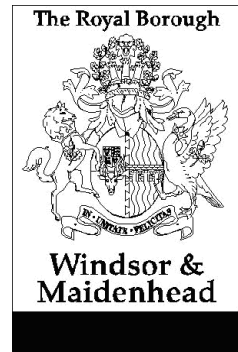


Report for: INFORMATION
Item Number: 5



Contains Confidential or Exempt Information	No – Part I
Title	Treasury Management – Annual Report
Responsible Officer(s)	Andrew Brooker, Head of Finance, 01628 796341
Contact officer, job title and phone number	Richard Bunn, Chief Accountant, 01628 796510
Member reporting	Councillor Dudley
For Consideration By	Cabinet
Date to be Considered	29 October 2015
Implementation Date if Not Called In	12 November 2015
Affected Wards	“All”
Keywords/Index	Treasury Management
Report Summary	
<ol style="list-style-type: none"> 1. This report deals with the Royal Borough’s treasury management policy arrangements, as required in the Authority’s Treasury Management Policy Statement. 2. The report fulfils the requirement for an annual report to be made to the Council. It must cover such areas as the Authority’s stewardship of its loans portfolio, investment decisions made, the performance achieved during the previous financial year and the broad investment principles and strategy which will be implemented in the future. 3. Over the last twelve months the Council treasury management approach has safely delivered investment decisions above the chosen benchmark (Bank of England base rate plus 0.25%)* and exceeded targets set in the 2014/15 Budget. 4. The Council continues to utilise cash backed reserves to finance, in the short term, its capital spend. This approach has saved the Council approximately £970k in financing costs since 2008/9. The level of capital investment over the next few years will determine how long this approach, which has the twin objectives of reducing credit risk and financing costs, can be maintained. 	

*See paragraph 4.2 for an explanation of this rate.

If recommendations are adopted, how will residents benefit?	
Benefits to residents and reasons why they will benefit	Dates by which they can expect to notice a difference
1. Assurance that the Council is making effective use of its resources.	On publication of the report.
2. Assurance that the Council is managing loans, investments and cash balances effectively.	On publication of the report.

1. Details of Recommendations

RECOMMENDED:

- i) That the contents of the Treasury Management report are noted.

2. Reason for Decision and Options Considered

Option	Comments
No options considered.	As this report is for information only, decisions are not necessary and options have not therefore been considered.

3. Key Implications

Defined Outcomes	Unmet	Met	Exceeded	Significantly Exceeded	Date they should be delivered
A return that exceeds benchmark (Bank of England base rate plus 0.25%)*	<0%	>0%	>0.1%	>0.2%	31 March 2016

*See paragraph 4.2 for an explanation of this rate.

4. Financial Details

4.1. Review of 2014/15

In the UK, the Monetary Policy Committee (MPC) of the Bank of England (BoE) kept UK interest rates at the historically low level of 0.5% throughout the period.

During 2014/15 the UK economy continued to grow with four consecutive quarters of growth in GDP.

US interest remained unchanged at 0.25% (US Federal Fund Target rate) throughout 2014/15.

The European Central Bank dropped its key interest rate (ECB refi rate) from 0.25% at 31st March 2014 to 0.05% at the 31st March 2015.

4.2. Fund Management Performance 2014/15

Whilst amounts under management varied throughout the year, 2014/15 ended with the Authority having a total of funds under management of £42.2 million. All of these funds were internally managed and invested in either fixed rate loans, cash deposits or money market funds to counterparties included on the list of approved counterparties used by the Authority ("The Lending List").

Some of the main sources of the funds managed includes S106 funds (£18m), capital grants (£15m) and money held on behalf of other entities e.g. the LEP (£4m).

A copy of "The Lending List", as at 31st March 2014, is attached to this report as Appendix D.

Appendix A shows the spread of the Authority's £42.2 million investments as at 31st March 2015. Appendix B shows the performance of the Authority's funds against the industry standard benchmark - the Bank of England base rate plus 0.25% for 2014/15 (0.75%). Appendix B also shows the average balance of the internally managed funds each month.

Prior to 2014/15 we used the L.A. 7 day rate but this is no longer maintained so we now use base plus 0.25% as it has always closely followed the 7 day rate.

The authority made total investment interest returns of £0.564 million. The equated return for the Authority in 2014/2015 was 1.09%. This represented an out-performance of the benchmark for the year of +0.34 %.

As at 31st March 2015 the Authority's total external borrowing was £57.1 million, with an average interest rate of 4.97% for the Public Works Loan Board (PWLB) loans and 4.19% for the Lender Option

Borrower Option (LOBO) loans borrowed from Barclays and Dexia. Appendix C shows the Authority's PWLB/LOBO loan book as at 31st March 2015. During the course of the year a total of £2.73 million was repaid on existing loans to PWLB, Barclays and Dexia in the form of interest payments.

Comparing this level of external debt with the councils Capital Financing Requirement (the measure of the Councils underlying need to provide capital finance) indicates that at the 31st March 2014 the Council has provided short term finance for its capital spend from its cash backed reserves in line with its approved approach aimed at reducing both financing costs and credit risk. This approach is estimated to have saved the Council £280k in financing costs in 2014/15.

4.3. Current Strategy

The current internal investment strategy continues to be to invest money in order to meet known capital, payroll and precept commitments. A program of rolling 12 month loans is used which allows the council to lend money for 12 months (and therefore receive better returns on such loans) whilst still providing access to 50% of the funds involved in the program within 6 months. Day to day liquidity needs are met by balances held on accounts allowing daily trading. A proportion of the loans portfolio has been lent longer term (greater than 12 months). The return on the prepayment of Pension Fund contributions (£286k) is not included in the interest figures reported above but has enabled the budget targets for 2014/15 to be achieved.

5. Legal

In producing and reviewing this report the Council is meeting legal obligations to manage its funds.

6. Value for Money

Treasury management ensures that the Council's funds are invested for the highest economy, efficiency and effectiveness whilst being mindful of the risks associated with any investment.

7. Sustainability Impact Appraisal

The proposals in this report have no impact on sustainability objectives.

8. Risk Management

Risks	Uncontrolled	Controls	Controlled Risk
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	Risk		
Risks associated with treasury management are addressed in the Treasury Management Policy Statement			

9. Links to Strategic Objectives

Residents can be assured that the Council is providing value for money by delivering economic services.

10. Equalities, Human Rights and Community Cohesion

This is a monitoring report with no actions related to staff or service provision. An Equality Impact Assessment (EQIA) has not, therefore, been completed for the production of this report. An EQIA would be required should this report generate any changes to policy or service delivery.

11. Staffing/Workforce and Accommodation implications:

None.

12. Property and Assets implications:

None.

13. Any other implications:

None.

14. Consultation

Comments from Overview and Scrutiny Panels, if available, have been included below.

15. Timetable for Implementation

This section is not applicable.

16. Appendices

Appendix A – Summary of Funds Invested at 31st March 2015.

Appendix B - Investment Interest in 2014/15.

Appendix C - External Loans at 31st March 2015.

Appendix D - Approved Lending List at 31st March 2015.

17. Background Information

Background Papers: Budget Report to Council February 2015

18. Consultation (Mandatory)

Name of consultee	Post held and Department	Date sent	Date received	See comments in paragraph:
Internal				
Corporate Management Team (CMT)	Managing Director, Strategic Directors	29 Sept 2014		Changes included in final Cabinet report.
Cllr Dudley	Lead Member for Finance	29 Sept 2014		Changes included in final Cabinet report.
Cllr Burbage	Leader of the Council			Changes included in final Cabinet report.
External				
None				

19. Report History

Decision type:	Urgency item?
For information	No

Full name of report author	Job title	Full contact no:
Richard Bunn	Chief Accountant	01628 796510

Summary of Funds Invested at 31st March 2015

<u>Period of Loan</u>	<u>Gilts</u> <u>£000s</u>	<u>Building</u> <u>Societies</u> <u>£000s</u>	<u>Banks</u> <u>£000s</u>	<u>Local</u> <u>Authorities</u> <u>£000s</u>	<u>Money Market</u> <u>Funds</u> <u>£000s</u>	<u>Total</u> <u>£000s</u>
<u>RBWM</u>						
Call			6,214		5,000	11,214
Notice						0
Greater than 0 months to 3 Months		4,000	8,000			12,000
Greater than 3 Months to 6 Months		2,000	6,000			8,000
Greater than 6 Months to 9 Months		3,000				3,000
Greater than 9 Months to 12 Months						0
Greater than 12 Months			8,000			8,000
Total	0	9,000	28,214	0	5,000	42,214

Appendix B

Investment Interest 1/4/14 - 31/3/15

<u>Month</u>	Average balance £000
April 2014	52,906
May 2014	54,406
June 2014	52,714
July 2014	56,814
August 2014	56,018
September 2014	55,720
October 2014	54,360
November 2014	54,460
December 2014	53,364
January 2015	48,764
February 2015	41,364
March 2015	42,214
2014/15 Average Balance of internally managed funds	51,925
Interest Received 2014/15	564
Investment Return 2013/14	1.09%
BoE base rate plus 0.25% 2014/15 (Benchmark)	0.75%

Appendix C

External Loans at 31st March 2015

Fixed Term Borrowing			
	Duration/ Type	Repayment Date	Loan Value £000s
PWLB			
	25yrs/Maturity	25-Sep-21	785
	25yrs/ Maturity	8-Jun-29	7,500
	26yrs/Maturity	25-Sep-29	2,500
	25yrs/Maturity	8-Dec-30	5,000
	26.5yrs/Maturity	23-Sep-30	10,000
	30yrs/Maturity	25-Sep-33	5,000
	45yrs/Maturity	8-Dec-50	5,000
	45yrs/Maturity	8-Dec-50	5,000
	60yrs/Maturity	25-Mar-55	1,600
	60yrs/Maturity	25-Sep-55	1,000
	60yrs/Maturity	25-Mar-56	400
	60yrs/Maturity	25-Sep-56	265
Total Fixed Term Borrowing			44,050

ANALYSIS OF PWLB RESIDUAL MATURITY @ 31.3.15		
Maturing Within	Amount £000s	Average Rate %
1 Year	0	0.000
1 to 2 Years	0	0.000
2 to 5 Years	0	0.000
5 to 10 Years	785	8.000
10 to 15 Years	30,000	4.792
15 to 20 Years	0	0.000
20 to 25 Years	0	0.000
25 to 30 Years	0	0.000
30 to 35 Years	0	0.000
35 to 40 Years	10,000	4.200
40 to 45 Years	3,265	8.184
TOTAL	44,049	4.966

LOBO Loans at 31st March 2015

Fixed Term Borrowing			
	Duration/ Type	Repayment Date	Loan Value £000s
LOBO			
Barclays	60yrs/15yrs fixed, 6mth LOBO	19-Jul-66	5,000
Dexia	35yrs/5yrs fixed, 5yr LOBO	26-Jan-43	8,000
Total Fixed Term Borrowing			13,000

ANALYSIS OF LOBO RESIDUAL MATURITY @ 31.3.15		
Maturing Within	Amount £000s	Average Rate %
5 to 30 Years	8,000	4.190
30 to 55 Years	5,000	4.190
TOTAL	13,000	4.190

Royal Borough of Windsor & Maidenhead Approved Lending List @ 31st March 2015
(Approved by Cabinet on 27/03/14)

<u>Fitch Ratings</u>	FITCH Short Term Rating	FITCH Long Term Rating	FITCH Outlook	Max. Sum To Be Lent £m
<u>UK</u>				
<u>Government</u>				
Debt Management Office	F1+	AA+	Stable	no limit
<u>Banks</u>				
Abbey National Treasury	F1	A	Stable	15
Australia and New Zealand Bank	F1+	AA-	Stable	5
Barclays Bank	F1	A	Stable	15
Clydesdale Bank	F1	A	Stable	15
HSBC (inc HSBC Private Bank)	F1+	AA-	Stable	15
Lloyds Banking Group	F1	A	Negative	15
National Australia Bank	F1+	AA-	Stable	5
Royal Bank of Canada	F1+	AA	Stable	5
Royal Bank of Scotland	F1	A	Negative	15
Santander UK	F1	A	Stable	15
Standard Chartered	F1+	AA-	Negative	15
Ulster Bank	F1	A-	Negative	5
<u>Building Societies (max £3m per loan)</u>				
All Building Societies with total group assets greater than £6 billion and FITCH Long term rating of BBB or better				
Coventry	F1	A	Stable	5
Nationwide	F1	A	Stable	5
Yorkshire	F1	A-	Stable	5
Leeds	F1	A-	Stable	5
Principality	F2	BBB+	Stable	5
Skipton	F2	BBB	Positive	5
<u>Local Authorities</u>				
All UK Local Authorities, with the exception of those with reported financial irregularities.				10
<u>Money Market Funds</u>				
All money market funds with a Fitch AAA long term credit rating, including:				
Federated Short Term Sterling Prime Fund		AAA		10
IGNIS Sterling Liquidity Fund		AAA		10
Insight GBP Liquidity Fund		AAA		10
<u>Financial Services Companies</u>				
Kames Capital				1
Legal & General				1.5

SHORT TERM RATING

Expectation of timely repayment of financial commitments.

F1+ is most likely to repay on time, **F1** Highest Credit, **F2** Good, **F3** Fair, **B** Speculative, **C** High Default Risk

LONG TERM RATING

Expectation of credit risk. **AAA** is the least risky, ie little credit risk. **AA** Very High Credit, **A** High, **BBB** Good.

Below BBB indicates non-investment grade