Treasury Management Sub-Committee

St Edmundsbury
BOROUGH COUNCIL

Title of Report:	**Mid-Year Treasury Management Report 2014/15 Investment Activity 1 April to 30 September 2014**	
Report No:	**TMS/SE/14/001**	
Decisions plan reference:	**N/A**	
Report to and date/s:	**Treasury Management Sub-Committee**	17 November 2014
	Performance and Audit Scrutiny Committee	26 November 2014
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Purpose of report:	The purpose of this report is to present the Council's Mid-year Annual Treasury Management Investment Report summarising the investment activities for the first six months of the 2014/15 financial year.	

Recommendation:	**Treasury Management Sub-Committee:** The Sub-Committee is asked to: a. scrutinise the content of this report, including details of treasury management performance for the first 6 months of the 2014/15 financial year, b. make recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council regarding the approval of the attached Mid-year Treasury Management Report for 2014/15 (**Appendix 1 refers**).
Key Decision: *(Check the appropriate box and delete all those that* ***do not*** *apply.)*	*Is this a Key Decision and, if so, under which definition?* Yes, it is a Key Decision - ☐ No, it is not a Key Decision - ☒
Consultation:	Treasury management activities are 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.
Alternative option(s):	Options for the management of Council investments are formally considered within the annual treasury management and investment strategy. This includes key strategies in respect of the maintenance of the Council's debt free status, the continuation of in-house management of funds, and the approach to be adopted in establishing the credit worthiness of potential counterparties. The changing nature of the economic climate requires that these key areas are subject to on-going review.

Implications:	
Are there any ***financial*** *implications? If yes, please give details*	Yes ☐ No ☒
Are there any ***staffing*** *implications? If yes, please give details*	Yes ☐ No ☒
Are there any ***ICT*** *implications? If yes, please give details*	Yes ☐ No ☒
Are there any ***legal and/or policy*** *implications? If yes, please give details*	Yes ☒ No ☐ • See paragraph 2 of the report.
Are there any ***equality*** *implications? If yes, please give details*	Yes ☐ No ☒

Risk/opportunity assessment:		*(potential hazards or opportunities affecting corporate, service or project objectives)*	
Risk area	**Inherent level of risk** (before controls)	**Controls**	**Residual risk** (after controls)
	Low/Medium/ High*		Low/Medium/ High*
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 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 Wards	
Background papers: *(all background papers are to be published on the website and a link included)*		Treasury Management Performance and Annual Treasury Management and Investment Strategy – 2013/14 (D252) and 2014/15 (E225)	
Documents attached:		Appendix 1- Mid-year Treasury Management Report 2014/2015 Appendix 2 – Investments as at 30 September 2014	

1. Key issues and reasons for recommendations

1.1 CIPFA's Revised Code of Practice

1.1.1 CIPFA's revised Code of Practice for Treasury Management (the Code) published in November 2009, was adopted by the Council on 23 February 2010. Given that Treasury Management activities involve the management of significant cash flows and investments, the Code 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 Investment Activity: 1 April 2014 to 30 September 2014

1.2.1 The total amount invested at 1 April 2014 was £34.25m and at 30 September 2014 £39.25m. The increase in balances over this period was due primarily to timing differences in respect of the collection of Council Tax, NNDR Pooling and the payment of precepts (i.e. to Suffolk County Council, Suffolk Police and central government).

1.2.2 The 2014/15 Annual Treasury Management and Investment Strategy (report E225 refers) set out the Council's projections for the current financial year. The budget for investment income in 2014/15 is £0.5580m which is based on a continuation of the previous year's 1.5% target rate of return on investments.

1.2.3 As at the end of September 2014 interest actually earned during the first half of the financial year amounted to £0.176m against a profiled budget for the period of £0.264m; a budgetary deficit of £0.088m. This budgetary deficit was due to a lower rate of interest than projected during the period. The reduction in the interest rates achieved is 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. Although the Governor of the Bank of England has hinted that 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.

1.2.4 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 2014/15 may not be achieved. In the event that there is a shortfall in budgeted income, this will be met from the Interest Equalisation Earmarked Reserve. Treasury management performance will continue to be closely monitored with further quarterly performance reports being brought to this sub committee for scrutiny.

1.2.5 Revised interest projections, based on the most up-to-date advice from Sector (the Council's treasury management advisers) are likely to be included within the 2015/16 budget proposals.

1.2.6 A full list of investments held as at 30 September 2014 is shown at **Appendix 2**.

2. Additional supporting information

2.1 **<u>Legal and Policy Implications</u>**

2.2 There are no legal, policy compliance / power implications as a result of this report.

2.3 This report is inline with the Treasury Management Practice 6 (TMP6) of the Treasury Management Code of Practice, which requires that a current year review of the Treasury Services, against adopted annual strategy, be reported to Council by 30 November each financial year.

Mid Year Treasury Management Report 2014/2015

1 Introduction

1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 (the Code) was adopted by Council on 23 February 2010.

1.2 The primary requirements of the Code are as follows:

a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
c. Receipt by Council of an Annual Treasury Management Strategy Report for the year ahead, a mid year review report (as a minimum) and an annual review report of the previous year.
d. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
e. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Treasury Management Sub-Committee.

1.3 Treasury management in this context is defined as:

'The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

1.4 The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the mid year review report of treasury management activities, for the financial year 2014/15.

2 The Council's Debt Free Status

2.1 The Council became debt free in 1992 and since then has refrained from any borrowing apart from the temporary use of overdraft facilities. This continues in 2014/15 with the result that the Council had no Prudential Code indicators so far as borrowing was concerned in the year. During the financial year all the Council's investments were managed by in-house staff.

3 Investment Strategy for 2014/15

3.1 The Council's 2014/15 Annual Treasury Management and Investment Strategy was approved by full Council on 11 February 2014 (report E226 refers). The investment strategy for 2014/15 was to give priority to the security and liquidity of investments whilst at the same time seeking to optimise the return on investments.

3.2 The target rate of return for investments for 2014/15 was 1.50%. This target rate was based upon investment rate projections for the year provided by Sector (the Council's treasury management advisors), together with consideration of the profile of the Council's portfolio of investments (i.e. mixture of liquid and fixed term investments). Based upon the anticipated funds available for investment in the year (taking into account planned capital expenditure and receipts from asset disposals) this gave a target investment income of £0.560m, equivalent to £14.60 for each Council Tax band D property. This figure was used in the preparation of the Council's budget for 2014/15.

Investment Rates in 2014/15

3.3 The Bank of England Base Rate continues to remain at its historic low of 0.50% and most market analysts predict that it will remain at this low level for the remainder of the current financial year with a possible small increase in the first quarter of 2015/16. Investment rates steadily dropped throughout the first half of the year, due primarily to the banks ability to easily access cheap funds from the UK Government via the Funding for Lending Scheme. The banks ability to access these funds has decreased their reliance on borrowing wholesale funds (such as local authority investments), which has resulted in the dampening of investment rates. The Funding for Lending Scheme was introduced on 13 July 2012 and has been extended to allow participants to borrow until January 2015.

The Council's Lending Criteria 2014/15

3.4 The Council's Annual Treasury Management and Investment Strategy requires that deposits are only placed with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers (Sector) or, for non rated building societies, subject to their meeting minimum financial criteria (based on asset base size).

3.5 The unprecedented nature of the current economic and banking crisis has forced local authorities to keep their lending criteria under constant review to ensure that the balance between security of capital, liquidity of investments and yield on investment income is adequately maintained.

3.6 The below tables shows the credit criteria applicable at 1 April 2014 and 30 September 2014:

Credit Criteria: Rated Banks and Institutions

Sector Colour Code Key*	Credit Criteria 1/4/14
Purple	Max £10m for max of 2 years (subject to max 30% of portfolio)
Orange	£9m for max of 2 years (subject to max 30% of portfolio)
Red	£8m for max of 1 year (subject to max 25% of portfolio)
Green	£4m for max of 6 months (subject to max 20% of portfolio)
Blue (nationalised / substantially owned by the UK government)	£12m for max 2 years

Credit Criteria: Rated Building Societies

Sector Colour Code Key*	Credit Criteria 1/4/14
Red	£8m for max of 1 year (subject to max 25% of portfolio)
Green	£4m for max of 1 year (subject to max 20% of portfolio)

Credit Criteria: Non- Rated Building Societies

Asset Base**	Credit Criteria 1/4/14
Asset base > £2,500m	£3m for max 6 months
Asset base > £1,000m	£2.5m for max 6 months

** In order to simplify the complex system of commercial credit ratings, Sector has developed a system of colour codings which reflect the relative strengths of individual banking institutions. Details of these colour codings are provided in the Council's Annual Treasury Management and Investment Strategy.*
*** Further restrictions on non-rated building societies include a requirement for societies to be covered by a Dun and Bradstreet credit rating.*

4 Compliance with Treasury Limits

4.1 During the first six months of the financial year the Council operated within the approved Treasury limits and Prudential Indicators (as set out in the Council's Treasury Policy Statement and Annual Treasury Strategy Statement, including the above approved changes to lending limits where applicable). No institutions in which investments were made had any difficulty in repaying investments and interest in full during the period.

5 Investment activity, first six months of 2014/15

5.1 Investments were made with counterparties that met the agreed lending criteria and investment periods. Investment periods range from overnight to two years (one year for new investments), dependent on the Council's cash flows, the view on interest rates and the actual interest rates on offer.

5.2 Market investments in the year are summarised as follows:

	Value (£m)
Opening balance 1 April 2014	34.25
Add: Investments made during the year (includes transfers to business reserve accounts)	44.20
Sub Total	78.45
Investments realised during the year (includes withdrawals from business reserve accounts)	39.20
Balance at 30 Sept 2014	39.25

5.3 Where possible, investments were made in fixed term investments in order to lock into interest rates which exceed the Council's budgeted rate and to provide some certainty of return for a proportion of the Council's investments.

5.4 During the period, for cash flow generated balances, use was made of the instant access and 95 day notice business reserve accounts with Barclays and NatWest. At 30 September 2014, in order to maintain liquidity whilst at the same time achieving earnings in excess of base rate, £16.0m was held in these accounts at interest rates between 0.60% and 0.65%.