



Treasury Management Sub-Committee 20 January 2014

Investment Activity 1 April to 31 December 2013

1. Summary and Reasons for Recommendations

- 1.1 Treasury Management activities involve the management of significant cash-flows and investments, the Treasury Management Code of Practice 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.
- 1.2 The purpose of this report is to:
- a. provide a summary of investment activity for the first nine months of the 2013/14 financial year.

2. Recommendations

- 2.1 The Sub-Committee is asked to:
- a. scrutinise the content of this report, including details of treasury management performance for the first nine months of the 2013/14 financial year.

Contact Details

Name

Telephone

E-mail

Portfolio Holder

David Ray

01359 250912

david.ray@stedsbc.gov.uk

Lead Officer

Rachael Mann

01638 719245

rachael.mann@westsuffolk.gov.uk

3. Corporate Objectives

3.1 The recommendations meet the following, as contained within the Corporate Plan:-

- (a) Working together for strong, healthy and diverse communities;
- (b) Working together for prosperous and environmentally-responsible communities; and
- (c) Working together for an efficient Council.

4. Key Issues

Investment Activity: 1 April 2013 to 31 December 2013

- 4.1 The total amount invested at 1 April 2013 was £32.9m and at 31 December 2013 £38.35m. 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, Suffolk Police and central government).
- 4.2 The 2013/14 Annual Treasury Management and Investment Strategy (report D252 refers) set out the Council's projections for the current financial year. The budget for investment income in 2013/14 is £0.619m which is based on a continuation of the previous year's 1.5% target rate of return on investments.
- 4.3 As at the end of December 2013, interest actually earned during the first nine months of the financial year amounted to £0.355m against a profiled budget for the period of £0.463m; a budgetary deficit of £0.108m. This budgetary deficit was due to a lower average rate of interest than projected during the period (i.e. an average rate of return of 1.054% against a target rate for the period of 1.50%). The reduction in the average interest rate is primarily due to the continued fall in 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 3.00% in June 2012 to 1.01% in June 2013). In the current economic climate it is considered likely that these current low rates will continue for the remainder of this year.
- 4.4 Most market analysts are predicting that current bank base rates will be held at 0.5% for the remainder of the financial year, with Sector (the Council's treasury management advisers) now projecting that the base rate will remain unchanged until the first quarter of 2015 when a 0.25% increase is predicted. Investment rates have continued to fall over the period, due primarily to the banks' ability to easily access cheap funds from the UK Government via the Funding for Lending Scheme which has decreased their reliance on borrowing wholesale funds (such as local authority investments). If this trend continues for the remainder of the year the budgeted investment income for 2013/14 will not be achieved (estimated deficit £0.147m). This shortfall in budgeted income can be met from the Interest Equalisation Earmarked Reserve.

4.5 A full list of investments held as at 31 December 2013 is shown at **Appendix 1.**

Treasury Management Strategy Review

4.6 As part of the shared services initiative with Forest Heath District Council, officers are continuing to work towards, as far as possible, adopting common procedures and policies, including common treasury management practices and processes across both authorities.

4.7 Following the presentations to the Treasury Management Sub Committee on 23 September 2013, a separate report on the findings of the review has been submitted to this committee.

4.8 At the 18 November 2013 meeting of the TM Sub Committee it was agreed that the Council would continue to explore other ways of managing the investment portfolio as detailed in the 2014/15 Strategy Report.

5. Other Options Considered

5.1 Options for the management of Council investments are formally considered within the annual treasury management and investment strategy.

6. Community Impact

6.1 None

7. Consultation *(refer to the Consultation and Community Engagement Strategy)*

7.1 Treasury management activities are currently undertaken in consultation with Sector (the Council's appointed Treasury Management advisers) and also takes into account information obtained from investment brokers and other economic commentators. This committee provides for the scrutiny of treasury management strategies and performance, with changes in strategies and policies subject to approval by Cabinet and full Council.

8. Resource implications *(including asset management implications)*

8.1 Continuing low rates of return could have a detrimental effect on the Council's ability to generate income from its surplus funds.

9. Risk/Opportunity Assessment (potential hazards or opportunities affecting corporate, service or project objectives)

9.1

Risk area	Inherent level of Risk (before controls)	Controls	Residual Risk (after controls)
	High/Medium/Low		High/Medium/Low
Fluctuations in interest rates or in projected cashflows having significant impact on budgeted investment income.	High	Spread of investments for periods of up to two years. Budget monitoring and quarterly performance reports. Use of interest equalisation reserve to smooth out year-on-year fluctuations.	Medium
Bank / building society failure resulting in loss of Council funds.	High	Use of Sector advice on counterparty credit ratings (based on Fitch and Moody ratings) and the setting of lending limits. Use of non-rated building societies based on asset base and additional credit checks.	Medium

Ward(s) affected	All
Background Papers	Treasury Management Performance and Annual Treasury Management and Investment Strategy – 2012/13 (C294) and 2013/14 (D252)

INVESTMENTS AS AT 1 APRIL 2013

Principal	Counterparty	Start Date	Maturity Date	Interest Rate (%)
£2,000,000	Santander UK Business Reserve Account	Inst/Acc	Inst/Acc	0.6500
£250,000	Bank of Scotland Call A/C	Inst/Acc	Inst/Acc	0.7500
£2,900,000	Barclays Reserve Account	Inst/Acc	Inst/Acc	0.7000
£1,000,000	NatWest Call Account	Inst/Acc	Inst/Acc	0.5000
£6,000,000	NatWest 95 Day Notice Account	95 day	95 day	1.2500
£1,500,000	Bank of Scotland	01/05/2012	11/04/2013	3.0000
£2,000,000	Nationwide Building Society	02/01/2013	02/07/2013	0.5900
£2,000,000	Bank of Scotland	27/07/2012	04/07/2013	3.0000
£2,000,000	Bank of Scotland	31/07/2012	31/07/2013	2.8500
£3,000,000	NatWest	22/08/2012	21/08/2013	2.2500
£1,500,000	Bank of Scotland	26/10/2012	25/10/2013	2.2500
£1,000,000	Ulster Bank	19/11/2012	18/11/2013	1.6000
£4,500,000	Bank of Scotland	13/02/2013	12/02/2014	1.1000
£1,500,000	Bank of Scotland	04/09/2012	04/09/2014	3.2000
£1,750,000	Bank of Scotland	01/11/2012	03/11/2014	2.1500
£32,900,000	TOTAL			

INVESTMENTS AS AT 31 DECEMBER 2013

Principal	Counterparty	Start Date	Maturity Date	Interest Rate (%)
£ 350,000	Santander UK Business Reserve Account	Inst/Acc	Inst/Acc	0.4000
£1,750,000	Bank of Scotland Call A/C	Inst/Acc	Inst/Acc	0.4000
£6,000,000	Barclays Reserve Account	Inst/Acc	Inst/Acc	0.6500
£2,000,000	NatWest Call Account	Inst/Acc	Inst/Acc	0.5000
£10,000,000	NatWest 95 Day Notice Account	95 day	95 day	0.6000
£2,000,000	Nationwide Building Society	02/07/2013	02/01/2014	0.5000
£4,500,000	Bank of Scotland	13/02/2013	12/02/2014	1.1000
£1,500,000	Bank of Scotland	11/04/2013	11/04/2014	1.1000
£3,000,000	Ulster Bank	01/05/2013	30/04/2014	0.9500
£2,000,000	Bank of Scotland	04/07/2013	04/07/2014	1.0100
£2,000,000	Bank of Scotland	31/07/2013	01/08/2014	1.0300
£1,500,000	Bank of Scotland	04/09/2012	04/09/2014	3.2000
£1,750,000	Bank of Scotland	01/11/2012	03/11/2014	2.1500
£38,350,000	TOTAL			