

## **TREASURY MANAGEMENT ANNUAL REVIEW 2014/15**

### **1 SUMMARY**

- 1.1 This report sets out a summary of the Council's treasury management activity for the year 1 April 2014 to 31 March 2015 (2014/15). The report seeks the views of the Treasury Management Task & Finish Group on the information presented in this report, before it is presented for approval by Full Council on 28 July 2015.
- 1.2 The treasury management activities have been conducted during a year that has seen a gradual recovery in the financial markets; despite this, interest rates have remained static. Income from investment was consistent with the £40,000 revised budget set for 2014/15, with actual income from treasury management activities being £38,400.

### **2 INTRODUCTION AND BACKGROUND**

- 2.1 Treasury management is defined as “the management of the local authority's investments, 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”.
- 2.2 For 2014/15, the primary requirements of the code, together with how the Council complies, are as follows:-
- Creation and maintenance of a treasury management policy statement, which sets out the policies and objectives of the Council's treasury management activities. This is contained within the Financial Regulations of the Council's Constitution. The Financial Regulations are reviewed annually.
  - Creation and maintenance of treasury management practices, which set out the manner in which the Council will seek to achieve those policies and objectives. The practices were last reviewed and updated in December 2014.
  - The Council should receive an annual treasury management strategy report (including the annual investment strategy report) for the year ahead and an annual review report of the previous year. The strategy for 2014/15 was agreed by Council in February 2014 and this report is the annual review report.
  - A mid year treasury report is required detailing the position to date, and any changes in practices. This was reported to the Executive in December 2014.
  - 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. All Executive decisions on borrowing, investment or financing are delegated to the Assistant Director, Resources as the Chief Finance Officer and this delegation is documented in the Financial Regulations.

- 2.3 The Council uses the services of treasury management advisers, Capita Asset Services, to provide advice and expert analysis.

### **3 TREASURY POSITION AS AT 31 MARCH 2015**

- 3.1 The Council's investment position at the beginning and the end of the year, as shown on the Council's balance sheet, was as follows:-

Balance as at 31 March 2014            £2.014m

Balance as at 31 March 2015           £1.508m

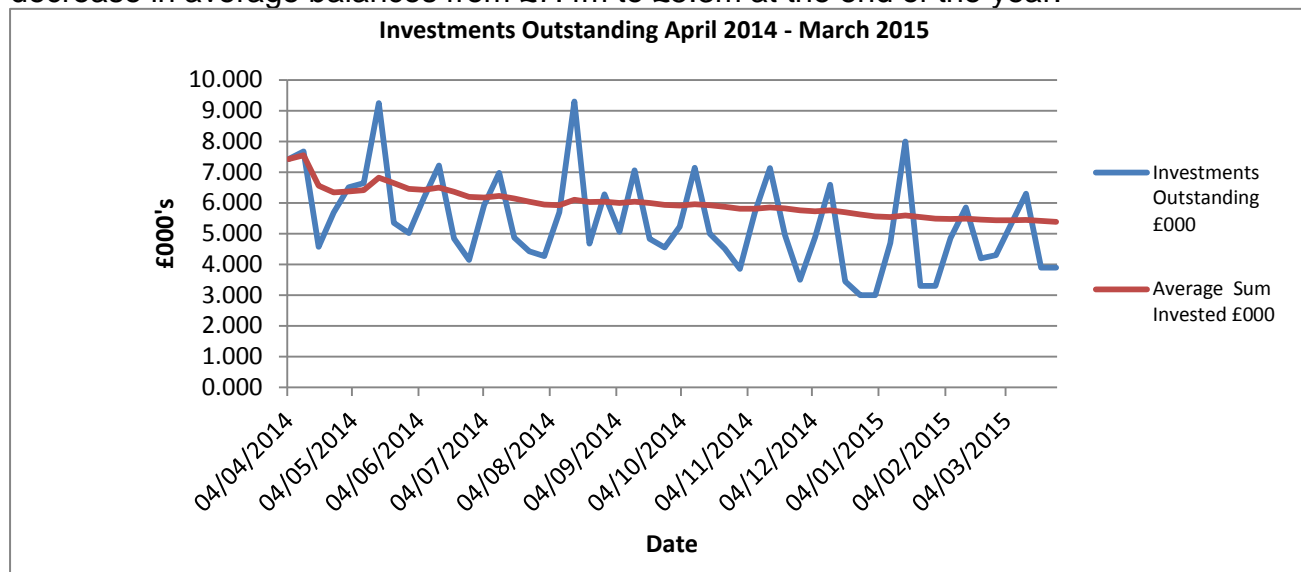
These balances include the interest earned as at 31 March 2015, even though the interest is not actually received until the investment matures. On the following outstanding investment, £8,394 interest had been earned as at 31 March 2015.

<b>Ref</b>	<b>Borrower</b>	<b>£000s</b>	<b>Date Invested</b>	<b>Maturity Date</b>	<b>Interest Rate</b>
1848	Lloyds TSB	1,500	29/08/14	28/08/15	0.95%

### **4 INVESTMENT PERFORMANCE FOR 2014/15**

- 4.1 The investment strategy for 2014/15 was based on expectations that the bank base rate would remain at 0.50%, which proved to be the case. Current forecasts are for the bank base rate to remain at 0.50% until October 2015 when a rise to 0.75% is forecast.
- 4.2 The majority of investments have been made for cash flow requirements but, where the market has given slightly higher rates in anticipation at the time of future rate increases, the opportunity was also taken to benefit from these.

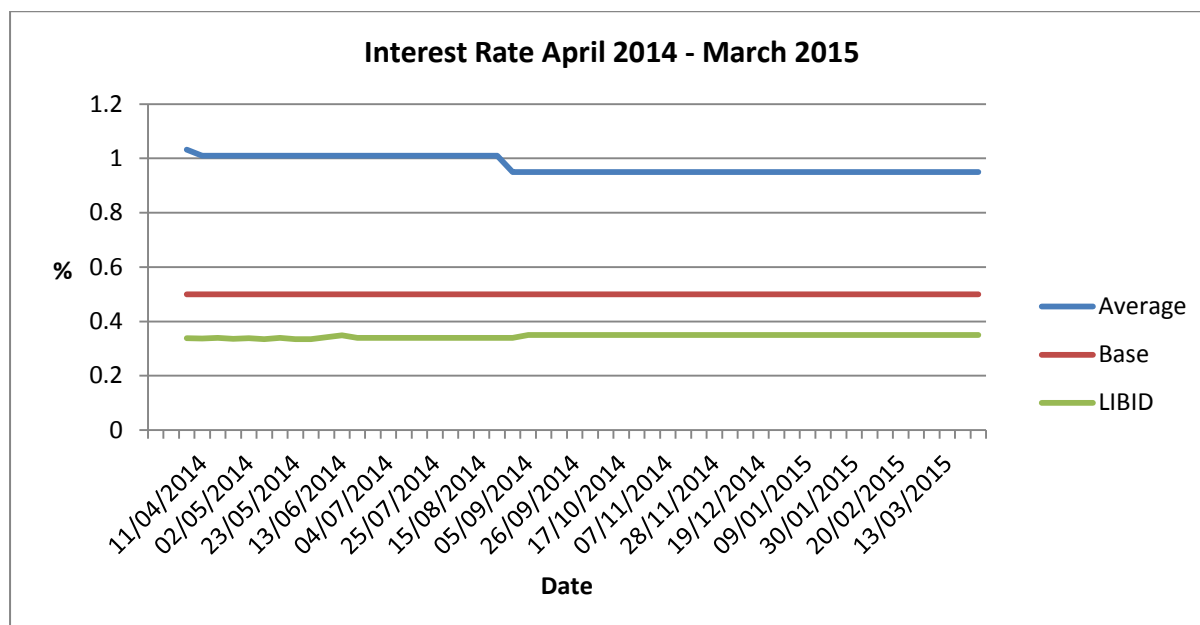
The graph below, of total investments and the average sum invested, shows a decrease in average balances from £7.4m to £5.3m at the end of the year.



- 4.3 Total external interest earned was £38,400, compared to £60,400 in 2013/14. The revised estimate for 2014/15 was £40,000 so this represents a 4% under achievement. Performance for 2014/15 compared to 2013/14 is summarised below based on investments held during the year:

	2013/14	2014/15
	<b>Performance</b>	
Interest return	£60,400	£38,400
Average rate	1.10%	0.96%
Average balance	£6.39m	£5.99m

The following graph shows a comparison of average rate of interest earned, bank base rate and the benchmark (7-day London Interbank Bid Rate):-



- 4.4 The improved performance against the benchmark of the 7-day London Interbank Bid rate is equivalent to an additional £37,100. This was due to placing one long term investment at a rate of 0.95%. In addition, the use of a Barclays Bank Reserve & Handelsbanken Reserve account, which provided a fixed rate 0.15% and 0.20% respectively above base rate.

### **Counterparty List**

- 4.5 The Authority uses a combination of credit ratings, credit default swaps and market intelligence to decide which banks and financial institutions it will deposit funds with. During 2014/15, there were a number of credit rating changes, resulting in the amount we could deposit with any one counter party changing quite regularly. These changes were actioned as notification was received.

## **5 COMPLIANCE WITH TREASURY LIMITS**

- 5.1 During the financial year the Council operated within the treasury limits and prudential indicators set out in the Council's annual treasury strategy statement. The outturn for the prudential Indicators, compared to the estimates made in January 2014, is shown below:-

PRUDENTIAL INDICATOR	2013/14	2014/15	2014/15
	Actual	Estimate	Actual outturn
Capital Expenditure £000s	1,289	1,630	1,262
Ratio of Financing Costs to Net Revenue Stream	(0.72%)	(0.93%)	(0.60%)
Capital Financing Requirement as at 31 March £000s	760	1,061	688
Incremental Impact of Capital Investment Decisions - (Reduction) in Council Tax (band D) per annum £	(0.13)	(0.18)	(0.13)

## **6 RESOURCE IMPLICATIONS**

- 6.1 Investment income used to be an important source of income to the General Fund, but that is no longer the case and is unlikely to recover in the medium term. The Capita contract costs £6,000 per year. This represents good value for money for the Authority as we have achieved better returns than we might have. The advice service frees up officer time from researching the money markets and means that investment decisions are made in a timely fashion.
- 6.2 All interest received is accounted for within the General Fund. The Authority had no borrowings during the year, so no interest was paid out.

## **7 RISK IMPLICATIONS**

- 7.1 The Treasury Management Strategy discusses in detail the risks involved in making investments and in particular the risk that a building society or bank may fail during the duration of an investment. The Authority is responsible for managing the investment of public funds and must be seen to be adopting a prudent approach. No institutions, in which investments were made during 2014/15, had any difficulty in repaying investments and interest in full during the year.

## **8 RECOMMENDATION**

- 8.1 It is proposed that the Task & Finish Group **RESOLVES**
- (1) To recommend the contents of this annual report to Full Council.
  - (2) To identify any issues on this topic for further consideration and discussion by the Group.



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**Background Papers:-**

None.

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