



Report To: Finance and Staffing Portfolio Holder
Lead Officer: Executive Director (Corporate Services)

21 April 2015

Treasury Management Review

Purpose

1. To report on the performance of the treasury management function.
2. This is not a key decision but reporting to the Finance and Staffing Portfolio Holder on performance is a requirement of the Borrowing and Investment Strategy.

Recommendations

3. It is recommended that the Finance and Staffing Portfolio Holder:
 - note the performance of the treasury management function

Reasons for Recommendations

4. The performance of the treasury management function should be reviewed regularly to ensure reasonable returns are achieved commensurate with risk. This is achieved through regular monitoring by the Finance and Staffing Portfolio Holder and by being a member of a benchmarking group.
5. The Borrowing and Investment strategy should be reviewed to ensure it continues to meet the needs of the authority.

Background

6. The Borrowing and Investment Strategy approved by Council on 26 February 2015 delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Finance and Staffing Portfolio Holder.

Considerations

7. Current Performance

Investments of £43.442 million were held by the Council at 31 March 2015, and included £42.6 million held in fixed rate investments. Detail of the investment counterparties is included as **Appendix A**. The average return on new investments since 1 April 2014 is 0.70% compared with 0.68% for the same period in 2013-14.

8. Investment interest for the year was included in the Council budget estimates as £382,500, divided between the General Fund and the Housing Revenue Account. An additional £46,000 has been received in the year due to higher balances for investment and longer investment periods.
9. Historically the HRA has been entitled to recover interest from the General Fund in respect of the HRA working balance and major repairs reserve balances held for future use, the interest on housing capital balances (right to buy, shared ownership, land and other

dwellings) being credited to the General Fund. The Introduction of self-financing for the HRA and the retention of right to buy receipts for re-investment in affordable housing has prompted a change in legislation for this area. The amending determination (Limits on Indebtedness Determination 2012 – Amending Determination 2013) requires that local authorities credit their HRA with interest earned on all unapplied capital receipts. This will result in an increase in interest earned by the HRA but a corresponding reduction in interest earned by the General Fund, the movement on capital balances will be monitored.

10. Cabinet, 19 November 2013, approved the advance of £7.0m to Ermine Street Housing for the purchase of property to support the Council's objectives, as at 31 March 2015 counterparty investments of £4.07m have been made to the company.
11. In March 2012, following the introduction of the Housing Revenue Account Self Financing regime, the Council acquired debt of £205 million. The full sum was borrowed from the Public Works Loans Board at an average fixed rate of 3.5% as 41 individual loans with maturity dates between 2037 and 2057; no other external borrowing, repayment or rescheduling has been undertaken.
12. As part of the Investment and Borrowing Strategy the Council is required to ensure that the proportion of investments do not exceed the agreed levels, the current levels are as follows:

Group of Organisations	Maximum Investment £m	Maximum Proportion %	Current Proportion %
UK Debt Management Office	unlimited	100%	0%
Money Market Funds	7.5	30%	2%
UK Local authorities (excluding Parish Councils)	7.5	75%	5%
UK Banks	7.5	60%	52%
South Cambs Housing Ltd	7.5	30%	9%
Subsidiaries of UK Banks	1.0	10%	0%
Other Banks & Financial Institutions	2.5	20%	6%
Building Societies	7.5/3.0/2.0	100%	27%

13. **Treasury Risk Management**

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The monitoring report for the period ended 31 March 2015 will be presented at the next Finance and Staffing Portfolio Holder meeting.

14. Risk is being managed by spreading investments across available counterparties with the current average period for fixed term deposits being 8 months, money markets being utilised for short term cash needs. The yield curve remains relatively flat with rates ranging from 0.25% to 0.90% for periods up to one year, to 1.4% for 3 years, the same as the previous quarter, this compares to the average current return on investments (existing and new) being 0.87%.
15. Any uplift in rates above that already included in the Council's estimates would provide additional interest to support the provision of services.

Options

16. Options for the investment of surplus funds will be limited in the future as it may be more beneficial to use such funds to support internal borrowing for the General Fund capital programme or to reduce, marginally and temporarily, the £205 million debt arising from Housing Revenue Account Reform.

Implications

17. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -

Financial

18. The interest received on investments is directly affected by changes in market interest and by the limitations of available counterparties.

Risk Management

19. The proposed European Commission changes to money market funds do not, at this time, affect the Councils Borrowing and Investment Strategy or the Councils use of money market funds.

Consultation responses (including from the Youth Council)

20. Consultation was not deemed necessary in this case.

Effect on Strategic Aims

21. This report has no direct implications for any of the Strategic Aims but any increase in interest received (commensurate with risk) may reduce the need for cuts in individual services and assist in the achievement of actions to support those aims.

Background Papers

Treasury Management working papers (confidential)

The Limits on Indebtedness Determination 2013

Limits on Indebtedness Determination 2012 – Amending Determination 2013

Report Author: Sally Smart – Principal Accountant : Telephone: (01954) 713076