SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Corporate Governance Committee	27 September 2013
AUTHOR/S:	Executive Director (Corporate Services)	

TREASURY MANAGEMENT ANNUAL REPORT

Purpose

1. To report on the performance of the treasury management function.

2. This is not a key decision but reporting to Corporate Governance Committee on performance is a requirement of the Borrowing and Investment Strategy.

Recommendations

3. It is recommended that the Corporate Governance Committee note the creditable performance of the treasury management function.

Reasons for Recommendations

4. The performance of the treasury management function should be reviewed to ensure reasonable returns are achieved commensurate with risk. This is achieved by being a member of a benchmarking group and the Council compares favourably with the members of that group.

Background

5. The Borrowing and Investment Strategy approved by Council on 23 February 2012 requires an annual report to be presented to Corporate Governance Committee after the end of the financial year.

Considerations

6. Investments at 31 March 2013 were:

31 March 2012 £	Investments analysed by counterparty	31 March 2013 £
5,336,464	Clearing Banks	17,000,000
2,500,000	Banks, other	0
	Building Societies with assets:	
7,000,000	greater than £10,000 million	6,000,000
1,000,000	between £1,500 million and £5,000 million	0
15,836,464	Sub-total	23,000,000
0	Money Market Funds	75,000
15,836,464	Total	23,075,000

31 March 2012 £	Investments analysed by maturity	31 March 2013 £
9,836,464	2012/13	0
4,000,000	2013/14	21,075,000
2,000,000	2014/15	2,000,000
15,836,464		23,075,000

7. The Council is a member of a benchmarking club on treasury management, which is organised by the Chartered Institute of Public Finance and Accountancy. The results of this benchmarking exercise for 2012/13 were issued in July and the results over the last five years are shown in **Appendix A**.

8. The results for 2012/13 show that South Cambridgeshire achieved a return of 2.03% on combined investments (less than and more than 365 days) compared to 1.24% for its comparator group and 1.11% for the overall group. South Cambridgeshire was second in the comparator group of 11 other organisations and fifth highest in the overall group of 69 other organisations.

9. The performance target is a greater return than average over a five-year rolling period. For 2012/13, a better than average return was achieved compared to the comparator group and to the overall group. Over the five-year period the target has been met.

10. In March 2012, following the introduction of the Housing Revenue Account Self Financing regime, the Council acquired debt of £205 million. The full sum was borrowed from the Public Works Loans Board at an average fixed rate of 3.5% as 41 individual loans with maturity dates between 2037 and 2057.

11. The Council's Borrowing and Investment Strategy states that the effective management and control of risk are the prime objectives of its treasury management activities. The specific risks in treasury management are:

    (a) **credit and counterparty risk**
    The risk of failure by a counterparty to meet its contractual obligations to pay interest and repay principal: the Council's range of counterparties is restricted to UK banks, financial institutions approved by the Council and large building societies (all of which must have a satisfactory credit rating) and to public sector bodies.

    (b) **liquidity risk**
    The risk that cash will not be available when it is needed: the Council has cash flow forecasts which are updated weekly, an overdraft facility with its bank and, as a last resort, can borrow on the open market or from the Public Works Loan Board.

    (c) **interest rate risk**
    The risk of loss through adverse movements in interest rates: the Council mainly invests in fixed interest rate deposits so it accepts the risk of an

opportunity cost that money is invested at fixed rates and market rates subsequently rise.

(d) **exchange rate risk**
The risk of loss through adverse movements in exchange rates: the Council's Investment strategy restricts all treasury management transactions to £ sterling.

(e) **refinancing risk**
The risk that maturing investments cannot be reinvested at favourable rates: the Council's investments for less than a year are made to match liabilities and for more than one year have a spread of maturity dates.

(f) **legal and regulatory risk**
The risk of loss due to the Council or its counterparties failing to act in accordance with their legal powers and regulatory requirements: the Council only deals in simple investments and only deals with well recognised and perceived to be reliable counterparties.

(g) **fraud, error and corruption**
The risk of loss through fraud, error and corruption; the Council has internal controls including segregation of duties, an internal audit function to evaluate those internal controls and fidelity guarantee insurance.

(h) **market risk**
The risk of adverse fluctuations in the value of investments: the Council only invests in non-negotiable investments which are held to maturity and realised at face value.

Prudential Indicators

12. The Prudential Code for Capital Finance in Local Authorities came into effect from 1 April 2004, the objective being to provide a framework for capital programmes to ensure that:

- Capital expenditure plans are affordable;
- All external borrowing and other long term liabilities are within prudent and sustainable levels; and
- Treasury management decisions are taken in accordance with professional good practice.

The indicators are primarily to show whether a local authority is entering into a long term commitment which it may not be able to afford in the future. The Council's main long term commitment is the £205 million debt resulting from the Government's Housing Revenue Account Self Financing Reforms and the affordability and sustainability of this debt are addressed in the Housing Revenue Account business plan.

13. A key prudential indicator is the capital financing requirement, which is capital expenditure which has not been fully financed from a local authority's own resources in the year but has been covered by raising external or internal debt, the position at 31 March 2013 is shown below:

	Revised Estimate 31/03/2013 £,000	Actual 31/03/2013 £,000	Estimate 31/03/2014 £,000
General Fund	3.474	3.703	3.697
Housing Revenue Account	205.123	205.123	205.123
Total	**208.597**	**208.826**	**208.820**

The General Fund capital financing requirement fluctuates due to financing internally refuse vehicles, part of the purchase of wheeled bins and cash overdrawn on equity share repurchases, but this financing is then partly repaid over a period.

14. One of the indicators of prudence is that net debt is not in excess of the capital financing requirement. External debt relates to the Housing Revenue Account Self Financing debt of £205 million, the Council has set an external debt authorised limit for 2012/13 of £212.5 million.

	Estimate 2012/13 £,000	Actual 2012/13 £,000	Estimate 2013/14 £,000
Borrowing	212.5	205.1	212.5
Investments	-21	-23.1	-20
Net debt	**191.5**	**182.0**	**192.5**

Options

15. Options for the investment of surplus funds will be limited in the future as it may be more beneficial to use such funds to reduce marginally and temporarily the £205 million debt arising from Housing Revenue Account Reform. Other options for any surplus funds include:

(a) Out-sourcing; however, external managers usually require a minimum of £10 million for a period of at least three years and, with the reduction in capital receipts and other reserves, these requirements cannot be met;

(b) The Investment Strategy restricts the range of counterparties and weekly monitoring of credit ratings and bank financial strength ratings restricts this range even further. The range of counterparties could be extended but any additions would need to be subject to an assessment of risk as the successful identification, monitoring and control of risk is the Council’s prime criteria for measuring the effectiveness of treasury management; and

(c) External treasury management consultants are used by many local authorities but there is no budget for this.

Implications

16. The in-house treasury management function achieved an average rate of 2.03% on combined investments compared to an overall group average of 1.11%. The differential of 0.92% on the average amount invested of £33.7 million during the year amounts to higher interest of around £310,040.

17. The cost of the in-house investment function, excluding cash flow forecasting and planning and control, is estimated at £510 per million (£880 in 2011/12) invested compared to an overall group average per million invested of £520 (£660 in 2011/12) for in-house costs plus £1,530 for external fund managers. Accurate comparisons of costs on a true like for like basis can be complex and time-consuming and there may be questions raised over the validity of benchmarking data on costs.

18. The affordability of capital expenditure at 31 March 2013 has been affirmed by the prudential indicator for net debt which does not exceed the capital financing requirement.

19.

Financial	As above
Legal	None
Staffing	None
Risk Management	As above
Equality and Diversity	None
Equality Impact Assessment completed	No
	Not applicable
Climate Change	None

Consultations

20. None.

Consultation with Children and Young People

21. None.

Effect on Strategic Aims

22. This report has no direct implications for any of the Strategic Aims but any increase in interest received (commensurate with risk) may reduce the need for cuts in individual services and assist in the achievement of actions to support those aims.

Conclusions / Summary

23. The in-house treasury management has achieved a good performance in 2012/13 at a minimal cost.

Background Papers: the following background papers were used in the preparation of this report:

CIPFA Treasury Management Benchmarking Club 2013 reports (confidential)

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Appendix A

Treasury management investment performance	2008/09	SCDC Ranking	Group Size	2009/10	SCDC Ranking	Group Size	2010/11	SCDC Ranking	Group Size	2011/12	SCDC Ranking	Group Size	2012/13	SCDC Ranking	Group Size
Money Market Funds															
SCDC	4.39%			0.57%			0.56%			0.69%			0.47%		
Comparable Group	4.05%	2	8	0.67%	7	14	0.63%	7	11	0.72%	10	13	0.52%	10	9
Overall Group	3.90%	16	57	0.65%	42	67	0.62%			0.72%			0.52%		
Notice Accounts															
SCDC													0.96%		
Comparable Group													0.78%	2	8
Overall Group													0.82%		
Less than 365 days (in-house, fixed term and callable)															
SCDC	5.67%			1.96%			1.09%			1.63%			1.64%		
Comparable Group	5.48%	4	13	1.84%	5	14	1.18%	9	14	1.21%	1	16	1.15%	3	11
Overall Group (excluding impaired investments)	5.45%	32	128	1.91%	47	137	1.06%			1.23%			1.34%		
Over 365 days (in-house, fixed term and callable)															
SCDC	5.92%			5.56%			5.21%			5.19%			5.56%		
Comparable Group	5.87%	7	12	4.42%	2	14	3.53%	4	13	2.49%	1	12	2.84%	1	11
Overall Group (excluding impaired investments)	5.87%	48	100	4.98%	42	137	3.60%			2.53%			2.59%		
Combined (externally managed)															
Comparable Group	5.03%	N/A		2.69%	N/A		-0.06%			-1.78%			1.74%		
Overall Group (excluding impaired investments)	5.74%	N/A		2.05%	N/A		1.27%			1.57%			1.57%		
Combined Investments (fixed term, callable, call and money markets) (all period: in-house and externally managed)															
SCDC	5.61%			2.68%			2.21%			2.45%			2.03%		
Comparable Group	5.36%	3	13	2.21%	5	14	1.55%	3	14	1.20%	1	16	1.24%	2	11
Overall Group (excluding impaired investments)	5.26%	19	128	1.87%	23	137	1.19%	5	95	1.19%	3	84	1.11%	5	69