

Overview and Scrutiny Committee

7 July 2015



Title	Treasury Management Annual Report 2014-15		
Purpose of the report	To note		
Report Author	Ryan Maslen		
Cabinet Member	Councillor Tim Evans	Confidential	No
Corporate Priority	Creating opportunity and prosperity for our borough		
Cabinet Values	Self-Reliance and Accountability		
Recommendations	The Committee is asked to note the contents of this report		

1. Key issues

Background

- 1.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).
- 1.2 The Council's Treasury Management Strategy for 2014/15 was fully approved by Cabinet in January 2014.
- 1.3 The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

Compliance with Treasury Limits

- 1.4 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 Strategy Statement. The outturn Prudential Indicators for 2014/15 are shown in Appendix A.

Strategy for the Year 2014/15

- 1.5 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.
- 1.6 The Bank of England base rate remains at 0.5% and with an increase not expected by most forecasters until quarter two of 2016, the Council continues to regularly review its treasury strategy to support the revenue budget process.

- 1.7 Investments are managed in house and the Council has continued to place part of its core investment portfolio in pooled investment funds to achieve higher returns. A further investment of £1m was made in such arrangements in April 2014 taking the total investments to £8.5m, over a range of equity, property and corporate bond funds. These continue to perform exceptionally well compared to the current returns available for cash and fixed term deposits, generating an average return of 5%.
- 1.8 This performance fully supports the decision taken a number of years ago to widen the investment strategy, in conjunction with our treasury management advisors Arlingclose. In addition to the annual return generated, there are also significant capital gains of £1.31m on the initial investments made, and a breakdown of these is shown in paragraph 2.11 below.
- 1.9 Although the risk to capital is higher with these types of investments, the intention is that these will be held for the longer term, around 5 to 7 years. Having a good mix of different asset classes also helps to mitigate the risk to capital.
- 1.10 The Council's remaining funds are managed from an overall cash flow perspective, although maturities are extended wherever possible to improve returns. A number of fixed term deposits have been made throughout the year, along with deposits in instant access accounts and money market funds. Two new investment options have been developed in 2014/15 with the aim of increasing the return received and achieving greater diversification. Short term loans to other Local Authorities were issued at certain points in the year and usage of the ICD Investment Portal was introduced, which provides access to a greater range of money market funds. This has meant that all Council investments now return a minimum of 0.40%.

2. Options analysis and proposal

Performance in 2014/15

- 2.1 Borrowing activity is extremely limited at the present time for the Council. Any such requirement would be to meet a short term cash flow need, and the prudent management of funds throughout 2014/15 meant this was not necessary. An element of flexibility to potential borrowing will be imperative going forward to support the Council in its period of service review as part of the Towards a Sustainable Future agenda.
- 2.2 The Council manages its investments in-house and invests with the most highly rated counterparties. During the year all investments were made in full compliance with the Council's treasury management policies and practices and in consultation with Arlingclose.

- 2.3 As at 31st March 2015 the net investment portfolio was £18.2m which is set out below. Full details of all investments held as at 31st March 2015 are also shown in Appendix B.

Investment Type	Amount	Average Rate
Pooled Investment Funds	8,500,000	5.00%
Fixed Term Deposits	2,000,000	0.45%
Variable Rate Bonds	1,000,000	
Cash Flow Investments	6,700,000	
Total Investment Portfolio at 31/3/15	18,200,000	2.21%

- 2.4 The net overall return on investments was 2.21% for 2014/15, an improvement on the 2.06% achieved in 2013/14 and the 1.62% in 2012/13. Against the background of continuing low interest rates this ongoing positive trend in the level of return secured supports the strategy adopted by the Council.
- 2.5 The Council had originally estimated net investment income of £335k to be credited to the General Fund in 2014/15. This was a prudent estimate to reflect the nature of the Pooled Investment Funds held and was based on an estimated average return of 3.5%. To achieve a return of 5% highlights how well the Funds have performed in year and exceeded expectations.
- 2.6 The average return on cash flow and other short term fund investments was 0.45%, compared to 0.37% in 2013/14. The effect of taking longer maturities wherever possible has benefitted the overall return, as has the use of the new arrangements highlighted above. The Council will continue to look to identify investment opportunities which will maximise return, but until interest rates improve this may continue to prove challenging.
- 2.7 The actual interest outturn for the year was £534,804 made up as follows:

	Actual £	Budget £
Investment Income		
Temporary Investments & Cash Deposits	110,105	50,000
Pooled Equity & Bond Funds	424,699	285,000
Total Investment Income	534,804	335,000

Investment Performance Monitoring

- 2.8 Regular quarterly meetings of officers and the Portfolio holder are held with Arlingclose and in-house performance is monitored monthly. The Council is heavily dependent on investment returns to support the General Fund and the stability of those returns is an important part of our ongoing financial objectives.
- 2.9 Creditworthiness is also monitored regularly. The Council uses Arlingclose's suggested criteria to assist in the selection of suitable investment counter-

parties. This is based on credit ratings, including sovereign ratings, provided by the three main ratings agencies and supplemented by additional market data including rating outlooks, credit default swaps, bank equity prices etc. to assist the Council in making more informed decisions about which counter-parties to invest with. However, the final selection decision always rests with the Council.

Conclusions for 2014/15 and Prospects for 2015/16

- 2.10 Market interest rates remain at historically low levels and Arlingclose believe these are unlikely to increase until quarter 2 of 2016. The return on investments achieved in 2014/15 has therefore been very good considering the external economic conditions the Council has to operate within. The major contributing factor to this has been the Pooled Investment Funds.
- 2.11 As at 31st March 2015 the Council had £8.5m invested in these longer term arrangements to achieve a greater return. In addition to this, as at 31st March 2015 there was a capital gain of £1.31m on these funds and this is detailed in the table below:

Pooled Fund Asset Class	Original Investment	Market Value at 31/3/15
Equity Funds	£3.0m	£3.58m
Corporate Bond Funds	£3.0m	£3.36m
Property Funds	£2.5m	£2.87m
Total Investment	£8.5m	£9.81m

- 2.12 Capital gains can vary on a daily basis and cannot be realised unless the investments are sold. Past performance is also no guide to the future but no treasury management activity is without risk so a balanced portfolio containing a good mix of asset classes can help to mitigate and manage risk effectively.
- 2.13 The Council's portfolio will continue to be kept under constant review in consultation with our treasury advisors to optimise investment performance whilst keeping risk to a minimum. The Council is proactive in its treasury management strategy so that it can act quickly when market conditions change.
- 2.14 In April 2015, the Council transferred one of the Pooled Investment Funds from the M&G Strategic Corporate Bond Fund to the M&G Optimal Income Fund. This decision was taken following discussions with Arlingclose, with the aim of improving the return to the Council and providing greater flexibility and ability to manage risk.
- 2.15 In May 2015 the Council made an investment of £2m for six months with Standard Chartered. This reflected the strategy of investing short term cash flows for longer period wherever possible to maximise return.
- 2.16 The council are also in discussion with Arlingclose looking into increase the overall investments made into Pooled Investment Funds. As the content of this report illustrates, it is this area that is currently proving most lucrative for the Council and further investments in this area should be explored, although

a balanced portfolio also needs to be maintained to protect the Councils interests.

3. Financial implications

- 3.1 This report is a review of past investment performance and the financial implications are as set out in this report. The ability of the Council to generate maximum net investment returns with minimal risk provides significant resources for funding the Council's services.

4. Other considerations

- 4.1 There are none.

5. Timetable for implementation

- 5.1 Treasury management is an ongoing activity and normally there is no specific timetable for implementation.

Background papers: None

Appendices: A & B.

**PRUDENTIAL INDICATORS
ACTUALS 2014/15**

Capital Expenditure Prudential Indicators	2013/14 Actual Outturn	2014/15 Original Estimate	2014/15 Actual Outturn
Prudential Indicator	£'000	£'000	£'000
Capital Expenditure	1,319	1,122	1,905
Ratio Financing Costs to Net Revenue Stream	(4.11)	(2.55)	(4.14)
Net Longer-term Borrowing	£0	£0	£0
In year Capital Financing Requirement	£0	£0	£0
Capital Financing Requirement as at 31 st March	£0	£0	£0
Affordable Borrowing Limit	£12,000	£12,000	£12,000

Treasury Management Prudential Indicators	2013/14 Actual	2014/15 Original Estimate	2014/15 Actual Outturn
Prudential Indicator	£'000	£'000	£'000
Authorised Limit for external debt	12,000	12,000	12,000
Operational Boundary for external debt	10,000	10,000	10,000
Gross Debt to Capital Finance Requirement	£0	£0	£0
Upper limit for fixed rate exposure	100%	100%	100%
Upper limit on variable rate exposure	100%	100%	100%
Upper limit principal invested for over 364 days	15,000	15,000	15,000

Maturity structure of fixed rate borrowing	Upper limit	Lower limit
Under 12 months	£12,000,000	£Nil
12 months but within 24 months	£Nil	£Nil
24 months but within 5 years	£Nil	£Nil
5 years but within 10 years	£Nil	£Nil
10 years and above	£Nil	£Nil

Actual External Debt as at 31.3.15	£26,728 (all short term borrowings)
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Details of Investments Held as at 31st March 2015

Investment Type	Amount £m	Interest Rate %	Start Date	Maturity Date
<u>Pooled Investment Funds</u>				
Charteris Elite Equity Income	1.0	3.27%	11 May 2012	N/A
Schroeders UK Corporate Bond	1.5	5.86%	11 May 2012	N/A
M&G Strategic Corporate Bond	1.5	3.70%	30 May 2012	N/A
M&G Global Dividend	1.0	4.12%	27 Jun 2012	N/A
Schroders Income Maximiser	1.0	6.96%	06 Jul 2012	N/A
CCLA LAMIT Property Fund	1.5	5.92%	31 Mar 2013	N/A
CCLA LAMIT Property Fund	1.0	4.91%	30 April 2014	N/A
Total Pooled Investment Funds	8.5	5.00%		
<u>Fixed Rate Deposits (short term)</u>				
Lloyds	1.0	0.95%	19 Jun 2014	18 Jun 2015
Nationwide Building Society	1.0	0.97%	15 Jul 2014	12 Feb 2015
<u>Variable Rate Bond</u>				
Yorkshire Building Society	1.0	0.92%	09 Apr 2014	23 Mar 2016
Total Other Deposits	3.0			
<u>Cash Flow Investments</u>				
Handelsbanken Call Account	0.5	0.35%		Instant Access
Insight	1.6	0.42%		Instant Access
Ignis	1.6	0.47%		Instant Access
BNP	1.5	0.47%		Instant Access
Federated	1.5	0.40%		Instant Access
Total Cash Flow Investments	6.7			
Total Investments at 31.03.15	18.2			