



**Policy, Finance and
Development
Committee**

**22 September
2015**

**Matter for
Information**

Title:

Treasury Management Annual Report 2014/15

John Dickson – Chief Financial and Section 151 Officer

1 Introduction

This report details the actual performance and activities of the authority's treasury management function for the financial year 2014/15. Treasury management is defined in the Code of Practice as “ the management of the organisation'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”

2. Recommendations.

That Members note the report.

3 Information

Two annual reports on treasury management are produced. Firstly, a Treasury Management Strategy and Statement is approved by Council prior to the commencement of the financial year and then this report provides Members with a summary of actual activity for the year 2014/15. The report is required to comply with the “Code of Practice on Treasury Management in Local Government “ and the Council's own Treasury Management Policy Statement.

The Code requires the Section 151 Officer to operate the treasury management function in accordance with treasury management practices adopted by Council. There are no issues of non-compliance with these practices that need be brought to Member's attention.

Under the Prudential Code for Capital Finance, the Council is required to prepare a number of prudential indicators against which treasury management performance is measured.

Details of all borrowing and investment transactions for 2014/15 together with the performance against prudential indicators are given below.

Borrowing

Long Term – The Authority is able to borrow on a long term basis from the Public Works Loans Board (PWLb). At the beginning of the year the amount of

loan outstanding was £19.114m. During the year, no further borrowing was undertaken. This left the outstanding balance at the end of the year unchanged at £19.114m. This is £11.5m less than the approved borrowing strategy, and results from the later than expected start to the Leisure Facilities capital project, and the decision to liquidate all outstanding investments before borrowing to fund it.

Short Term (Less than 365 days in duration) – There was no short term borrowing undertaken during 2014/15 (2013/14 £0).

Cost of Borrowing – Interest on the PWLB loans was paid as follows:

Loan £ 000's	Maturity Date	Interest Rate	Interest £ 000's
500	29/03/2052	4.10	21
500	29/03/2018	3.50	17
18,114	Various	2.98*	539

* Average Interest rate for loans

Investments

During 2014/15, the Council was in a position where it often had cash surpluses to invest. When considering investments the Council must consider the following factors:

- **Security** – the Authority has a counterparty list, based on credit ratings, within its Investment Strategy that is approved prior to the commencement of the financial year. The current list and basis of approval is attached at Appendix C.
- **Liquidity** – because of cash flows there is always a need to have a mix of investments that are realisable when required.
- **Yield** – probably the least important consideration as often higher yields mean greater risks

In the current economic climate and due to the volatility and uncertainty being prevalent in financial markets security has to be the most important factor of the three listed above.

For 2014/15 surplus cash was invested in the following ways.

Special Interest Bearing Account – This account is held with National Westminster Bank plc. It can be used for deposits up to £5 million and pays interest at 0.25%

Business Direct Reserve Account – Again, this is a National Westminster Bank account which allows deposits up to £1 million and also pays interest at 0.25%.

Money Market Deposits – Used for larger amounts up to £1.5 million. The list of institutions approved for investment was agreed at committee on 25 March 2014 and is included again for reference in Appendix C. The investments fall into two categories:

- Money on Call – These investments run for a minimum of 7 days after which they can be recalled at any time. Interest rates are variable and can fluctuate during the life of the investment.
- Fixed Deposits – Investments which mature at a pre-arranged date. The interest rate is fixed for the life of the investment.

The total interest received for the year to 31 March 2015 on temporary investments amounted to £58,908 (2013/14 £58,280). A summary of the total amount invested in 2014/15 is given at Appendix A.

Prudential Indicators

The Local Government Act 2003 requires Councils to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators which provide the basis for management and monitoring of borrowing and investments. These indicators were agreed by Council on 25 March 2014.

The Capital Financing Requirement (CFR) – This represents the Council's underlying need to borrow for capital purpose based on the cumulative value of capital expenditure not fully paid for. The CFR will change year on year in accordance with the value of capital spending.

The first key control over activities is to ensure that over the medium term, net borrowing will only be for capital purposes, The Authority must ensure that net external borrowing does not, except for short periods, exceed the total of the CFR. A comparison of the estimate against the actuals is shown in the table below.

	2014/15 Original Estimate £ 000's	2014/15 Revised Estimate £ 000's	2014/15 Actual £ 000's
Gross Borrowing	30,614	19,114	19,114
Investments	-	-	-
Net Borrowing 31st March	30,614	19,114	19,114
Total CFR 31st March	32,583	23,053	25,177

The Section 151 Officer reports that the Council complied with the requirement to keep borrowing below the relevant CFR in 2014/15 and no difficulties are foreseen for the current or future years.

Borrowing Levels – The following two indicators control the overall level of borrowing.

- **The Authorised Limit** – This represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.
- **The Operational Boundary** – This indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around the boundary for short times during the year. It should act as a barometer to ensure the authorised limit is not breached.
- **The actual borrowing compared to the Authorised and Operational limits agreed by Council are as follows:**

	2014/15 Original Limit £ 000's	2014/15 Revised Limit £ 000's	2014/15 Actual (Max) £ 000's
Authorised Limit	38,000	38,000	19,114
Operational Boundary	36,000	36,000	19,114

Ratio of Financing Costs to Net Revenue Stream – This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time.

	2014/15 Original Estimate %	2014/15 Revised Estimate %	2014/15 Actual %
General Fund	10.5	3.4	3.5
HRA	10.4	10.4	10.4

The above indicator shows that within the General Fund, financing costs are equivalent to 3.5% of the net revenue income. In the case of the HRA there is net interest payable which is equivalent to 10.4% of the net revenue income.

Limits on Activity – The following indicators contain the activity of the treasury function within certain limits thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position.

- **Upper Limits on Variable Rate Exposure** – This indicator identifies a maximum limit for variable interest rates.
- **Upper Limits on Fixed Rate Exposure** – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- **Maturity Structures of Borrowing** – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.
- **Total Principal Funds Invested** – This limit is set to reduce the need for early sale of investments and is based on the availability of investments after each year-end.

	2014/15 Original Indicators		2014/15 Revised Indicators		2014/15 Actual Maturity Structure	
	%		%		%	
Fixed Interest Rates Limit	100		100		100	
Variable Interest Rates Limit	25		25		0	
Maturity Structure of Borrowings	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0	25	0	25	0	0
12 months to 2 years	0	25	0	25	0	0
2 years to 5 years	0	50	0	50	0	8
5 years to 10 years	0	75	0	75	0	26
10 years and above	0	100	0	100	0	66

The prudential Code requires indicators to be set for the maturity structure of fixed borrowings only.

With respect to total principal funds invested, there were no sums invested for periods longer than 364 days. The average number of days over which principal funds were invested was 218 days.

4. Financial Implications.

These are included within the information provided above.

5. Risk Management Implications

These are shown at Appendix D.

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Implications	
Financial (PL)	The financial implications are contained within the body of this report.
Risk	No direct implications
Equalities	No direct implications
Legal	In accordance with the regulations the Council is obliged to provide such information by 30 September 2015

Appendix A

Total Investments Placed During the Period 1 April 2014 to 31 March 2015

	Cumulative No. Of Investments In Year		Total Value Invested in Year £ 000's
British Clearing Banks			
Santander Bank plc	2		2,003
National Westminster Bank plc	143		50,142
Building Societies			
Nationwide Building Society	1		1,000
Local Authorities			
Woking Borough Council	1		1,000
Thurrock Borough Council	1		1,000
Lancashire County Council	2		2,000
	150		57,145

Appendix B

Schedule of PWLB Loans (HRA Self – financing Settlement)

Principal (£)	Rate of Interest (%)	Date of Maturity
1,006,333	1.99	20/03/2020
1,006,333	2.21	20/03/2021
1,006,333	2.40	20/03/2022
1,006,333	2.56	20/03/2023
1,006,333	2.70	20/03/2024
1,006,333	2.82	20/03/2025
1,006,333	2.92	20/03/2026
1,006,333	3.01	20/03/2027
1,006,333	3.08	20/03/2028
1,006,333	3.15	20/03/2029
1,006,333	3.21	20/03/2030
1,006,333	3.26	20/03/2031
1,006,333	3.30	20/03/2032
1,006,333	3.34	20/03/2033
1,006,333	3.37	20/03/2034
1,006,333	3.40	20/03/2035
1,006,333	3.42	20/03/2036
1,006,333	3.44	20/03/2037
18,113,994	Total	

INVESTMENTS STRATEGY 2014/15 – 2016/17**1.0 Introduction**

This strategy is written in accordance with guidance issued under section 15 (1) (a) of the Local Government Act 2003, the Department of Communities and Local Government (DCLG) Guidance on Local Authority Investments issued in April 2010, any revisions of that guidance, the Audit Commission's report on Icelandic investments and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (2011).

The objectives of this strategy are to:

- facilitate investment decisions which ensure that the Council's investment sums remain secure
- ensure the liquidity of investments so that the Council has sufficient cash resources available to carry out its functions at all times
- achieve the maximum return on investments after taking into account security and liquidity

2.0 Current Investments

At present the Council has no fixed investments.

Surplus funds arising from day to day operations are invested based on the most up to date forecasts of interest rates and in accordance with the Council's cash flow requirements in order to gain maximum benefit from the Council's cash position throughout the year. In the current financial climate only specified investments will be considered as set out below.

3.0 Investments

In accordance with relevant guidance, all investments will be placed for a maximum of 364 days and amounts will only be invested with counterparties included on the Council's approved list. Institutions with which specified investments will be made include:

- UK government institutions and other local authorities
- institutions which have been awarded a high credit rating by a credit rating agency

The Council's Treasury Management Practice note 1 (3) states that 'The Section 151 Officer will be responsible for preparing for the Council a list of institutions in which the Council's funds may be invested. This list will be supported by details of the criteria employed to assess the various

credit standings of counterparties'. The following credit ratings will be considered:

- Long-term ratings – these range from the highest rating of AAA to the lowest rating of D. As the title suggests, this indicator reflects the long-term stability of the institution.
- Short-term ratings - These have a time horizon of less than 12 months and therefore place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner. As all of the Council's investments are expected to be for less than 364 days, this is of particular importance. The ratings are F1 (highest credit quality), F2 (good credit quality), F3 (fair credit quality) and B to D (representing various levels of potential default).
- Individual ratings – These range from the highest of A to the lowest of F. This rating is only assigned to banks and attempts to assess how it would be viewed if it were entirely independent and could not rely upon external support.
- Support ratings – These range from 1 to 5 with 1 being the highest. It is a judgement on whether a bank would receive support should this become necessary. It is assumed that any such support would come from the sovereign state or institutional owners.

The Council's counterparty list needs to provide security for the amounts invested whilst containing a sufficient number of institutions with which to place funds. For the purpose of this strategy in respect of Categories 1 and 2 below, only counterparties that meet all of the following criteria will be considered for investment.

- UK banks
- Building societies with asset bases in excess of £6 billion.
- By reference to all three major credit rating agencies (Fitch, Standard and Poor's, Moody's) only those that reach the minimum standard for the lowest agency rating set out.

Category 1

The minimum ratings that will be considered for all agencies are set out below:

	Credit Agency		
Term	Fitch	Moody's	S & P
Short	F1	P1	A1
Long	AA-	AA3	AA-
Individual	C	D	
Support	3		

For any organisation that meets the above criteria, up to £1.5m may be invested at any one time for a maximum duration of 364 days.

Any building society that meets the above criteria must also have an asset base in excess of £6 billion.

Category 2

The minimum ratings that will be considered for all agencies are set out below:

	Credit Agency		
Term	Fitch	Moody's	S & P
Short	F1	P1	A1
Long	A	A2	A1
Individual	C	D	
Support	3		

For any organisation that meets the above criteria, up to £1m may be invested at any one time for a maximum duration of 6 months.

Any building society that meets the above criteria must also have an asset base in excess of £6 billion.

Other counterparties that can be used and any restrictions applicable are set out below.

Debt Management Office

Investments of a maximum duration of 6 months can be made with this Government department.

Public Authorities in England, Scotland and Wales

Investments of up to £5m at any one time with a maximum duration of 364 days can be made with these bodies. These include local government, fire and police authorities.

Money Market Funds

Investments of up to £1.5m per fund at one time can be made provided they are AAA rated.

Credit ratings are monitored on a daily basis using Sector's credit rating service by the Section 151 Officer who will determine the amendments to be made to the counterparty list when credit ratings change.

The proposed counterparty list for investments is given at Annex 3.1.

4.0 Liquidity of Investments

The period for which investments are placed will be based on the Council's cash flow forecasts and estimates of movements in interest rates. The Council does not expect to place investments for longer than 364 days although this situation will be kept under review by the Section 151 Officer. Long-term investments will only be made where it is clear that surplus cash resources are not required for the day to day financing of the Council's activities. The maximum period for any long-term investments will be the three-year planning cycle covered by this strategy.

The maximum amount which may be held in investments lasting more than 364 days will be 25% of the average annual investments.

5.0 Policy on the Use of External Service Providers

External investment managers will not be used, except to the extent that a Money Market Fund can be considered an external manager.

The Authority uses Sector as an external treasury advisor but still recognise that responsibility for treasury management decisions remains with the Council at all times. Whilst it is recognised that undue reliance should not be placed on external advisors, it is valuable to be able to access specialist skills and resources.

6.0 Scheme of Delegation

Policy, Finance and Development Committee

- Approval of annual strategy
- Approval of annual treasury outturn report
- Approval of mid year treasury management updates
- Mid year treasury management updates
- Review of treasury management policy and procedures, including making recommendations to responsible body

Overview and Scrutiny Committee

- Scrutiny of Treasury Management Strategy and Plan, Investment Strategy and Annual Outturn Report

Chief Financial Officer (Section 151 Officer)

- Day to day management of treasury management, within agreed policy
- Appointment of external advisors, within existing Council procurement procedures and standing orders.

7.0 Role of Section 151 Officer

The Section 151 Officer has day to day responsibility for running the treasury management function.

8.0 Ethical Investment Strategy

The Council aims to be aware of ethical issues within its investment strategy. Where any member of the Council becomes concerned about such issues, these matters should be reported to the Section 151 Officer. Where necessary, the Section 151 Officer will then present a response to the concerns raised to the next meeting of the Policy, Finance and Development Committee.

Restrictions	
Max Amount £m	1.5
Duration	364 days
Asset Base (Building Societies Only)	£6 bn

Long-term	Short-term
Rating	Rating
AA-	F1+

Restrictions	
Max Amount £m	1
Duration	6 months
Asset Base (Building Societies Only)	£6 bn

Long-term Rating	Short-term Rating
A	F1
A	F!
A	F1
A	F1
A	F1
A	F1
AA-	F1+

Debt Management Office

Restrictions	
Max Amount £m	N/A
Duration	6 months

Operated by a National Government Department

Public Authorities in England, Scotland and Wales

Restrictions	
Max Amount £m	5
Duration	364 days

All public authorities (including local government, fire and police authorities)

in England, Wales and Scotland

Money Market Funds

Restrictions	
Max Amount £m	1.5
Duration	N/A

Funds must be AAA-rated and operated by a company regulated by the Financial Services Authority. The Section 151 Officer, under delegated powers, will choose the appropriate fund(s).