



## Cabinet 2 September 2014

### Recommendation of the Performance and Audit Scrutiny Committee: Annual Treasury Management 2013/2014 and Investment Activity 1 April to 30 June 2014 (Sep14/08)

#### 1. Summary and reasons for recommendation

- 1.1 On 31 July 2014 the Performance and Audit Scrutiny Committee considered Report **F69**, which had been scrutinised by the Treasury Management Sub-Committee on 21 July 2014.
- 1.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) revised Code of Practice for Treasury Management requires that Members are provided with regular reports on the performance of the Council's treasury management function, including an annual treasury management and investment strategy (setting out its treasury management policies and strategies for the forthcoming year), a mid-year treasury management review and an annual outturn report at the close of the financial year.
- 1.3 Report **F69** provided information on the Council's Annual Treasury Management Investment Report summarising the investment activities for the year 2013/2014; and provided a summary of investment activity for the first three months of the 2014/2015 financial year.

#### 2. Recommendation

- 2.1 It is **RECOMMENDED** that subject to the approval of full Council, the Annual Treasury Management Report for 2013/2014, attached as Appendix 1 to Report F69, be approved.

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### 3. Strategic priorities

3.1 The recommendation meets the following, as contained within the West Suffolk Strategic Plan:

- (a) It supports the delivery of the priorities of the Council as contained in the Strategic Plan in an efficient and effective way.

### 4. Key issues

4.1 Following the Treasury Management Sub-Committee's consideration of Report **F69** on 21 July 2014, the Head of Resources and Performance verbally reported to the Performance and Audit Scrutiny Committee on the Sub-Committee's consideration of the report and recommendation.

#### Annual Treasury Management Report 2013/2014

4.2 The Council's Treasury Management Report for 2013/2014 was attached at Appendix 1 to Report **F69**. The total amount invested at 1 April 2013 was £32.9 million and at 31 March 2014 £34.25 million. The increase in investment balances over this period was due primarily to timing differences in respect of the collection of Non-Domestic Rates and capital expenditure and receipts. The budget income from investments in 2013/2014 was £0.619 million. Interest actually earned during the year totalled £0.511 million; an underachievement of £0.108 million against budget. This was mainly due to the continuing low base rate which affected the rates achieved when re-investing maturing investments.

4.3 The establishment of the Interest Equalisation Earmarked Reserve, as agreed by Council in February 2005 is designed to assist in smoothing out year-on-year variations in planned investment returns; the idea being that the budgetary surplus in investment returns in one year can be used to help fund budgetary deficit in another. As at 31 March 2014 the balance on this reserve was £0.227 million. In view of the overall general fund budget outturn for 2013/2014, the budgetary deficit for interest receipts has not been debited from the Interest Equalisation Earmarked Reserve.

#### Investment Activity 1 April to 30 June 2014

4.4 The total amount invested at 1 April 2014 was £34.25 million and at 30 June 2014 £39.6 million. The increase in balances over this period was due primarily to timing differences in respect of the collection of local taxes;

Council Tax and Non-Domestic Rates, and the payment of precepts i.e. to Suffolk County Council, the Suffolk Police and central government.

- 4.5 The 2014/2015 Annual Treasury Management and Investment Strategy (Report E225 refers) sets out the Council's projections for the current financial year. The budget for investment income in 2014/2015 was £0.560 million which was based on a continuation of the previous year's 1.5% target rate of return on investments.
- 4.6 As at the end of June 2014, interest actually earned during the first quarter of the financial year amounted to £0.089 million against a profiled budget for the period of £0.139 million; a budgetary deficit of £0.050 million. The budgetary deficit was due to a lower rate of interest than projected during the period, plus some of the Council's interest receipts from loans had not be factored into the calculation. The reduction in the interest rates achieved was primarily due to the continuing low Bank of England base rate and subsequent poor investment rates being offered by the banks, building societies and financial institutions and falling rates being offered on both call accounts (NatWest 95 day notice account rate dropped from 1.25% to 0.60%) and fixed term investments (Bank of Scotland one year rate dropped from 1.10% to 0.95%). Although the Governor of the Bank of England has hinted that the interest rates may start to rise sooner rather than later, it is considered likely that these current low rates will continue for the remainder of this year.
- 4.7 The Treasury Management Sub-Committee had scrutinised the report in detail asking questions of officers as necessary. In particular, discussions were held on the use of the Interest Equalisation Earmarked Reserve, to which it was reported had not been used for the last two years to meet a shortfall in budgeted income. The Sub-Committee also discussed the investments currently held with the Bank of Scotland and questioned whether the Scottish Referendum to be held in September 2014 would have an impact on future returns. It was also advised the Council would be testing the market regarding External Fund Managers later this year.
- 4.8 The Performance and Audit Scrutiny Committee considered the report and asked for clarification on the use of the Interest Equalisation Earmarked Reserve to which officers duly responded.
- 4.9 The Performance and Audit Scrutiny Committee and has put forward a recommendation as provided in Section 2 above.

## **5. Other options considered**

- 5.1 See Report F69 to Treasury Management Sub-Committee.

## **6. Community impact**

- 6.1 See Report F69 to Treasury Management Sub-Committee.

## **7. Consultation**

- 7.1 See Report F69 to Treasury Management Sub-Committee.

## **8. Financial and resource implications** *(including asset management implications)*

8.1 See Report F69 to Treasury Management Sub-Committee.

**9. Risk/opportunity assessment** *(potential hazards or opportunities affecting corporate, service or project objectives)*

9.1 See Report F69 to Treasury Management Sub-Committee.

**10. Legal and policy implications**

10.1 See Report F69 to Treasury Management Sub-Committee.

**11. Wards affected**

11.1 All Wards.

**12. Background papers**

12.1 Report F69 to Treasury Management Sub-Committee: Annual Treasury Management Report 2013/2014 and Investment Activity 1 April to 30 June 2014

**13. Documents attached**

None.

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