0.97%	01/08/14	03/08/15
Nationwide Building Society	1,500,000	0.97%	04/09/14	03/09/15
Bank of Scotland	2,000,000	1.00%	06/10/14	06/10/15
Bank of Scotland	4,750,000	1.00%	03/11/14	03/11/15
Bank of Scotland	4,500,000	1.00%	12/02/15	12/02/16
Santander	800,000	0.40%	Call	
Barclays Reserve	8,000,000	0.45%	Call	
NatWest 95 Day Account	10,000,000	0.50%	95 day	
TOTAL	40,050,000			