

FOR PUBLICATION

TREASURY MANAGEMENT ANNUAL REPORT 2014/15 AND MONITORING REPORT 2015/16

MEETING: (1) COUNCIL
(2) STANDARDS & AUDIT COMMITTEE
(3) CABINET
(4) DEPUTY LEADER AND CABINET MEMBER
FOR PLANNING

DATE: (1) 14 OCTOBER 2015
(2) 23 SEPTEMBER 2015
(3) 22 SEPTEMBER 2015
(4) 14 SEPTEMBER 2015

REPORT BY: CHIEF FINANCE OFFICER

WARD: ALL
FORUM ALL
DECISION REF: Non-Key 42

FOR PUBLICATION

BACKGROUND PAPERS

Local Government Act 2003, CIPFA Prudential Code & Guidance,
Accountancy Services' final accounts working papers.

1. PURPOSE OF REPORT

- 1.1 To consider the Annual Treasury Management Report for 2014/15.
- 1.2 To consider the Treasury Management activities for the first five months of 2015/16.

2. RECOMMENDATIONS

2.1 That the **Council** is recommended to:

- (i) Note the outturn Prudential Indicators for 2014/15;
- (ii) Note the treasury management stewardship report for 2014/15;

- (iii) Note the treasury management position for the first five months of 2015/16;
 - (iv) Approve the proposed changes to the investment arrangements and limits (Section 5).
- 2.2 That the **Cabinet** considers the report and recommends it, with any proposed changes, to the full Council for approval.
- 2.3 That **Standards and Audit Committee** scrutinizes the report and proposes any changes to the full Council.

3. BACKGROUND

- 3.1 The Council's Treasury Management Strategy requires the full Council to receive three treasury reports each financial year; the Strategy report before the start of each financial year, an annual report for the previous financial year and a mid-year review for the current year.
- 3.2 The Annual Report for 2014/15 is attached at Annexe 1. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 3.3 Following the Icelandic banks collapse in 2008 the regulatory framework places a much greater emphasis on the review and scrutiny by Members of treasury management activities. The attached report provides details of the treasury management activities in 2014/15 and confirms compliance with the Council's approved policies. The report will also be scrutinised by the Standards and Audit Committee prior to consideration by the full Council.

4. SUMMARY OF THE ANNUAL REPORT

- 4.1 During 2014/15, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

| Actual prudential and treasury indicators | 2013/14 Actual £'000 | 2014/15 Revised £'000 | 2014/15 Actual £'000 |
|---|----------------------------|-----------------------------|----------------------------|
| Actual capital expenditure | 19,197 | 20,933 | 23,425 |
| Capital Financing Requirement: | | | |
| - General Fund | 10,660 | 12,761 | 13,627 |
| - HRA | 140,540 | 138,432 | 138,482 |
| - Total | 151,200 | 151,193 | 152,109 |
| External debt | 144,967 | 140,535 | 140,046 |
| Investments – under 1 year | 19,962 | 24,839 | 20,896 |
| 1 year and above | 3,160 | - | 3,266 |
| Net borrowing | 121,845 | 115,696 | 115,884 |

- 4.2 Other prudential and treasury indicators are to be found in Annexe 1. The Chief Finance Officer also confirms that borrowing over the medium term is only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit), was not breached in 2014/15.
- 4.3 The financial year 2014/15 continued the challenging environment of low investment return. There was a large differential between borrowing and investments rates during the year.
- 4.4 Investments – The majority of the Council’s investment funds were managed externally by Investec during 2014/15. In their performance monitoring report for the quarter ended 31st March 2015 Capita, the Council’s treasury advisers, commented on Investec’s performance as follows:
“The fund had a successful year as it outperformed its benchmark in 3 out of 4 quarters. Performance continues to be driven by rising market value of the gilt as the fund continues to keep the rest of its book in strongly rated, short dated deposits. Increasing volatility in the fixed income market has suggested though that ongoing reliance on the gilt to bolster performance could be risky. However the fund manager is actively exiting this form of management which will likely mean that future market conditions will not be an issue for the portfolio going forward.”
- 4.5 Borrowing – in terms of activity during the year on the Council’s debt portfolio:
- No new long term borrowing was undertaken; &
 - Loan repayments of £1m were made.

5. 2015/16 MID YEAR REVIEW

5.1 Annual Investment Strategy

In accordance with the Cipfa Code and the Council's Investment Strategy, the investment priority is to ensure security and liquidity of capital, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate with the Bank Rate at just 0.5% investment returns are at a historically low level. The continuing uncertainty of economic recovery and the geo-political uncertainties, prompts a low risk and short term strategy. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the five months ended 31.08.2015.

5.2 Internally Managed Cash Balance

In the first quarter of the year the interest rates achieved were below those assumed when setting the budget (0.71% against 0.8%). The net average internal investment balance has been higher than the assumptions in the original budget and the net internal investment returns are forecast to be £6,000 below the original budget target for the year.

5.3 Performance of External Fund Manager

In the first quarter of 2015/16, our external fund manager Investec announced their withdrawal of services to the local government sector and in July, the £21m portfolio managed by them was returned to the Council. Of this, £14.6m was returned directly to the Council and was then invested in an Enhanced Money Market fund by the in-house team. The remainder, related to two investments with some time to run to maturity and these were transferred into a custodian account with King Shaxon Limited, the leading supplier of transferrable securities to UK Local Authorities. A review of the strategy for the longer term management of our investments is currently underway and will be reported later in the year.

5.4 Borrowing activities in the period:

- No new long term borrowing has been undertaken;
- No repayments of principal have yet been made; &
- No debt rescheduling was undertaken.

5.5 Compliance with Treasury & Prudential Limits

Due to the unexpected withdrawal of Investec as our fund managers we had to place £14.6m in an Enhanced Money Market Fund that was in place at the time of the transfer. This is a highly diversified fund which is regarded as highly secure as it has a triple “A” investment rating. We are, therefore, seeking retrospective approval for the limit for Enhanced Cash/Short Dated Bond Funds to be increased from £5m to £15m.

All other treasury limits and Prudential Indicators set out in the Council’s Treasury Management Strategy Statement and in compliance with the Council’s Treasury Management Practices have been maintained.

The main Prudential Indicators relating to borrowing are:

- Authorised Borrowing Limit – the limit for the year was set at £151m, the limit has not been breached.
- Operational Boundary – this was set at £140.6m for the year, again the limit has not been breached.

6. **RECOMMENDATIONS**

6.1 That the **Council** is recommended to:

- (i) Note the outturn Prudential Indicators for 2014/15;
- (ii) Note the treasury management stewardship report for 2014/15;
- (iii) Note the treasury management position for the first five months of 2015/16;
- (iv) Approve the proposed changes to the investment arrangements and limits (Section 5).

6.2 That the **Cabinet** considers the report and recommends it, with any proposed changes, to the full Council for approval.

6.3 That **Standards and Audit Committee** scrutinizes the report and proposes any changes to the full Council.

7. **REASON FOR RECOMMENDATION**

8.1 To comply with the Council’s Treasury Management Policy and Practices, the CIPFA Code of Practice on Treasury Management (2009) and the CIPFA Prudential Code for Capital Finance in Local Authorities (2009).

**B DAWSON
CHIEF FINANCE OFFICER**

Officer recommendation supported/not supported/modified as below or Executive Member's recommendation/comments if no officer recommendation.

Signed:
Date

Executive Member

Consultee Executive Member/Support Member comments (if applicable) /declaration of interests.

Further information on this matter can be obtained from
Barry Dawson, Chief Finance Officer (ext. 5451).