Appendix 1

Third Quarter 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 the 1 April 2014 and 31 December 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 nine 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 nine 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)	55.80
Sub Total	90.05
Investments realised during the year (includes withdrawals from business reserve accounts)	47.81
Balance at 31 Dec 2014	42.24

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 31 December 2014, in order to maintain liquidity whilst at the same time achieving earnings in excess of base rate, £20.9m was held in these accounts at interest rates between 0.40% and 0.65%.