

Report to: Audit & Governance Committee **Date of Meeting:** 10 September 2014

Subject: Treasury Management 2014/15 – Position to July 2014

Report of: Head of Corporate Finance & Information Services

Wards Affected: All

Is this a Key Decision? No

Is it included in the Forward Plan? No

Exempt/Confidential No

Purpose/Summary

To inform members of Treasury Management Activities undertaken to 31 July 2014.

Recommendation(s)

Audit & Governance is requested to note the Treasury Management update to 31 July 2014.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		√	
2	Jobs and Prosperity		√	
3	Environmental Sustainability		√	
4	Health and Well-Being		√	
5	Children and Young People		√	
6	Creating Safe Communities		√	
7	Creating Inclusive Communities		√	
8	Improving the Quality of Council Services and Strengthening Local Democracy		√	

Reasons for the Recommendation:

To ensure that Audit & Governance are fully appraised of treasury activity undertaken to 31 July 2014.

What will it cost and how will it be financed?

(A) Revenue Costs

The financial position on the external investments to the end of July indicates a surplus of £11,000 compared to the proportion of the budget to date. The position as at the end of the year will depend upon market conditions and the investment rates available.

(B) Capital Costs

None.

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	The Council has a statutory duty to review its Treasury Management activities from time to time during the financial year. The CIPFA Treasury Management Code of Practice recommends that regular reports are prepared and considered on the implementation of treasury management policies; on the effects of decisions taken and transactions executed in pursuance of those policies
Human Resources	None
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

None.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance & ICT has been involved in the preparation of this report. (FD/3143/14)

Legal Services (LD/2435/14) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?

None.

Implementation Date for the Decision

Immediately following the Committee Meeting.

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Background Papers:

None.

1 BACKGROUND TO THE REPORT

- 1.1 The Treasury Management Policy and Strategy document for 2014/15 (approved by Council on 6 March 2014) included a requirement for regular updates to be provided to the Audit & Governance Committee on the investment activity of the Authority. This report is the first of such reports for the year and presents relevant Treasury Management information for the period ending 31 July 2014.
- 1.2 The report includes information on the investments held / entered into during the period and the interest rates obtained (with a comparison of performance against a standard benchmark figure). In addition, the report highlights whether there has been any variance from the Treasury Management Policy Strategy and the Prudential Indicators (the operational boundaries within which the Council aims to work).

2 INVESTMENTS HELD

Investments held at the end of July 2014 comprise the following:

Overnight deposits

Institution	Deposit £m	Rate %	Maturity date	On current counterparty list?
Santander	8.200	0.40	N/A	Yes
Lloyds	2.570	0.40	N/A	Yes
Sevenska Handelsbanken	3.090	0.40	N/A	yes
Invesco	4.240	0.40	N/A	Yes
Goldman Sachs	8.090	0.40	N/A	Yes
PrimeRate	2.950	0.36	N/A	Yes
Aviva	8.090	0.40	N/A	Yes
BNP Paribas	8.150	0.43	N/A	Yes
IGNIS	8.090	0.45	N/A	Yes
Insight MMF	8.090	0.41	N/A	Yes
Total	<u>61.560</u>			

Fixed term deposits

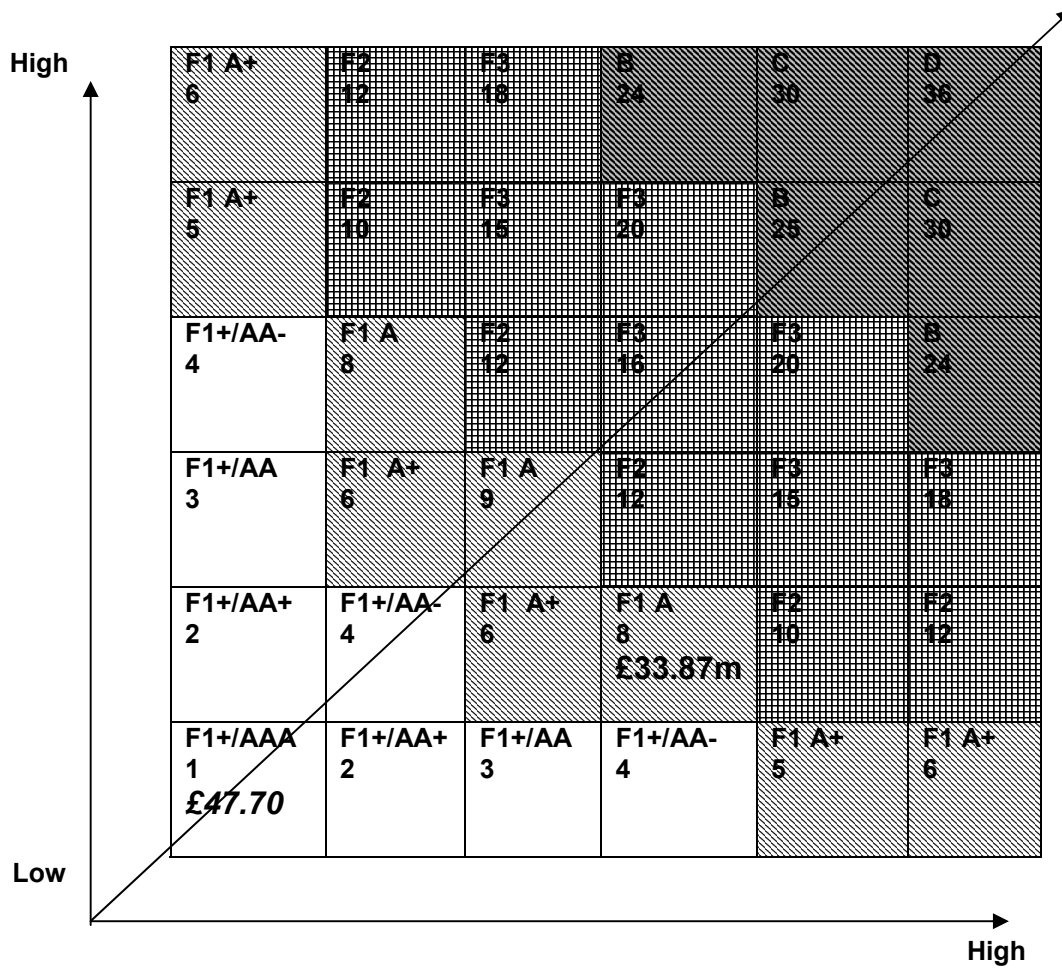
Sevenska Handelsbanken	5.000	0.45	90 day call	Yes
HBOS	5.000	0.95	29/05/2015	Yes
Barclays	5.000	0.61	09/01/2015	Yes
Funding Circle	0.010	See para 2.3	N/A	N/A
CCLA	5.000	See para 2.4	N/A	Yes
Total	<u>20.010</u>			
TOTAL	<u>81.570</u>			

- 2.1 All of the investments made since April 2014 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £25m. Whilst the maximum should be retained, in case economic conditions change, a day to day operational maximum of £15m is currently being imposed. This will spread the risk of investments for the Council, but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.
- 2.2 The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or Aaa/Mr1+ for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix.
- 2.3 A sum of £10,000 has been placed with the Funding Circle, a body that helps businesses access funding at a lower interest rate than is charged commercially by bidding for funding. Interest of around 6% will be earned once funding has been placed on loan to businesses. No loans have yet been made and hence no interest has been earned on this balance.
- 2.4 An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises as retail units, warehousing, and offices. The majority of properties owned are in the south of the country which is more buoyant than the north. The Council has in effect bought a share of the property portfolio, and returns paid are in the region of 5% to 6%. This is seen as a long term investment with the potential for capital growth of the investment as property prices potentially increase. However, when the investment is made fees are deducted from the initial investment, hence in the first year any income in covers these fees.
- 2.3 The matrix shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield.

PROBABLITY
of DEFAULT

High

INCREASING
YIELD



SEVERITY of
CONSEQUENCE

SEFTON RISK
TOLERANCE

4

INVESTED

LOW RISK

1 - 4

Investment Grade

£47.70m

LOW - MEDIUM
RISK



5 - 9

Investment Grade

£33.87m

MEDIUM RISK



10 - 20

Investment Grade

Nil

HIGH RISK

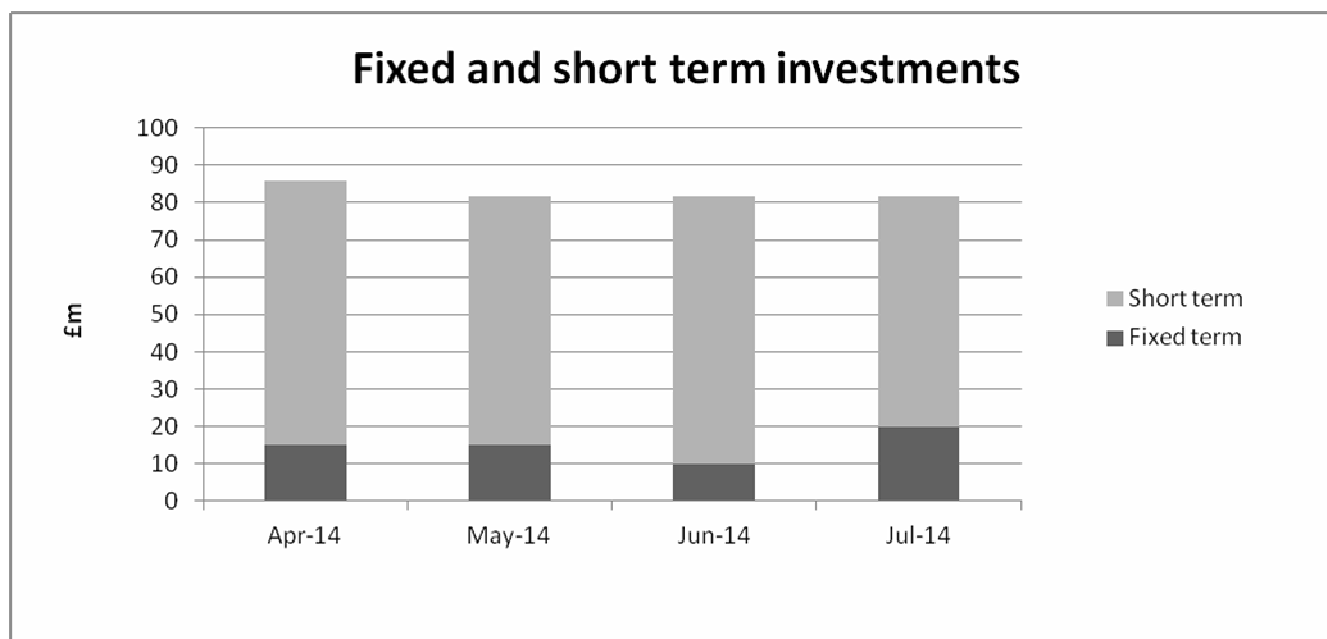


21 - 36

Speculative Grade

Nil

2.4 The ratio of overnight deposits (i.e. short term) to fixed term investments is illustrated below:



2.5 In June additional fixed term investments with higher financial return were made with organisations that are viewed as financially robust such as Barclays and Lloyds.

2.6 Looking to longer term investments for better returns will be key, as advised by SECTOR, our Treasury Advisors. However timing of the decision is key as SECTOR project that the bank rate will rise to 0.75% in Q1 2015, to 1% in Q3 2015, and to 1.25% in Q1 2016.

3 INTEREST EARNED

3.1 The actual performance of investments against the profiled budget for the period to 31 July 2014 is shown below:

2014/15 Quarterly Investment Income

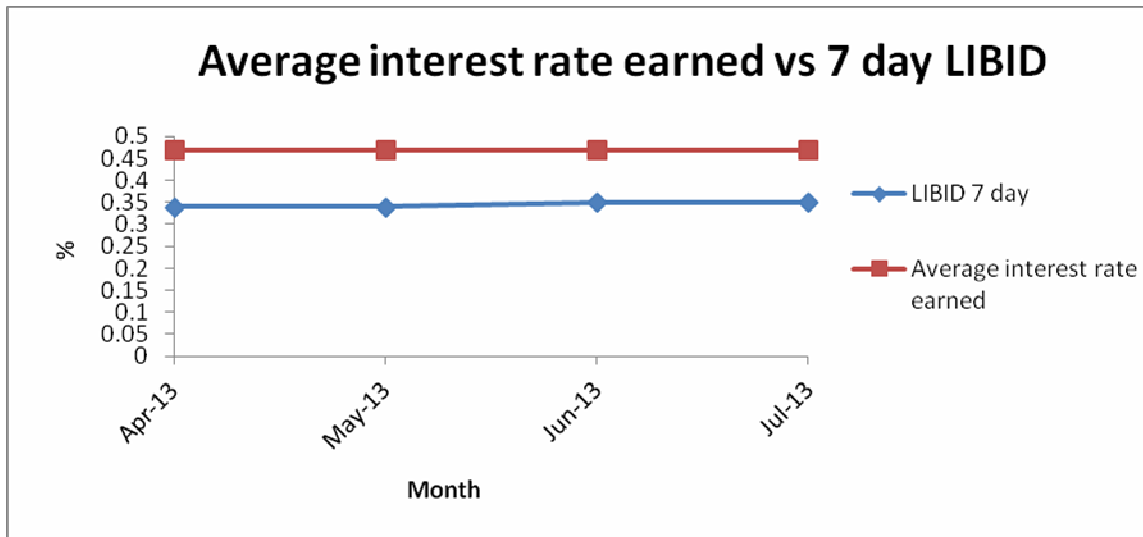
	Budget '000s	Actual '000s	Variance '000s
To July 2014	103	114	11

3.2 The budgeted investment average interest rate for 2014/15 is 0.5%, which equates to £0.379m income for the year. This figure assumes the income from investments already in place at 1st April 2014 and new returns based upon Bank of England's Base Rate projection as supplied by Arlingclose, our previous treasury consultants.

3.3 The investment income achieved to 31 July is £0.114m, which equates to an average interest rate of 0.47%. This is lower than the budgeted average interest rate as the budgeted investment income assumes lower cash balances than actually held.

As noted in paragraph 2.6 it is anticipated that the bank rate will rise which may increase returns towards the end of the financial year.

We have outperformed the 7 day LIBID average as follows:



4 PRUDENTIAL INDICATOR MONITORING

4.1 Prudential indicators are an integral component of measuring how prudently a Council is acting with regard to its finances. They were introduced into all local authorities (by CIPFA) following the Local Government Act 2003. A number of measures/limits/parameters including capital financing, external debt, impact on council tax, and treasury management are set prior to the start of the year and are monitored on a monthly basis.

4.2 None of the indicators have been breached as at the end of July.