

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Annual Treasury Management Report 2014/15 and Investment Activity 1 April to 30 June 2015	
Report No:	TMS/SE/15/004	
Report to and dates:	Treasury Management Sub-Committee	20 July 2015
	Performance and Audit Scrutiny Committee	30 July 2015
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Purpose of report:	To a) present the Council's Annual Treasury Management Report summarising the investment activities for the year 2014/15 b) provide a summary of investment activities for the first three months of 2015/16 financial year.	
Recommendation:	<p>It is RECOMMENDED that, The Treasury Management Sub-Committee:</p> <p>(1) scrutinise the content of this report, including details of treasury management performance for the first 3 months of the 2015/16 financial year; and</p> <p>(2) make recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council regarding the approval of the attached</p>	

Annual 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:	<ul style="list-style-type: none"> Treasury management activities are undertaken in consultation with Sector/Capita (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):	<ul style="list-style-type: none"> 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:	
<i>Are there any financial implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> Please refer to main report
<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"/> <ul style="list-style-type: none"> The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2014/15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
<i>Are there any equality implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

Risk/opportunity assessment:			
Inherent level of risk (before controls)		Residual risk (after controls)	
Risk area	Low/Medium/ High*	Controls	Low/Medium/ High*
Fluctuations in interest rates or in projected cash flows 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 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 (Report No D252) and 2014/15 (Report No E225)	
Documents attached:		Appendix 1 - Annual Treasury Management Report 2014/15 Appendix 2 – Statement of Compliance with the Treasury Management Code of Practice	

1. Key issues and reasons for recommendation(s)

1.1 Annual Report 2014/15

1.2 Interest Earned from Treasury Investments during the year

1.2.1 The table below summarises the interest earned during 2014/15 on the various Treasury investments held by the Council.

1.2.2

TREASURY MANAGEMENT – INTEREST EARNED SUMMARY	
	2014/15 £
Bank of Scotland Investments – Term Deposits	155,421.92
Ulster Bank Investments – Term Deposits	25,943.84
Skipton B/Society – Term Deposits	9,631.23
Coventry B/Society – Term Deposits	3,906.30
Nationwide B/Society – Term Deposits	21,246.99
Santander Business Reserve Account	18,329.41
Bank of Scotland Current Account	3,142.54
Barclays Reserve Account	33,959.23
NatWest Call Account	2,083.03
NatWest 95 Day Account	52,958.90
Clydesdale 30 Day Account	4.43
Bank of Scotland Base Plus Account	0.71
TOTAL INTEREST EARNED/ACCRUED	£326,628.53

1.2.3 The budgeted income from investments in 2014/15 was £572,000 (average rate of return of 1.5%). Interest actually earned during the year totalled £326,628.53 (average rate of return of 0.75%); an underachievement of £245,371.47. This underachievement was mainly due to the continuing low base rate, (0.5%), which has had a dramatic affect on the rates being achieved when re-investing maturing investments. This underachievement was reported to Council as part of the Financial Outturn Report (Revenue & Capital) 2014/15 (PAS/SE/15/015).

1.2.4 To help alleviate this impact the Council, in February 2005, agreed to establish the Interest Equalisation Earmarked Reserve to help smooth out these fluctuations in returns, as at 31 March 2015 the remaining balance of this reserve was £187,265.88.

1.3 Investment Activity during the year

The table below summarises the investment activities during 2014/15:

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2014/15 £m
Opening Balance 01 April 2014	34.25
Investments made during the year (including transfers to business reserve accounts)	24.05
Sub Total	58.30
Investments realised during the year (including	18.25

withdrawals from business reserve accounts)	
Closing Balance 31 March 2015	40.05

1.4 Investments held as at 31 March 2015

1.4.1 The table below shows the investments held as at 31 March 2015:

Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Bank of Scotland	1,500,000	0.95%	11/04/14	10/04/15
Ulster bank	3,000,000	0.86%	01/05/14	30/04/15
Bank of Scotland	2,000,000	0.95%	04/07/14	06/07/15
Nationwide Building Society	2,000,000	0.97%	01/08/14	03/08/15
Nationwide Building Society	1,500,000	0.97%	04/09/14	03/09/15
Bank of Scotland	2,000,000	1.00%	06/10/14	06/10/15
Bank of Scotland	4,750,000	1.00%	03/11/14	03/11/15
Bank of Scotland	4,500,000	1.00%	12/02/15	12/02/16
Santander	800,000	0.40%	Call	
Barclays Reserve	8,000,000	0.45%	Call	
NatWest 95 Day Account	10,000,000	0.50%	95 day	
TOTAL	40,050,000			

2 Investment Activity: 1 April to 30 June 2015

2.1.1 The total amount invested at 1 April 2015 was £40.05m and at 30 June 2015 £45.45m. 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).

2.1.2 The 2015/16 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 2015/16 is £255,850 which is based on a 0.90% target average rate of return on investments.

2.1.3 As at the end of June 2015 interest actually earned during the first quarter of the financial year amounted to £83,868 (average rate of return of 0.70%) against a profiled budget for the period of £63,962; a budgetary surplus of £19,906. This budgetary surplus was due to higher cash balances than projected during the period. However, the underlying 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 and falling rates being offered on call accounts/Notice Accounts.

2.1.4 The table below summaries the interest earned and the average rate of return achieved.

Investment Category	Total Average Investment	% Average Rate of Return	Interest Earned in Q1
Temporary Investments (Term Deposits)	2,688,081	0.930	58,876
Santander Business Reserve	6,574,417	0.400	6,556
Bank of Scotland Current Account	163,414	0.400	163
Barclays Reserve Account	8,001,976	0.450	8,978
NatWest Call Account	15,248	0.250	10
NatWest 95 Day Account	7,626,374	0.488	9,285
Clydesdale 30 Day Account	1,774	0.250	1
Bank of Scotland Base Plus Account	179	0.250	0
Total Overall Average Return on Investments %			0.70
Total Interest Earned - 1 April 2015 to 30 June 2015			83,868

2.1.5

The table below shows the list of investments held as at 30 June 2015:

Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Bank of Scotland	2,000,000	0.95%	04/07/14	06/07/15
Nationwide Building Society	2,000,000	0.97%	01/08/14	03/08/15
Nationwide Building Society	1,500,000	0.97%	04/09/14	03/09/15
Bank of Scotland	2,000,000	1.00%	06/10/14	06/10/15
Bank of Scotland	4,750,000	1.00%	03/11/14	03/11/15
Bank of Scotland	4,500,000	1.00%	12/02/15	12/02/16
Bank of Scotland	1,500,000	1.00%	10/04/15	08/04/16
Leeds Building Society	4,000,000	0.90%	01/05/15	29/04/16
Skipton Building Society	3,000,000	0.72%	04/06/15	04/12/15
Nottingham Building Society	2,500,000	0.70%	04/06/15	04/12/15
Nationwide Building Society	2,500,000	0.90%	04/06/15	03/06/16
Santander	5,200,000	0.40%	Call	
Barclays Reserve Account	8,000,000	0.45%	Call	
NatWest 95 Days Account	2,000,000	0.35%	Call	
TOTAL	45,450,000			

2.2 Other Market Considerations

2.2.1 Most market analysts are predicting that current bank base rates will be held at 0.5% until the 2nd or 3rd quarter of the 2015/2016 financial year. Sector/Capita (the Council's treasury management advisers) has also revised their prediction of a base rate increase until the 3rd quarter. Treasury management performance will continue to be closely monitored with further quarterly performance reports being brought to this sub committee for scrutiny.

- 2.2.2 Additional liquidity tests have now been applied to ensure that banks and building societies have sufficient resources available to cover their liabilities, this has resulted in the majority of UK institutions regaining their ratings.
- 2.2.3 At the time of writing this report all the institutions currently used by the Council remain within the criteria set out in the Investment Strategy approved in February 2014. The markets will continue to be closely monitored and any changes having an adverse affect on the Investment Strategy or the Council's ability to operate within the strategy will be report to this committee.