

TREASURY MANAGEMENT ANNUAL REPORT 2014/15

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 2014/15 on 26 February 2014.
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 2014 interest was paid to Barclays Bank Plc in the sum of £85,032.33, and on the 31 March 2015 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 2014/15 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 2015 was £2,300. No loans were repaid during the financial year 2014/15.
11. A list of temporary loans outstanding as at 31 March 2015 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 2014/15 was reported to the Council on 26 February 2014.

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 2014/15 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.
15. 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%.
16. The Council's Broker, City Deposit Cash Managers (CDCM), have predicted the following for the Council's average rate of return over the next 3 years.

CDCM INTEREST RATE AVERAGE RATE OF RETURN PREDICTIONS			
2014/15	2015/16	2016/17	2017/18
1.90%	1.75%	2.15%	2.50%

COMPLIANCE WITH THE TREASURY MANAGEMENT STRATEGY & CODE OF PRACTICE

17. During the financial year 2014/15 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 2014/15 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

19. The overall amount of interest on investments (including accrued interest to 31 March 2015) in respect of the 2014/15 financial year totalled £472,511. This represents an increase of £100,093 against the budget of £372,418 as forecast in the Council's Medium Term Financial Strategy.

20. The tables below summarise the interest earned during 2014/15 and compares it to 2013/14 and total investments held as at 31 March 2014 compared to 31 March 2013.

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

TOTAL VALUE OF INVESTMENTS (PRINCIPAL) HELD AT YEAR END		
	At 31 March 15	At 31 March 14
	£	£
City Deposit Cash Managers Investments	20,500,000	20,500,000
Internally Managed Temporary Investments	4,600,000	500,000
Lloyds 95 day Notice Account	1,500,000	1,500,000
NatWest Liquidity Select Account	0	989,000
Barclays FIBCA	1,985,000	1,500,000
Total Value of Investments	28,585,000	24,989,000

INVESTMENTS MADE THROUGH CITY DEPOSIT CASH MANAGERS ADVICE

21. Maturing investments re-invested through City Deposit Cash Managers advice during the financial year totalled £14.5m. In addition £6.0m of CDCM investments made prior to 2014/15 were still in place during 2014/15. Interest earned during the year on CDCM investments amounted to £432,188.69. **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 2.1%. 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 0.49%.
23. A list of outstanding investments made on City Deposit Cash Managers advice, as at 31 March 2015 is shown below.

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
TOTAL	20,500,000			

INTERNALLY MANAGED TEMPORARY INVESTMENTS

24. Internally Managed Temporary Investments and re-investments totalling £38,800,000 were made during the 2014/15 financial year. Interest earned during the year on these investments amounted to £20,294. **Appendix 3** contains details of individual investments.
25. A list of outstanding Internally Managed Temporary Investments as at 31 March 2015 is shown below.

Investments Held as at 31 March 2015				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
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
TOTAL	4,600,000			

26. The average rate of return on Internally Managed Temporary Investments was 0.45%.
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 0.49%.

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 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 situation is reviewed on each occasion to ensure best practice is maintained.

29. In addition to the above there was 1 occasion where we were overdrawn, details are as follows;

12 June 2014, (2,503,262.70) overdrawn – Maturing investment was late being repaid, no charges/financial loss to the council was incurred.

THE NATWEST LIQUIDITY SELECT ACCOUNT

30. 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 the year to 0.25%.

31. Interest earned on this account during the year amounted to £1,562.28.

32. Due to the reduction in interest rate funds were withdrawn from this account leaving a zero balance as at 31 March 2015. The account remains open as an extra counterparty should the interest rate rise again.

THE BARCLAYS FIBCA ACCOUNT

33. 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 has reduced during to year to 0.40% which is still comparable to some short term investment rates available in the market.

34. Interest earned on this account during the year amounted to £8,944.07.

35. The balance held on the account as at the 31 March 2015 was £1,985,000.

THE LLOYDS 95 DAY NOTICE ACCOUNT

36. 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.

37. Interest earned on this account during the year amounted to £9,521.76.

38. The balance held on the account as at the 31 March 2015 was £1,500,000.

OTHER INVESTMENTS

39. In addition to the main investment categories the Council also received dividends from minor Government Stocks in 2014/15 which totalled £757.34.