

Performance and Audit Scrutiny Committee



Forest Heath
District Council

Title of Report:	Annual Treasury Management Report 2014/15	
Report No:	PAS/FH/15/021	
Report to and date/s:	Performance and Audit Scrutiny Committee	30 July 2015
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Purpose of report:	To present the Council's Annual Treasury Management Report summarising the investments activities for the year 2014/15	
Recommendation:	<p>Performance and Audit Scrutiny Committee:</p> <p>It is <u>RECOMMENDED</u> that:</p> <p>(1) the Annual Treasury Management Report be <u>noted</u>; and,</p> <p>(2) the Annual Treasury Management Report 2014-2015, attached as Attachment 1, be recommended to Cabinet and Council for <u>approval</u>.</p>	

Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i>	<i>Is this a Key Decision and, if so, under which definition?</i> Yes, it is a Key Decision - <input type="checkbox"/> No, it is not a Key Decision - <input checked="" type="checkbox"/>
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:	
<i>Are there any financial implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> Please refer to main report
<i>Are there any staffing implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none">
<i>Are there any ICT implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none">
<i>Are there any legal and/or policy implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2014/15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
<i>Are there any equality implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none">
Risk/opportunity assessment:	<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>

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
Ward(s) affected:		All Ward	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>		CIPFA's revised Code of Practice for Treasury Management, (the Code), published in 2011.	
Documents attached:		<i>(Please list any appendices.)</i> Attachment 1 - Annual Treasury Management Report 2014/15 Appendix 1 – Temp Loans 2014/15 Appendix 2 – CDCM Investments 2014/15 Appendix 3 – Internally Managed Investments 2014/15 Appendix 4 – Comparison of Rates 2014/15 Appendix 5 – Statement of Compliance with the Treasury Management Code of Practice	

1. Key issues and reasons for recommendation(s)

1.1 Annual Report 2014/15

1.2 Interest Earned from Treasury Investments during the year

1.2.1 The table below summaries the interest earned during 2014/15 on the various Treasury Investments held by the Council.

1.2.2

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY		
	2014/15	2013/14
	£	£
CDCM/ Tradition Investments	432,188.69	512,357.90
In-House Investments	20,294.63	24,282.81
Lloyds 95 day Notice Account	9,521.76	0.00
Barclays FIBCA	8,944.07	10,265.13
NatWest LSA	1,562.28	4,261.67
TOTAL INTEREST EARNED/ACCRUED	£472,511.43	£551,167.51

1.2.3 The budgeted income from investments in 2014/15 was £372,418, interest actually earned during the year totalled £472,511, an overachievement of £100,093. 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.

1.2.4 Although interest earned during the year was over budget, the continuing low base rate and subsequent low rates of return available in the marketplace have had an impact on the level of income from investments during 2014/15 compared to previous years.

1.3 Investment Activity during the year

1.3.1 The table below summaries the investment activities during 2014/15;

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2014/15
	£m
Opening Balance 01 April 2014	24.98
Investments made during the year (including transfers to business reserve accounts)	19.58
Sub Total	44.56
Investments realised during the year (including withdrawals from business reserve accounts)	15.98
Closing Balance 31 March 2015	28.58

1.4 **Investments held as at 31 March 2015**

1.4.1 The table below shows the investments held as at 31 March 2015;

Investments Held as at 31 March 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
Principality Building Society	1,500,000	1.20%	10/02/14	10/08/15
Principality Building Society	1,000,000	1.15%	14/03/14	10/08/15
Rothschild	3,000,000	2.45%	11/06/14	09/06/17
Clydesdale Bank	3,000,000	0.80%	01/08/14	01/05/15
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
Cumberland Building Society	3,000,000	0.51%	16/03/15	16/06/15
Nationwide Building Society	1,200,000	0.52%	09/03/15	22/06/15
Coventry Building Society	1,000,000	0.45%	09/03/15	19/05/15
Principality Building Society	1,200,000	0.43%	16/03/15	30/04/15
Nottingham Building Society	1,200,000	0.40%	23/03/15	24/04/15
Lloyds 95 Day Account	1,500,000	0.62%	Call	
Barclays FIBCA	1,985,000	0.40%	Call	
TOTAL	28,585,000			

2. **Market Activities**

2.1.1 Given the continued volatility in the financial markets, 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 year and most market analysts continue to predict that this will continue into 2015/16 with a small staged increase not expected until the third or fourth quarter of 2015.

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 2014/15 totalled £170,064.66.

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 2014/15 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 financial year 2014/15. The table below shows the temporary loans outstanding as at 31 March 2015.

Temporary Loans as at 31 march 2015			
Loan number	Interest Rate	Maturity Date	Loan Amount
1557	7 Day Average	7 Days Notice	1,000
1727	7 Day Average	7 Days Notice	300
1735	7 Day Average	7 Days Notice	1,000
Balance outstanding as at 31 march 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
Temporary Investments	0.53%	0.54%	0.52%	0.45%
CDCM Investments	2.23%	2.13%	2.10%	2.10%
NatWest LSA	0.50%	0.34%	0.34%	0.34%
Barclays FIBCA	0.70%	0.70%	0.59%	0.52%
7 Day Average	0.48%	0.47%	0.47%	0.47%
3 year – 7 Day Average	0.46%	0.48%	0.48%	0.48%
Overall Average return on Investments	1.82%	1.69%	1.67%	1.65%