South Cambridgeshire District Council

Report To:	Finance and Staffing Portfolio Holder	21 July 2015
Lead Officer:	Executive Director (Corporate Services)	

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 notes 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 £60.43 million were held by the Council at 30 June, and included £52.7 million held in fixed rate investments. In addition a short term loan of £0.23 million was advanced to Ermine Street Housing. Detail of the investment counterparties is included as **Appendix A**. The average return on new investments since 1 April 2015 is 0.93% compared with 0.68% for the same period in 2014-15.

8. Investment interest for the year was included in the Council budget estimates as £590,500, with an estimated £76,700 payable to the Housing Revenue Account. An additional £79,500 interest is expected in the year due to higher balance levels, rates of interest and longer periods of investment.

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 South Cambs Ltd for the purchase of property to support the Council's objectives, as at 30 June 2015 counterparty investments of £6.23m 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 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%	12%
UK Local authorities (excluding Parish Councils)	7.5	75%	0%
UK Banks	7.5	60%	38%
South Cambs Housing Ltd	7.5	30%	11%
Subsidiaries of UK Banks	1.0	10%	0%
Other Banks & Financial Institutions	2.5	20%	4%
Building Societies	7.5/3.0/2.0	100%	35%

13. **Performance review**

The Council is a member of a benchmarking club on treasury management, which is organised by the Chartered Institute of Public Finance and Accountancy. The results of this benchmarking exercise for 2014/15 have been issued and the key indicators are shown below.

	Money Market Funds	Up to 1 month	1 to 3 months	3 months to I year	Combined Investments
Average	0.39%	0.38%	0.47%	0.72%	0.64%
Upper quartile	0.45%	0.42%	0.47%	0.80%	0.71%
SCDC	0.38%	0.41%	0.45%	0.80%	0.87%
Lower quartile	0.39%	0.34%	0.43%	0.57%	0.48%

14. The results for 2014/15 show that South Cambridgeshire achieved a return of 0.87% on combined investments (less than and more than 365 days) compared to an average of 0.75% for its comparator group and 0.64% for the overall group. South Cambridgeshire was third in the comparator group of 13 other organisations and third highest in the overall group.

15. The performance target is a greater return than average over a five-year rolling period. For 2014/15, a better than average return was achieved compared to the comparator group and to the overall group. Over the five-year period the target has been met.

16. **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 30 June 2015 is included as **Appendix B**.

17. Risk is being managed by spreading investments across available counterparties with the current average period for fixed term deposits being 11 months, money markets being utilised for short term cash needs. The yield curve remains relatively flat with rates ranging from 0.25% to 1.0% for periods up to one year, to 2.0% for 5 years, this compares to the average current return on investments (existing and new) being 0.89%.

18. Any uplift in rates above that already included in the Council’s estimates would provide additional interest to support the provision of services.

19. 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

20. 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

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

Risk Management

22. 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)

23. Consultation was not deemed necessary in this case.

Effect on Strategic Aims

24. 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