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| SUBJECT: | Treasury Management - Annual Report 2013/14 |
| REPORT OF: | Officer Management Team - Director of Resources Prepared by - Principal Accountant |

1. Purpose of Report

1.1 To report to Members on the Treasury Management performance of the Council for 2013/14.

2. Links to Council Policies & Plans

2.1 The Council's Treasury Management function is a key element to the Financial Strategy, which in turn feeds into the prudent use of Resources, one of the Council's Management Principles.

3. Background

3.1 In December 2001, the Chartered Institute of Public Finance and Accountancy (CIPFA) published a Revised Code of Practice on Treasury Management which CIPFA amended in 2009 in light of the situation with the Icelandic banks. This Council adopted the code in June 2002 and the amended code in February 2010. The Council fully complies with the requirements of the amended code.

The primary requirements of the code are the: -

- (i) Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies, and objectives of the Council's treasury management activities.
- (ii) Creation and maintenance of Treasury Management Practices, which sets out the manner in which the Council will achieve those policies and objectives.
- (iii) Receipt by the Cabinet and Council of an annual strategy report for the year ahead and an annual review report of the previous year.
- (iv) The 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.

3.2 In addition the Department for Communities and Local Government (DCLG) requires each local authority to approve an annual Investment Strategy from 2004/05 onwards.

3.3 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.

3.4 This report represents the annual report 2013/14.

4. Annual Report on Treasury Management 2013/14.

- 4.1 As a debt free authority the treasury management activities of the Council are exclusively concerned with the investment of its reserves, as the Council does not undertake any borrowing.
- 4.2 The Council's Treasury Management Strategy 2013/14 set an estimated return on investment income for the year of £775,000 which was to be generated from a combination of fixed and short term cash deposits, returns on the Stoke Poges Memorial Gardens Fund and from the possible investment of some of the Council's investment portfolio into corporate bonds.
- 4.3 Officers invest cash flow surpluses with approved counter parties. Members approved a new matrix for in house investments as part of the Treasury Management Strategy 2013/14 as follows.

| | Duration | Maximum Amount | Fitch Rating | Comment |
|----------------------------|---------------|----------------|----------------|---------------------------------|
| UK Institutions | Up to 5 years | £5m | A- or better | |
| | Up to 3 years | £5m | BBB+ or better | |
| Non UK Institution | Up to 3 years | £2m | A- or better | Sovereignty rating AA or better |
| Corporate Bonds/Bond Funds | Up to 5 years | £5m | A- or better | |

Details of the Councils fixed and callable investments at the end of the financial year and how they met this matrix are shown in 4.7 of this report.

- 4.4 In addition Sector Treasury Services Ltd is engaged by the Council as its Treasury Management consultants providing advice on investment, performance and regulations where necessary.
- 4.5 A summary of the movements in the year is as follows: -

| | Fund Balance 1.4.2013 £,000 | Fund Withdrawals £'000 | Added to Fund £'000 | Fund Balance 31.3.2014 £,000 |
|--------------------------------------|-----------------------------------|------------------------------|---------------------------|------------------------------------|
| Temp in house cash balances | 4,651 | (1,353) | | 3,298 |
| Fixed Deposits | 19,000 | (16,000) | 11,000 | 14,000 |
| Stoke Poges Memorial Gardens Fund | 1,389 | (78)* | | 1,311 |
| Total | 25,040 | (17,431) | 11,000 | 18,609 |

* change in market value

- 4.6 A comparison of returns to budget for the year is shown within the Resources, Risk and Other Implications section later in this report.
- 4.7 In House Investments: Decisions on investing in callable and fixed deposits are taken by Officers in the light of advice from the Council's treasury consultants and brokers

acting in the local authority money market, combined with general intelligence available from market briefings made available to the authority.

A summary of the Council's holdings of callable and fixed deposits at 31st March 2014 is shown below:-

| UK Institutions | Fitch Credit Rating | Principal £ | Interest Rate | Invested | Matures | Notes |
|------------------------|---------------------|-------------|---------------------------------------|----------|----------|-------|
| Royal Bank of Scotland | A | | | | | |
| Fixed Deposit | | 5,000,000 | 1.13% | 08/02/12 | 08/02/17 | (1) |
| Fixed Deposit | | 2,000,000 | 3 Month Libor | 02/06/11 | 02/06/14 | (2) |
| Total RBS | | 7,000,000 | | | | |
| Lloyds Bank | A | | | | | |
| Fixed Deposit | | 1,000,000 | 3 Month Libor, Floor 2.85%, Cap 5.85% | 11/05/10 | 12/05/15 | |
| Fixed Deposit | | 1,000,000 | 3 Month Libor, Floor 3.07%, Cap 5.00% | 19/05/10 | 19/05/15 | |
| Total Lloyds Group | | 2,000,000 | | | | |
| Barclays | A | | | | | |
| Fixed Deposit | | 1,000,000 | 3 Month Libor, Floor 3.05%, Cap 5.00% | 24/05/10 | 26/05/15 | |
| Total Barclays | | 1,000,000 | | | | |
| Close Brothers | A | | | | | |
| Fixed Deposit | | 1,000,000 | 2.70% | 22/02/13 | 22/08/14 | |
| Fixed Deposit | | 1,000,000 | 1.50% | 12/04/13 | 13/10/14 | |
| Fixed Deposit | | 1,000,000 | 1.20% | 05/07/13 | 05/09/14 | |
| Total Close Brothers | | 3,000,000 | | | | |
| Total Deposits | | 13,000,000 | | | | |

(1) Investment was at 4.25% for the first 2 years with RBS having the option which they exercised to switch to 3 month LIBOR however officers have negotiated a rate of 1.13% until February 2015 when a review will take place.

(2) RBS exercised their option to switch to 3 month LIBOR in year 2.

In addition the Council held the following investments of short term cash with a duration of less than one year at 31st March 2014.

| | Fitch | Amount £ | Interest Rate | Notes |
|----------------|-------|-----------|---------------|----------------------------|
| Nat West Bank | A | 3,298,000 | 0.30% | Instant Access |
| Barclays Fixed | A | 1,000,000 | 0.63% | Fixed 14/10/13 to 16/06/14 |
| Total | | 4,298,000 | | |

4.8 As part of the strategy for 2013/14 Members expressed an interest for officers to search the corporate bond market in order to achieve the alternative of investing up to £5 million within the utilities, telecommunications and pharmaceuticals sectors. There were

few bonds during the year that met the Council's investment criteria and nothing with an effective interest rate calculation (the interest rate that the Council would receive taking into account the purchase price of the bond) that has been particularly appealing.

- 4.9 Stoke Poges Memorial Gardens Fund: The current market value of the fund at 31st March 2014 was £1,311,320.74.

5. Investment Policy & Procedures

- 5.1 As detailed in 3.1 above the Council has adopted the CIPFA Code of Practice on Treasury Management.
- 5.2 The Code recommends the creation & maintenance of Treasury Management Policy & Procedures. These are already in place and were last reported to Members in October 2013.
- 5.3 It is not expected that the procedures will need to be revised very often and any changes have therefore been delegated down to the Chief Finance Officer. However it is the intention that a copy of the document is brought to Members attention on an annual basis and will be reported to the September meeting of this PAG.

6. The Prospects for Interest Rates and 2014/15

- 6.1 The Governments Funding for Lending Scheme where cheap credit via the Bank of England is available via to banks which has had an impact in the money market and depressed rates significantly comes to an end in January 2015.
- 6.2 As the economy begins to recover and grow the indications are that there will be an increase in the bank rate during the next year. Some forecasters believe this will be before early 2015 although the majority of thinking is that it will come in another year's time possibly after the 2015 General Election.
- 6.3 When rates begin to rise it is thought that increase will be of a gradual and controlled nature. The MPC's Martin Weale in an interview in the FT in late May suggested that baby steps increases in rates may mean that rates rise sooner rather than later to avoid future sharp increases, but gradual rises mean that markets shouldn't expect more than 25 basis points a quarter. The UK economy is becoming more balanced in his view but watching the unemployment rate closely.
- 6.4 Retiring Bank of England Deputy Governor Charles Bean feels that 3% interest rates might be the new norm and will get there between 2017 and 2019. Rises would be gradual with the pre-crisis rate of 5 to 5.5% appropriate only in a very long time.
- 6.5 With a rise in interest rates now becoming a reality at last in the near future I have adopted a policy for the current year of keeping the re-investment of maturing investments short so that when rates begin to rise or when the market begins to build future interest rate rises into what they have on offer the Council will have the necessary funds available to take advantage of the opportunities available and consider longer term investments.

6.6 At the same time officers will continue to search for any appropriate corporate bonds which match the Council's investment criteria with a return greater than what can be achieved in cash.

6.7 It will also be interesting to see if the new Joint banking contract with Barclays results in any investment opportunities as the new banking relationship develops.

7. Resources, Risk & Other Implications

7.1 A comparison between the actual returns for 2013/14 and the budget is shown in the table below:

| | Budget 2013/14 £'000 | Actual 2013/14 £'000 |
|---|----------------------------|----------------------------|
| Fixed Deposits | | 431 |
| Short Term officer Investments | | 65 |
| Farnham Trust Clubhouse Loan | | 21 |
| Other Miscellaneous Interest ¹ | | 7 |
| Less Other Interest ² | | (8) |
| Stoke Poges Memorial Gardens Fund | | 62 |
| Total Returns | 775 | 578 |

7.2 There was an underachievement of £197K from the budget during 2013/14 which is slightly higher than the £175,000 declared in the February budget monitoring report. The loss on interest is a result of the current very low interest rate environment.

7.3 To take account of the low interest rate environment and that the Council spent a larger than usual amount of its capital resources in 2013/14 and 2014/15 on the new Refuse/Recycling scheme the target figure for investment income has been set at £550,000 which is thought to be more realistic in the current climate.

8. Summary

8.1 The PAG is requested to note the investment performance for 2013/14.

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| Background Papers: | None |

¹ Miscellaneous interest includes interest from car loans, Swan Road, and in respect of transferred debt from the reorganisation of Local Government in 1974.

² Interest is credited separately to a number of the Council's earmarked funds but mainly the monies from the section 106 agreements.