

**Annual Treasury report 2014/15**

**Cabinet member:** Councillor Peter Hare-Scott  
**Responsible Officer:** Head of Finance

**Reason for the report:** To inform Members of the Council's treasury management performance in 2014/15.

**Matters for consideration:** That the treasury management performance for 2014/15 be noted.

**Relationship to the Corporate Plan:** Maximising our return from all associated treasury activities, whilst minimising any credit default risk, enabling the Council to support current levels of spending in accordance with our Medium Term Financial Plan.

**Financial implications:** Investment protection reduced the available interest return during 2014/15.

**Legal implications:** Compliance with the CIPFA Code is a statutory duty.

**Risk assessment:** The Section 151 Officer is responsible for the administration of the financial affairs of the Council. Implementing this strategy and the CIPFA Code of Practice on Treasury Management manages the risk associated with the Council's treasury management activity.

**1.0 Introduction**

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management was amended in November 2009 and the Council fully complies with its requirements.

1.2 The primary requirements of the Code 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.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the Council of an annual strategy report for the year ahead and an annual review report of the previous year.

- 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.

1.3 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 these risks.”*

1.4 The annual treasury report covers:

- the Council’s treasury position for 2014/15
- performance measurement
- the strategy for 2014/15
- the economy in 2014/15
- borrowing and investment rates in 2014/15
- the borrowing outturn for 2014/15
- compliance with treasury limits and Prudential Indicators
- investment outturn for 2014/15

## 2.0 2014/15 Treasury position

2.1 The Council’s investment position at the end of the year was as follows:

	Principal held at 31 March 2014	Rate/ Return for 2013/14	Principal held at 31 March 2015	Rate/ Return for 2014/15
	£	%	£	%
<b>Investments</b>				
Externally Placed	11,000,000	0.60	10,500,000	0.65
Deposit Account and cash at bank balances	1,747,418	0.50	4,734,544	0.50
Total Investments	12,747,418		15,234,544 (1)	

Note <sup>(1)</sup> – A breakdown of the externally placed investments is held at **Appendix A**.

2.2 In order to inform Members why the Council held £15.234m in cash, deposits, and investments as at the 31 March 2015, the following reconciliation is required:

<b>Approximate Balances at 31 March 2015</b>	<b>Million £</b>
HRA	2.00
HRA Earmarked Reserves	6.162
General Fund	2.37
General Fund Earmarked Reserves (incl s106 monies and New Homes Bonus)	6.983
Capital Receipts Reserve	0.985
<b>Total</b>	<b>18.50</b>

2.3 The Authority has working capital requirements and some monies are inevitably tied up in debtors, creditors and stock, in addition to the £15.23m of cash deposits. It should also be remembered that there is the issue of timing, where we collect some monies like council tax and business rates and hold this money temporarily prior to having to pay out precepts to Devon County Council, Devon and Cornwall Police and Devon and Somerset Fire Service.

### **3.0 Performance measurement**

3.1 One of the key changes in the revision of the Code in 2009 was the formal introduction of performance management relating to investments, debt and capital financing activities.

3.2 The use of benchmarks for local authorities such as Mid Devon, with relatively small cash balances, is considered difficult as we are only able to place funds for short periods and are more focused on principle protection than investment return, however we do review our performance against the 7 day London Interbank Bid Rate (LIBID).

### **4.0 The strategy for 2014/15**

4.1 The Treasury Strategy adopted for 2014/15 (in March 2013) was based on an uncertain outlook for the credit worthiness of banks and building societies. The base rate was expected to remain unchanged at 0.50% until Dec 2015.

4.2 The overriding aim for the Annual Strategy was the security of the Council's financial assets, but also to try and improve upon the rate of return on investments in 2013/14.

4.3 The expectation for interest rates within the strategy for 2014/15 anticipated a low but rising Bank Rate (starting in quarter 4 of 2014) with similar gradual rises in medium and longer term fixed borrowing rates over 2014/15. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

## 5.0 The economy in 2014/15

- 5.1 The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand.
- 5.2 Therefore the base rate remained unchanged during the 2014/15 fiscal year.

## 6.0 Borrowing and investment rates in 2014/15

- 6.1 **Investment Rates:** Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.
- 6.2 **Borrowing Rates:** PWLB borrowing rates -certainty rates have fallen to historically very low levels during the year.

## 7.0 Borrowing outturn for 2014/15

- 7.1 Details of the loans outstanding at 31 March 2015 are shown below:

Public Works Loan Board	Purpose	Final Payment	Interest rate %	Principal held at 31 March 2014	Principal held at 31 March 2015
<b>Ref Number</b>				<b>£000</b>	<b>£000</b>
<b>500248</b>	HRA Self-Financing	28/3/37	2.94	43,983	42,622
<b>502059</b>	Gym Equip & Refuse Vehicle	28/3/18	1.32	346	261
<b>502905</b>	Scarab Street Sweeper	11/3/21	2.18	102	88
<b>503319</b>	Baler	25/03/24	2.68		148
<b>503849</b>	Market Walk/Fore St	27/03/40	2.61		4,173
			<b>Total</b>	<b>44,431</b>	<b>47,292</b>

- 7.2 We also have a number of finance leases outstanding at year end (£681k in 14/15 and £741k in 13/14). The total interest paid on both PWLB loans and finance leases during 2014/15 was £1,280k.
- 7.3 In addition to the external borrowing outlined in 7.1, the HRA has borrowed £2.2m from GF to finance the building of 22 new council houses at Wells Park, Crediton.

## 8.0 Compliance with treasury limited and Prudential indicators

- 8.1 During the financial year the Council operated within the Treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Management Strategy statement. The outturn for the Prudential Indicators is shown in **Appendix B**.

## 9.0 Investment outturn for 2014/15

- 9.1 **Internally managed investments** – The Council manages its investments in-house and invests with the institutions listed in the Council's approved lending list.
- 9.2 **Investment strategy** – Any fixed term investments in the market place (except Debt Management Office [DMO]) are restricted to a maximum term of 1 year. The Council's substantial commitments (particularly the monthly precepts to the County Council and the Police and Fire Authorities) constrain the term of investments.

## 9.3 Investment outturn

The final interest for the financial year can be summarised as follows:

### Interest Paid and Received:

	Budget £k	Actual £k	Variance £k
<b>Paid:</b>			
PWLB loan-HRA	1,272	1,272	0
HRA to General Fund	58	58	0
Interest payable – GF	8	8	0
<b>Paid Total</b>	<b>1,338</b>	<b>1,338</b>	<b>0</b>
<b>Received:</b>			
General Fund	(65)	(66)	(1)
HRA to General Fund	(110)	(58)	52
HRA	(41)	(48)	(7)
<b>Received Total</b>	<b>(216)</b>	<b>(172)</b>	<b>(44)</b>

## **10.0 Further Updates and Review**

- 10.1 A report on treasury performance for the first 6 months of 2015/16 will be made to the Cabinet in October/November 2015 to enable Members to review the on-going Treasury Strategy and to provide an update on any other market/financial issues affecting the Council.
- 10.2 In accordance with recommendations agreed previously, any urgent issues relating to Treasury Management will be immediately referred to the Cabinet member for Finance.

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**Background Papers:** Sector's Annual Treasury Management Report

**Circulation of the Report:** Management Team, Cllr Peter Hare-Scott