

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL
EXECUTIVE MANAGEMENT TEAM'S REPORT TO THE
AUDIT AND RISK COMMITTEE

17 November 2014

1. TREASURY MANAGEMENT HALF YEARLY REPORT 2014/15

Submitted by: Head of Finance

Portfolio: Finance and Resources

Ward(s) affected: All Indirectly

Purpose of the Report

To receive the Treasury Management Half Yearly Report for 2014/15 and to review the Treasury Management activity for this period.

Recommendations

(a) That the Treasury Management Half Yearly Report for 2014/15 be received.

Reasons

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised in November 2011) recommends that Members should be informed on Treasury Management activities at least twice a year.

It was resolved that the Audit and Risk Committee would monitor and oversee the delivery of the Treasury Management Strategy through the receipt of half yearly and year end Treasury Management Reports.

1. Background

- 1.1 The CIPFA Code of Practice on Treasury Management (revised in November 2011) recommends that Members should be informed on Treasury Management activities at least twice a year. It was resolved that the Audit and Risk Committee would monitor and oversee the delivery of the Treasury Management Strategy through the receipt of half yearly and year end Treasury Management Reports.
- 1.2 This report therefore ensures that this Council is embracing Best Practice in accordance with CIPFA's recommendations in the CIPFA Code of Practice.
- 1.3 Treasury Management operations are carried out in accordance with policies laid down in the currently approved Treasury Management Policy Statement, backed up by approved Treasury Management Practices and Schedules thereto, and the Annual Treasury Management Strategy Report approved by Council on 26 February 2014.

2. Issues

- 2.1 The Treasury Management Half Yearly Report for 2014/15 is attached at Appendix 1. The economic background and economic forecast included in the report has been provided by the Council's Treasury Management Advisors, Sector.

2.2 **Heritable Bank**

The original investment with Heritable Bank was £2.5m. Fourteen dividends have been received so far from administrators Ernst and Young representing a return of 94%, compared to their estimated base case return of between 86% and 90%. Details of the dividends received are set out in a footnote to Annex A of the report.

The bank's administrators Ernst and Young have confirmed that they do not intend to make any further distributions to unsecured creditors until the outcome of a court appeal in respect of intercompany liabilities is known.

Annual impairments of the original investment have been made in accordance with CIPFA's Local Authority Accounting Panel (LAAP) Bulletin 82. Impairments were made on the assumption of an estimated return of 88%. Since the actual repayment to date is now 94% this has resulted in an overall over impairment of approximately £150,000, this has been reflected in the Council's 2013/14 Statement of Accounts.

2.3 **Staffordshire Pension Fund**

Following the triennial review of contributions to the Staffordshire Pension Fund undertaken by the actuary offers were made to all Staffordshire local authorities regarding pension payments and the payment of these in advance at a discounted rate on 6th March 2014.

The Council was initially required to pay lump sums of:

- £1.001m in 2014/15
- £1.166m in 2015/16
- £1.343m in 2016/17
- A total over the 3 year period of £3.51m

The discounted amounts offered, if prepaid, in relation to these three years are:

- £0.979m regarding 2014/15
- £1.09m regarding 2015/16
- £1.2m regarding 2016/17
- A total over the 3 year period of £3.269m

The saving, which is significant to the Council, over 2014/15, 2015/16 and 2016/17 amounts to £241k, when the interest that would have been earned under existing circumstances is taken into account this amount is reduced by approximately £45k.

Following discussions with the Council's auditors, Grant Thornton and with Cabinet Members the decision to prepay these lump sums and to treat these as prepayments in the Council's Statement of Accounts for 2014/15 and 2015/16 was made.

The saving, which is in excess of the interest that could have been earned over this period through investing the monies paid, enables the Council to secure continuous improvement in the way in which its functions are exercised, having a regard to a combination of economy, efficiency and effectiveness (i.e. if this saving had not been incurred other services within the Council would have been adversely affected).

2.4 Investments outstanding as at 30th September 2014 are detailed in Annex A to the Report.

3. **Legal and Statutory Implications**

3.1 See Background for details.

4. **Financial and Resource Implications**

4.1 There are no specific financial implications arising from the report.

5. **Major Risks**

5.1 Treasury management is a major area of risk for the Council in that large amounts of money are dealt with on a daily basis and there are a number of limits and indicators, which must be complied with.

5.2 The overriding consideration in determining where to place the Council's surplus funds is to safeguard the Council's capital. Within this constraint the aim is to maximise the return on capital.

5.3 Operational procedures, coupled with monitoring arrangements, are in place to minimise the risk of departures from the approved strategy.

6. **List of Appendices**

6.1 Appendix 1, Treasury Management Half Yearly Report 2014/15.

7. **Background Papers**

- CIPFA Treasury Management Code of Practice (revised November 2011),
- Council's Treasury Management Policy Statement,
- Council's Treasury Management Strategy,
- Local Government Act 2003,
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003,
- Guidance on Local Authority Investments issued by the Department for Communities and Local Government (revised March 2010),
- Ernst & Young Progress Report (25 March 2014),
- CIPFA LAAP Bulletin 82 "Guidance on the impairment of deposits with Icelandic Banks" Update 8 – September 2013,
- Hymans Robertson letter dated 19th May 2014 confirming prepayment amounts in line with Local Government Pension Scheme Administration Regulation 36(7).

8. **Management Sign-Off**

Each of the designated boxes need to be signed off and dated before going to Executive Director/Corporate Service Manager for sign off.

	Signed	Dated
Financial Implications Discussed and Agreed		
Risk Implications Discussed and Agreed		
Legal Implications Discussed and Agreed		
H.R. Implications Discussed and Agreed		
ICT Implications Discussed and Agreed		
Report Agreed by: Executive Director/ Head of Service		