

Report of:	Meeting	Date	Item No.
Cllr. Alan Vincent, Resources Portfolio Holder and Philippa Davies, Corporate Director of Resources	Cabinet	3 December 2014	7

<b>Treasury Management activity April 2014 to September 2014</b>
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## 1. Purpose of Report

- 1.1 To report on the overall position and activities in respect of Treasury Management for the first half of the financial year 2014/15.

## 2. Outcomes

- 2.1 An informed Cabinet who have an understanding of Treasury Management activity, in line with the approved Treasury Management Policy and Strategy Statements and Treasury Management Practices.

## 3. Recommendations

- 3.1 That the Annual Report on Treasury Management Activity for the first half of the 2014/15 financial year be approved.
- 3.2 That the changes to the credit methodology, namely the removal of the implied sovereign support levels, be approved.

## 4. Background

- 4.1 In order to demonstrate compliance with the CIPFA Code of Practice for Treasury Management a review of the Treasury Management Policy Statement, Treasury Management Procedures, Strategy and Minimum Revenue Provision Policy Statement is undertaken each year and reported to Cabinet in March. The Council, in accordance with legislation is also formally required to approve the formulation of the plan or strategy for the control of the authority's borrowing, investments or capital expenditure and for the determination of the authority's minimum revenue provision. This is agreed by Council in April.
- 4.2 A requirement of the Treasury Management Code of Practice is the reporting of the results of treasury management activity twice a year. This report covers the six months ending 30 September 2014. A further report including activity for the 2014/15 financial year in its entirety will be considered by Cabinet in July 2015.

4.3 The Treasury Management Procedures indicate that the report should include the following issues, where relevant:

- a) Total debt and investments at the beginning and end of the review period and average interest rates;
- b) Explanations for variance between original strategies and actual;
- c) Debt rescheduling done in the year;
- d) Actual borrowing and investment rates achieved through the year;
- e) Comparison of return on investments to the investment benchmark; and
- f) Compliance with Prudential and Treasury Indicators.

## 5. Key Issues and Proposals

5.1 The main rating agencies (Fitch, Moody's and Standard and Poor's) have, through much of the financial crisis, provided some institutions with a rating uplift due to implied levels of sovereign support. The ratings agencies have recently indicated, however, that they plan to remove these. In anticipation, Capita Treasury Solutions Ltd, the Councils treasury advisor, has made immediate changes to their credit methodology. The rating agency changes do not reflect any changes in the underlying status of the institutions, merely the implied level of support that has been built into ratings through the financial crisis. As a result of these rating agency changes, the credit element of the new methodology focuses solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information continues to be assessed where it relates to these categories. Whilst this does not represent a change to the approach used for Standard and Poor's it does reflect a change regarding the Fitch and Moody's ratings. Capita continue to utilise Credit Default Swap prices as an overlay to ratings in the new methodology. This new methodology came into effect 27<sup>th</sup> June 2014.

5.2 The table below illustrates the Council's debt and investment position at the beginning of the 2014/15 financial year and as at 30 September 2014:

	1 <sup>st</sup> April 2014	30 <sup>th</sup> September 2014
	£	£
Loans - Temporary	0	
- Cash Overdrawn	0	17,075*
<b>Total Short term Debt</b>	<b>0</b>	<b>17,075</b>
Loans - Long Term Borrowing	1,552,000	1,552,000
<b>Total Long term Debt</b>	<b>1,552,000</b>	<b>1,552,000</b>
Investments - Temporary	7,500,000	17,016,164
Cash in Bank	366,839	0
Cash held by the Authority	2,141	2,161
<b>Total Short term Investments</b>	<b>7,868,980</b>	<b>17,018,325</b>

\*The Authority administers a number of trust funds totalling £50,883 at 30 September 2014 which are not reflected in the overdrawn balance of £17,075. These funds, however, are included in the actual bank balance resulting in the Council's net bank account position being positive.

- 5.3** The Prudential Code for Capital Finance aims to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. The code sets out indicators that must be used and requires local authorities to set relevant limits and ratios. The indicators for the 2014/15 financial year were originally considered by Cabinet 19 February 2014 and agreed at Council on 6 March 2014. During the six months to 30 September 2014 the Council operated within these treasury limits and Prudential Indicators.
- 5.4** The 2014/15 Budget assumed no additional long term borrowing and capital schemes were to be funded by grants and contributions, capital receipts and the Capital Investment Reserve.
- 5.5** From 1 September 2011, and following a cost/benefit analysis it was decided to cease the formal overdraft facility. The formal overdraft facility used to cost the Council £2,000 plus 1% over the base rate for overdrawn net balances over £500,000. The new arrangement now incurs charges at 4% over the current base rate for net overdrawn balances with no annual arrangement fee. There have been no instances when the Council's net bank account position was overdrawn during the period April to September 2014.
- 5.6** There were no short-term borrowing transactions (i.e. less than 365 days) during the first six months of 2014/15.
- 5.7** Interest payments in respect of short term and long term borrowing for the first half of the financial year total £34,415 compared to an updated budgeted figure of £73,830 for the full year. Including miscellaneous payments the actual at 30 September is £34,985 compared to a full year budget of £121,400. This full year budget includes a provision for interest payable in respect of claims made against the Council by property search companies for refunds of local land charges search fees as a result of the implementation of the 2003 EC directive on freedom of information and the 2004 environmental information regulations. It is also worth noting that a greater proportion of interest payments are made in the latter part of the financial year due to temporary borrowing being required as income from Council Tax reduces during February and March.
- 5.8** In view of the uncertainty in the financial markets, the Council has continued to invest any surplus balances with the Council's Bank, NatWest on call deposit facility, Money Market Funds (MMF) with Prime Rate Capital Management, Deutsche Global Liquidity Managed Sterling Fund Bank Group, Ignis Sterling Liquidity Fund and Black Rock ICS Sterling Fund and the Bank of Scotland (Overnight and 32 day notice facilities). Three new MMF's have been utilised during the 6 month period including LGIM and Insight Sterling Liquidity Funds and Goldman Sachs Sterling Reserve Fund. On occasions, due to the short term nature of the MMF deposits, the rates offered have not always been sufficient to make the investment worthwhile and therefore funds have remained in the Council's accounts as a surplus balance. There have been 16 instances where this has occurred during the first six months of 2014/15. There have also been two instances where the £3m investment limit has been breached by £558.99 (LGIM) and £2,591.10 (Bank of Scotland) but both of these were the result of accrued interest being reinvested despite the

two organisations being instructed not to do so. These have now been resolved and interest is correctly being paid into our Nat West account. The equated investments for the first half of 2014/15 were as follows:-

	Equated Investment Principal	Interest Due	Rate of Return	Benchmark Return
	£	£		
NatWest Call Account	1,488,928	7,445	0.50%	0.35%
Money Market Funds	4,762,011	18,755	0.39%	0.35%
Bank of Scotland (Overnight)	189,056	756	0.40%	0.35%
Bank of Scotland (32 Day Notice)	460,274	2,623	0.57%	0.35%
Bank of Scotland (Fixed)	743,836	4,752	0.64%	0.35%
<b>Total</b>	<b>7,644,105</b>	<b>34,331</b>	<b>0.45%</b>	<b>0.35%</b>

**5.9** The table above reflects that investments earned an average return of 0.45% against a benchmark LIBID (London Interbank Bid Rate) 7-day average of 0.35%. The Bank of England base rate has remained at 0.5%.

**5.10** Interest receivable on investments for the first half of the financial year is £24,117 (or £24,154 including miscellaneous items) compared to an annual budget of £35,000. The rate of interest received is expected to reduce through the second part of the year as funds available for investment diminish as a result of increased capital expenditure and reduced levels of Council Tax income in the last quarter of the year

**5.11** Within the Council's current Annual Investment Strategy, the Investment Policy criteria are based on Sector's creditworthiness service. The Council, to date, has adopted a very cautious approach and regularly monitors organisations with which investments are held to ensure they meet the Investment Policy criteria.

<b>FINANCIAL AND LEGAL IMPLICATIONS</b>	
Finance	Considered in detail in the report above.
Legal	The approval of the recommendation will ensure that the statutory requirements and the CIPFA Code of Practice for Treasury Management have been complied with.

## **OTHER RISKS/IMPLICATIONS: CHECKLIST**

There are significant implications arising from this report on the issues marked with a ✓ below. The report author has consulted with the appropriate specialist officers on those implications, which are addressed in the body of the report and are taken account of in the recommendations made. There are no significant implications arising directly from this report, for those issues marked with an x.

<b>Implications</b>	<b>✓ / x</b>
Community Safety	x
Equality and Diversity	x
Sustainability	x
Health and Safety	x

<b>Risks/Implications</b>	<b>✓ / x</b>
Asset Management	x
Climate Change	x
Data Protection	x

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## **LIST OF APPENDICES**

None

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