

## FOR PUBLICATION

### TREASURY MANAGEMENT ANNUAL REPORT 2013/14 AND MONITORING REPORT 2014/15 (J070R)

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

DATE: (1) 16<sup>TH</sup> SEPTEMBER 2014  
(2) 23<sup>RD</sup> SEPTEMBER 2014  
(3) 26<sup>TH</sup> SEPTEMBER 2014  
(4) 15<sup>TH</sup> OCTOBER 2014

REPORT BY: HEAD OF FINANCE

WARD: ALL  
FORUM ALL  
KEY DECISION REF: 402

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FOR PUBLICATION

#### BACKGROUND PAPERS

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

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## 1. PURPOSE OF REPORT

- 1.1 To consider the Annual Treasury Management Report for 2013/14.
- 1.2 To consider the Treasury Management activities for the first five months of 2014/15.

## 2. RECOMMENDATIONS

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

- (i) Note the outturn Prudential Indicators for 2013/14;
- (ii) Note the treasury management stewardship report for 2013/14;

- (iii) Note the treasury management position for the first five months of 2014/15;
  - (iv) Approve the proposed changes to the investment arrangements and limits (Section 6);
  - (v) Note the new contract for provision of banking services.
- 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 2013/14 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 2013/14 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 2013/14, 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:



## 5. 2014/15 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 any 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 31.08.2014.

### 5.2 Internally Managed Cash Balance

In the first quarter of the year the interest rates achieved were in line with those assumed when setting the budget at 0.69%. 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 £9,000 above the original budget target for the year.

### 5.3 Performance of External Fund Manager

During the first quarter of the year, Investec did not take advantage of rising prices to trade in the gilt market, taking the view that trading in a volatile market, especially one which is heavily influenced by unpredictable geopolitical factors, can leave the Fund vulnerable to mistiming and the potential for negative returns.

The Fund's strategy of keeping a significant proportion of the portfolio invested in short dated CDs remains unchanged. The benefits of this approach are security, in that issuers of CDs have strong credit ratings, and liquidity, through the use of three month maturity dates.

The manager's passive approach to money market instruments will provide a stable, but unspectacular performance, with any material deviation coming from fixed income holdings.

Performance was on a par with the industry average. Considering the market conditions, it is unsurprising that the Fund has stuck to its strategy of mostly dealing in short dated products. CDs are likely to prove a reliable but modest source of income over the next quarter given their high security and fixed interest rate terms.

It is likely that performance of the gilt in the portfolio will determine the future success or otherwise of the Fund's performance.

The gross return achieved to the end of August was 0.37%, compared to the pro-rata budget target for the period of 0.28%. The target for the full year is 0.67%.

5.4 No new long term borrowing has been undertaken in the year to date.

5.5 Repayments of principal of £427k have been made during the year.

5.6 No debt rescheduling was undertaken to date.

5.7 Compliance with Treasury & Prudential Limits

In the first part of the financial year the Council has operated within the 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.

The main Prudential Indicators relating to borrowing are:

- Authorised Borrowing Limit – the limit for the year was set at £155.5m, the limit has not been breached.
- Operational Boundary – this was set at £144.8m for the year, again the limit has not been breached.

## **6. INVESTMENT FUND OPTIONS**

6.1 Officers have consulted with our Treasury Advisors, Capita, about the investment options available to the Council. Capita have undertaken a similar exercise with a number of their local authority clients. In the current market conditions, with very low investment returns, many external fund managers including Investec are finding it difficult to add value. The external managers, however, do provide a degree of security given their professional expertise and their access to highly rated financial instruments and institutions.

Nevertheless, it is felt that the Council should be able to secure equivalent or higher returns whilst maintaining a satisfactory level of security, by managing more funds in-house. This will require additional staffing resources and increased flexibility for the in-house operation.

The staffing issue is currently being addressed as part of a restructuring of the Accountancy Team, which should be formally reported and approved during the next few weeks.

The in-house team will also require increased flexibility in terms of amounts that they can invest and the range of financial instruments they can use. In anticipation of this change, authority is sought within this report to:

a) Increase the counterparty limits for the UK part nationalised banks as follows:

- Individual counterparty limit to £7.5m (previously £5m)
- Banking Group Limit to £10m (previously £7.5m)

Counterparty selection will continue to be based on the Council's Treasury Adviser's model and taking other market intelligence in to account.

b) Permit the in-house team to use all of the Specified and Non-Specified Investments currently shown in the Treasury Management Strategy Statement as being available only to the External Fund Manager. This will involve the use of specialist brokers and Custodian facilities for certain instruments.

Given the need to first establish an in-house team it is proposed that the transfer of funds from the External Fund Manager to the in-house team will take place on a phased basis as individual investments in the external fund reach maturity. Keeping a relationship open with the external fund manager will also allow some flexibility to increase their involvement if market conditions change sufficiently for them to be able to undertake some tactical trading and add value to the potential investment returns.

6.2 A further investment option currently being explored is the use of Property Funds. Property Fund investments should be seen as a medium to long term investment (i.e. greater than 5 years) to take advantage of the capital growth potential and to avoid the liquidity risk i.e need to avoid having to call the money back during a property slump. The potential returns, however, over the longer term can be attractive. Capita will undertake a review of the various funds available. A report will then be prepared recommending a fund or range of funds to be included in the list of Approved Non-Specified Investments.

## **7. BANKING CONTRACT**

7.1 The current banking contract is with the Co-op Bank and ends on March 31<sup>st</sup>, 2016. As previously reported, The Co-op has announced its decision to withdraw from the local authority market.

- 7.2 To attain a more competitive price and to reduce the burden of tendering this service, the Council took part in a joint procurement exercise for banking services with 4 other Derbyshire authorities. The contract is for 7 years with an option to extend for up to 10 years.
- 7.3 Three tenders were received on 15<sup>th</sup> August 2014. These tenders have been evaluated and a decision has been made to award the contract to Bank A(tbc). It is anticipated that the change of bankers will commence in Summer 2015.
- 7.4 The tender price is in line with the current budget provision.

## **8. RECOMMENDATIONS**

- 8.1 That the **Council** is recommended to:
- (i) Note the outturn Prudential Indicators for 2013/14;
  - (ii) Note the treasury management stewardship report for 2013/14;
  - (iii) Note the treasury management position for the first five months of 2014/15;
  - (iv) Approve the proposed changes to the investment arrangements and limits (Section 6);
  - (v) Note the new contract for provision of banking services.
- 8.2 That the **Cabinet** considers the report and recommends it, with any proposed changes, to the full Council for approval.
- 8.3 That **Standards and Audit Committee** scrutinizes the report and proposes any changes to the full Council.

## **9. 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  
HEAD OF FINANCE**

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

J. F. Kelly

Signed:

Executive Member

Date: 16.09.14

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

Further information on this matter can be obtained from Barry Dawson, Head of Finance Services (ext. 5451).