

<b>Title of Report:</b>	<b>Treasury Management Annual Report 2013/14</b>
<b>Report to be considered by:</b>	Executive
<b>Date of Meeting:</b>	9 October 2014
<b>Forward Plan Ref:</b>	EX2875

**Purpose of Report:** To inform Members of the treasury management activity and performance of the Council's investments for the financial year 2013/14.

**Recommended Action:** To note the previous year's treasury management activities and performance of the fund.

**Reason for decision to be taken:** To ensure compliance with the updated CIPFA Code of Practice for Treasury Management in the Public Services 2009 and in accordance with Best Practice.

**Other options considered:** N/A

**Key background documentation:** Treasury Management in the Public Services: Code of Practice 2009  
Annual Investment Strategy 2013/14  
Annual Investment Strategy 2014/15

The proposals will help achieve the following Council Strategy principles:

☒ **CSP6 - Living within our means** ☒ **CSP8 - Doing what's important well**

The proposals contained in this report will help to achieve the above Council Strategy principles by:

Detailing the activity of the Treasury management function and the contribution it makes to the Council's annual budget at minimum risk to the security of the monies invested.

#### Portfolio Member Details

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<b>Date Portfolio Member agreed report:</b>	20/8/14

#### Contact Officer Details

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## Implications

<b>Policy:</b>	The Council's cash flow, borrowing and investments are carried out in accordance with the Annual Investment Strategy agreed by Council on 4th March 2014
<b>Financial:</b>	The Treasury function is responsible for the daily cash flow management of the Council. Investment income generated from the Treasury Management contributes to the Council's annual budget.
<b>Personnel:</b>	None
<b>Legal/Procurement:</b>	None
<b>Property:</b>	None
<b>Risk Management:</b>	All investments are undertaken with a view to minimising risk and exposure to loss. The Treasury Management Strategy approved by the Council in March 2014 sets parameters to ensure this.

Is this item relevant to equality?	Please tick relevant boxes	Yes	No
Does the policy affect service users, employees or the wider community and:			
• Is it likely to affect people with particular protected characteristics differently?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
• Is it a major policy, significantly affecting how functions are delivered?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
• Will the policy have a significant impact on how other organisations operate in terms of equality?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
• Does the policy relate to functions that engagement has identified as being important to people with particular protected characteristics?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
• Does the policy relate to an area with known inequalities?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
<b>Outcome</b> (Where one or more 'Yes' boxes are ticked, the item is relevant to equality)			
Relevant to equality - Complete an EIA available at <a href="http://www.westberks.gov.uk/eia">www.westberks.gov.uk/eia</a>		<input type="checkbox"/>	
Not relevant to equality		<input checked="" type="checkbox"/>	

Is this item subject to call-in?	Yes: <input type="checkbox"/>	No: <input checked="" type="checkbox"/>
If not subject to call-in please put a cross in the appropriate box:		
The item is due to be referred to Council for final approval		<input type="checkbox"/>
Delays in implementation could have serious financial implications for the Council		<input type="checkbox"/>
Delays in implementation could compromise the Council's position		<input type="checkbox"/>
Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months		<input type="checkbox"/>
Item is Urgent Key Decision		<input type="checkbox"/>
Report is to note only		<input checked="" type="checkbox"/>

# Executive Summary

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## 1. Introduction

- 1.1 The CIPFA Code of Practice for Treasury Management in the Public Services, revised in 2009, requires the Section 151 Officer to provide an annual report to the Executive after the year end which reviews the Treasury Management activity and performance for the previous year.

## 2. Proposals

- 2.1 This report reviews the following for the financial year 01 April 2013 to 31 March 2014:

- (1) Economic conditions
- (2) Overview of cash flow and treasury management strategy
- (3) Short term investments and borrowing during the year
- (4) Overall performance of the fund
- (5) Long term borrowing

## 3. Equalities Impact Assessment Outcomes

- 3.1 This item is not relevant to equality.

## 4. Conclusion

- 4.1 The net return on the Council's investments for 2013/14 (i.e. the amount of interest earned less the cost of short term borrowing) was £97,000 which represents a rate of return of 0.71% on the average sum invested. This compares with the Bank of England base rate, which remained at 0.50% throughout the financial year. In addition, a further £317,000 investment income was achieved by early payment of pension contributions into the Berkshire Pension fund, in exchange for a discount of 3.25% on the contributions required to be paid. Total net investment income for the year was therefore £414,000.
- 4.2 During 2013/14 new PWLB long term borrowing of £16.4 million was taken out to fund capital expenditure for 2013/14 and £2.6 million repayments were made on long term loans, leaving a total long term PWLB loans balance of £101.4 million at the end of March 2014.
- 4.3 The Treasury Management Group of members and officers continue to monitor and review investment and borrowing activity throughout the year, with a view to maximising return on the Council's investments while minimising risk and ensuring continuing liquidity.

# Executive Report

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## 1. Introduction

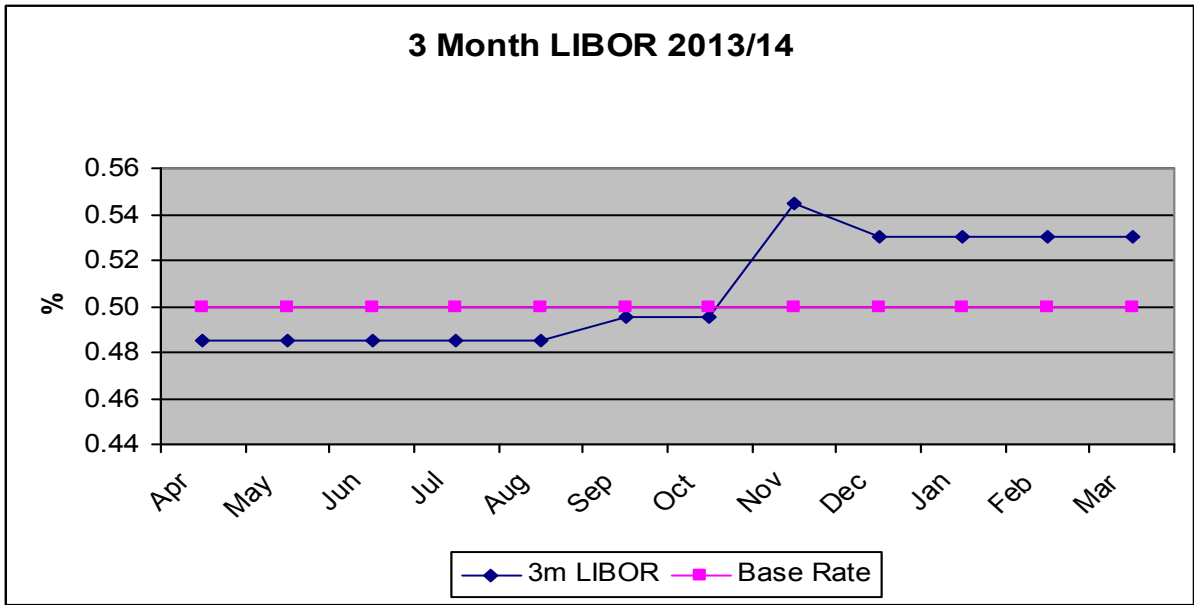
- 1.1 The CIPFA Code of Practice for Treasury Management in the Public Services, revised in April 2009, requires the Section 151 Officer to provide annual reports to the Executive before the start of the financial year and after the year end. Before the start of the financial year, the strategy and plan to be pursued in the forthcoming year is reported. After the close of the financial year, an annual report reviewing the Treasury Management activity and performance for the previous year is provided.
- 1.2 The aim of the latest investment strategy, which was approved by the Council in March 2014, is to manage the Council's cash flow to ensure sufficient funds are available on a day to day basis for the Council's operations. Any surplus funds are invested to generate the most beneficial interest receipts, while minimising the exposure of investments to risk.
- 1.3 The Treasury Management Group meets regularly to review performance and determine the detail of policy. This group consists of the Head of Finance, the Chief Accountant, the Finance Manager for Capital, Assets, VAT and Treasury, the Treasury Accountant, the Portfolio Member for Finance and two other members.

## 2. Economic conditions

- 2.1 The Bank of England base rate held again throughout the year at 0.50% being the fifth consecutive year at this low rate. Economic activity and growth having been flat in the previous year showed improvement with Q4 2014 GDP year-on-year growth of 2.7%. Much of the improvement was down to the dominant service sector, and an increase in household consumption and a more active housing market buoying consumer confidence. Consequently, there was no additional quantitative easing during the 2013/14. The Funding for Lending Scheme (FLS) was to continue into 2013/14 although funding to lend for mortgages was terminated in November 2013 because of concerns over rising house prices. FLS continues into 2014 supporting businesses - in particular to small and medium enterprises.
- 2.2 Interest rates offered by banks and building societies continue to be low for Local Authorities, with some counterparties not coming to the market at all. Newbury Building Society, with whom the Council has dealt directly in the past, is not currently in the market for the large deposits. More recently some banks are also closed to funding. This limits our counterparty list from the wide range of previous years.
- 2.3 Despite these pressures, there was a slight improvement in the interest rates earned by the Council over the course of 2013/14. At the beginning of the year the investment rates for 3, 6 and 12 month deposits were around 0.45%, 0.55% and 0.85%. By the end of the year there had been a slight improvement to 0.48%, 0.72% and 1.10% respectively. There has been a further increase in available rates since April 2014 following a treasury announcement that the base rate may go up in the near future.
- 2.4 The improvement in rates available to the Council also reflects the three month sterling London Inter-Bank Offer Rate or LIBOR (this is the rate at which the banks are prepared to lend to each other). LIBOR has remained fairly flat throughout the

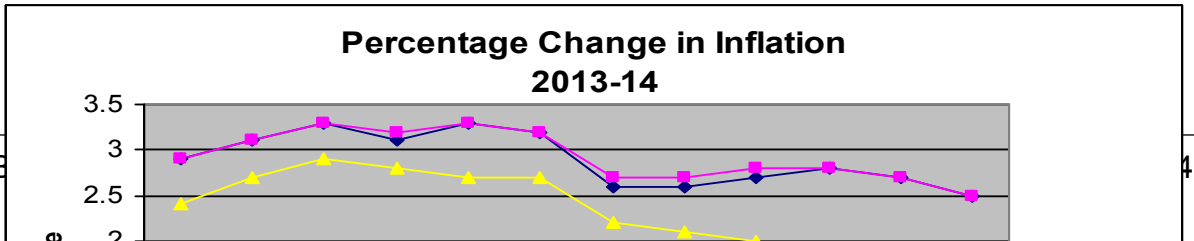
year at 0.48% with a slight improvement to 0.53% for the latter part of year. The perception of an improving economy and possible base rate changes has driven the LIBOR rates up. See Chart 1 below:

Chart1



2.5 The government’s main measure of inflation, which the Bank of England Monetary Policy Committee (MPC) uses to inform its interest rate decisions, is the Consumer Price Index (CPI). Annual CPI has remained below 3% and fell even further to 1.9% in January and to 1.6% in March, which is below the Bank of England’s 2% CPI target. This reflects the strengthened economy in the latter part of the year as well as a drop in oil prices and a fall in commodity prices pushing inflation down. – See Chart 2 below:

Chart 2



- 2.6 The latest Bank of England inflation report (May 2014) states that the recent strong performance of the UK economy has continued. Output has grown robustly, unemployment has fallen further and inflation is close to the 2% target. A gradual strengthening in productivity and real incomes, together with growing confidence of companies to invest, should underpin the durability of the expansion. The economy remains on course to meet the MPC's intention of absorbing spare capacity over the next few years, while keeping inflation close to the target. The MPC continues to judge that there remains scope to make greater inroads into slack before raising Bank Rate. As set out in its February guidance, when the Committee does start to raise Bank Rate, it expects to do so only gradually and to a level materially below its pre-crisis average.

### **3. Overview of Cash Flow and Treasury Management Strategy**

- 3.1 Guidance on Local Government Investments in England gives priority to security and liquidity. The Council's Treasury Management Strategy therefore aims to maximise the return on its investments without compromising these principles. The Council manages all its investments and borrowing in house.
- 3.2 The amount of cash held by the Council fluctuates throughout the year and within each month, depending on the dates on which major government grants are received and when large payments are made - in particular, weekly creditors payments and monthly salaries. In general terms, funds are high on the first working day of the month when a large proportion of Council tax and government grant is received and low on the last working day of the month when the majority of staff salaries are paid. The Council's overall funds are lower at the end of the financial year, because most Council Tax is paid over ten months from April to January.

- 3.3 It should be borne in mind that the amount of cash held by the Council does not equate to the total usable reserves shown on the Council's balance. This is because we have chosen to minimise the amount borrowed to fund capital expenditure, by offsetting our borrowing needs against our reserves. This is in order to minimise the revenue cost of borrowing and to avoid the risks associated with investing large balances.

#### **4. Short Term Investments and Borrowing in 2013/14**

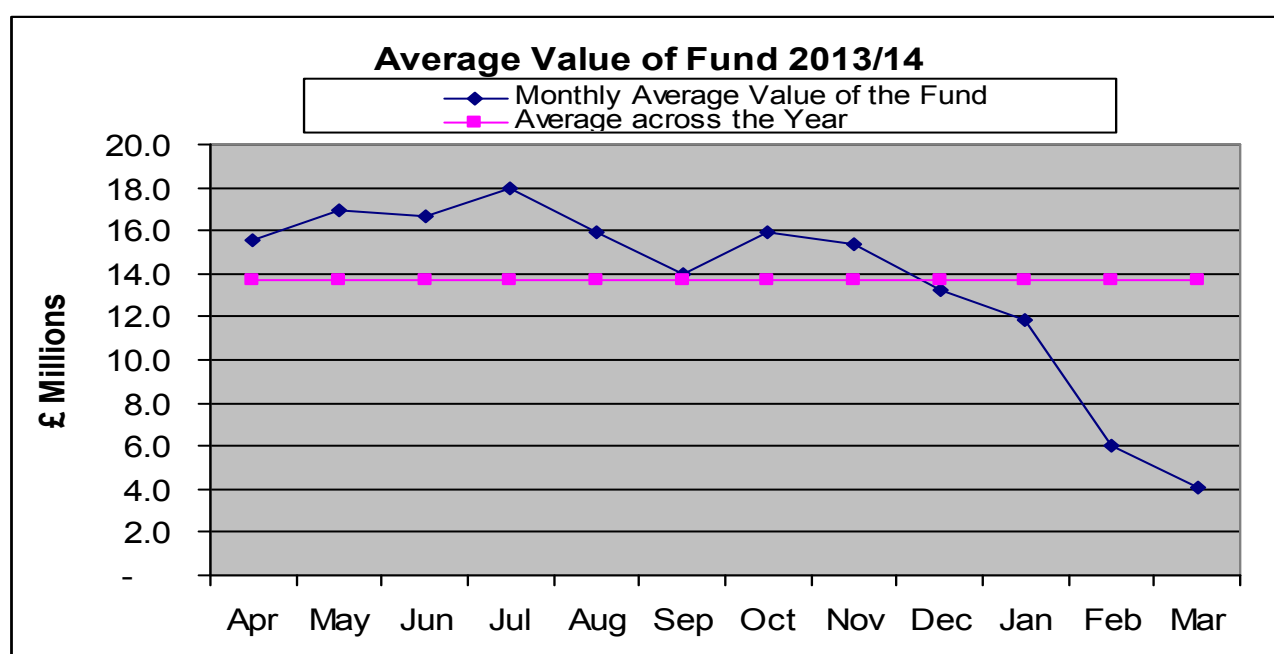
- 4.1 In order to ensure that the Council's day to day cash flow requirements can be met, a sum of between approximately £1 million and £10 million is held in instant access accounts. These funds are held mainly in a deposit account with Halifax Bank of Scotland (HBOS) which now pays 0.40% interest and the NatWest Special Interest Bearing Account (SIBA) which pays at a rate of 0.25% for the first £500,000 and 0.40% above £500,000. The Council also has a Royal Bank of Scotland Money Market Fund (from 14/04/14 now run by Goldman Sachs). However only the minimum sum required was kept in this fund in 2013/14 as the interest rate averaged only 0.33%. The Council also has the facility to invest in a deposit account with Santander (UK).
- 4.2 In accordance with the Council's Treasury Management Strategy, the deposit accounts are held with banks rated A by the Fitch Credit Ratings Agency, while the money market fund is rated AAA by Fitch (these ratings indicate a very low risk of default on investments). The maximum held in each account at any one time was £5 million.
- 4.3 At various points in the year the Council had surplus funds which it placed in fixed term, fixed rate investments until they were needed to cover outgoings. The longer the term of the investment, the higher the rate of interest earned. During the year, 26 fixed term investments were made for periods of between 3 days and 364 days. All these investments were placed with the top 20 British Building Societies. The maximum invested with any one institution was £5 million, with lower limits on the amounts invested with the smaller building societies. The average length of investment was 83 days and the average rate of interest earned was 0.49%.
- 4.4 The majority of the Council's investments are arranged through one of five firms of financial brokers, which have ready access to the most competitive interest rates on the market each day. The Council also has an arrangement directly with Newbury Building Society which sometimes enables us to invest sums of up to £4 million, for periods of up to 12 months, at more favourable rates than are normally obtainable via the Council's brokers. However since the maturity of an investment in February 2013, the Newbury Building Society has not been able to accept any further deposits from the Council because of the effects of the Funding for Lending Scheme on the structure of their balance sheet.
- 4.5 It was also necessary from time to time for the Council to take out short term loans to cover its cash flow requirements. 26 short term loans were taken out during the financial year, all from other local authorities, for periods of between 1 day and 278 days, at rates of interest between 0.27% and 0.60%. (16 of these loans were for 15 days or less and 20 of them were at rates of 0.4% or below) The average length of loan was 27 days and the average interest rate paid was 0.37%. In addition, a £6 million loan was taken with Derbyshire County Council at a rate of 0.55% for 364 days. This loan was not for the purpose of cash flow management but rather to

finance capital expenditure on a temporary basis. This loan is expected to be refinanced through longer term borrowing from the Public Works and Loans Board (PWLB) in 2014/15.

## 5. Overall Performance of the Treasury Fund

- 5.1 The average value of the fund during the year (i.e. the total of temporary investments less temporary borrowing) was £13.7 million (see Chart 3). The net value of the fund at 31st March 2014 was -£1.6 million on the 31st March 2014 because of the need to borrow to cover payroll on the last day of the year.
- 5.2 The net amount of interest earned from the Council's investment and short term borrowing activities in 2013/14 was £97,000 compared with £154,000 in 2012/13. This represents a net rate of return of 0.71% as compared with the average bank base rate for the year of 0.50%.
- 5.3 In addition, the Royal Borough of Windsor and Maidenhead, who manage the Berkshire pension fund, offered West Berkshire a discount of 3.25% on its total pension contributions due for the year in exchange for paying the contributions in advance in April 2013 instead of in monthly instalments. In this way, the Council achieved a saving of approximately £317,000, by, in effect, making a temporary investment of approximately £9.7 million with the Berkshire Pension Fund at a rate of return of 3.25%. This was achieved because the Pension Fund is much bigger than the West Berkshire treasury fund and is able to invest over longer periods and therefore to earn a higher rate of return. Taking into account this saving, therefore, the total net investment income earned was £414,000.

Chart 3



- 5.4 Table 2 (below) shows compliance with the Council's Treasury Management Practices relating to the operation of the fund and the cash flow during the year:

Table 2



Compliance	Target	Actual	Explanation
Credit limit with counterparties not exceeded	100%	93.7%	Late clearing of receipts into the Council's main bank account meant that on 16 out of 254 working days the £5 million counterparty limit with Natwest was exceeded. On all occasions, this was corrected the next working day.  In order to minimise the chances of this occurring in the future, the treasury team now applies an operational limit of £4.8 million for Natwest deposits, to allow a margin for unexpected receipts.
All counterparties on approved lending list	100%	100%	
All investments are approved investments	100%	100%	
Segregation of duties complied with	100%	100%	
Current account daily balance within +/- £100k of estimate	100%	99.2%	Natwest SIBA automatically ensures a credit £10K balance unless we overdraw. The normal maximum overdraft of £100,000 was exceeded on 2 occasions when the Treasury team were not informed in time of large urgent payments to be made.
Target for short term debt of £15m not exceeded	100%	107%	On 5 working days the level of short term debt reached a maximum of £16 million

## 6. Long Term Borrowing in 2013/14

- 6.1 With the exception of debt embedded in the PFI contract, all the Council's long term debt is with the Public Works and Loans Board (PWLb). The level of long term borrowing in 2013/14 was within the prudential borrowing limits set out in the Annual Investment Strategy and is in line with the Capital Strategy. Both of these strategy documents were approved by the Council in March 2013. Borrowing needs are also regularly reviewed by the Treasury Management Group.
- 6.2 At 1 April 2013 the Council had long term PWLB loans of £87.6 million (including £20.6 million remaining from the loans inherited from the former Berkshire County Council). During 2013/14 new PWLB loans of £16.4 million were taken out. See table 1 below:

Table 1

New PWLB Loans 2013/14	Amount	Type	Rate
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To fund a capital contribution to the PFI contract, which will be offset by revenue savings.	8,000,000.00	Annuity	3.55%
Capital spend in 2013/14 on assets with 10 year life (including highways maintenance)	3,000,000.00	Annuity	2.64%
Capital spend in 2013/4 on assets with 25 year life (including highways improvements and building maintenance)	2,650,000.00	Annuity	3.93%
Capital spend in 2013/14 assets with 40 year life (mainly new buildings, including schools)	2,750,000.00	Annuity	4.24%

- 6.3 £2.6 million loan repayments were made in 2013/14, leaving the balance of long term debt with the PWLB at 31st March 2014 at £101.4 million.
- 6.4 Over the next five years, the level of the Council's long term debt is expected to increase to a maximum level of approximately £128 million in accordance with the capital strategy and MTFS approved by Council in March 2014.
- 6.5 As explained in paragraph 3.3 (above), the Council has avoided borrowing more than is necessary in the past, by offsetting some capital expenditure against its useable reserves. This means that, if the Council wishes to spend any significant amount from its reserves, it is likely to be necessary to undertake more borrowing to refinance previous years' capital expenditure, so increasing the revenue cost of financing capital spend. However the forecast future borrowing referred to above includes an estimate of the amount expected to be borrowed to refinance previous year's capital expenditure.
- 6.6 The Council also aims to minimise borrowing by making use of capital receipts wherever possible to fund capital investment.
- 6.7 The Treasury Management Group continue to review the Council's borrowing strategy during 2014/15, with a view to securing the long-term loans required to fund the Council's Capital Strategy and Programme at favourable rates.

## Appendices

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There are no appendices to this report.

## Consultees

**Local Stakeholders:** Treasury Management Group

**Officers Consulted:** Corporate Board

**Trade Union:** none