

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Treasury Management Report 2014/15 – Investment Activity 1 April to 31 December 2014	
Report No:	TMS/SE/15/001	
Decisions plan reference:	Feb15/02	
Report to and date/s:	Treasury Management Sub- Committee	19 January 2015
	Performance and Audit Scrutiny Committee	29 January 2015
Portfolio holder:	David Ray Portfolio Holder for Resources and Performance Tel: 01359 250912 Email: david.ray@stedsbc.gov.uk	
Lead officer:	Rachael Mann Head of Resources and Performance Tel: 01638 719245 Email: rachael.mann@westsuffolk.gov.uk	
Purpose of report:	The purpose of this report is to present the Council's Treasury Management Investment Report summarising the investment activities for the first nine 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 the treasury management performance for the first nine 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 attached Treasury Management Report for 2014/15 (Appendix 1 refers).	
Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i>	<i>Is this a Key Decision and, if so, under which definition?</i> Yes, it is a Key Decision - <input type="checkbox"/> No, it is not a Key Decision - <input checked="" type="checkbox"/>	
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 creditworthiness of potential counterparties. The changing nature of the economic climate requires that these key areas are subject to on-going review.	
Implications:		
<i>Are there any financial implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> • See section 2.1	
<i>Are there any staffing implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<i>Are there any ICT implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<i>Are there any legal and/or policy implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> • See section 2.2	
<i>Are there any equality implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Risk/opportunity assessment:	<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	

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 cash-flows having significant impact on budgeted investment income.	High	Spread of investment 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: <i>(all background papers are to be published on the website and a link included)</i>	Treasury Management Performance and Annual Treasury Management and Investment Strategy – 2013/14 (D252) and 2014/15 (E225)		
Documents attached:	Appendix 1 – Third Quarter Treasury Management Report 2014/15 Appendix 2 – Investments as at 31 December 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 31 December 2014

1.2.1 The total amount invested as at 1 April 2014 was £34.25m and at 31 December 2014 £42.24m. The increase in balances over this period was primarily due to timing differences in respect of the collection of local taxes (Council Tax, Non Domestic Rates etc) 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) sets out the Council's projections for the current financial year. The budget for investment income in 2014/15 is £0.558M 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 December 2014, interest actually earned during the first nine months of the financial year amounted to £0.261m against a profiled budget for the period of £0.444m; a budgetary deficit of £0.183m. 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 0.80% against a target rate for the period of 1.50%). The reduction in the average interest rate is primarily due to the continuing low bank base rate of 0.50% which in turn has seen a reduction in the interest rates on the Council's call accounts and fixed term investments. In the current economic climate 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 later in 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 will not be achieved (estimated deficit £0.220m). This shortfall in budgeted income can be met from the Council overall general fund in year and/or the Council Interest Equalisation Earmarked Reserve.

1.2.5 A full list of investments held (exclude call account balances) as at 31 December 2014 is shown at **Appendix 2**.

2. Additional supporting information

2.1 Financial Implications

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

2.2 Legal and Policy Implications

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