REPORT TO	DATE OF MEETING
Cabinet	14 January 2015

Report template revised July 2012

SOUTH RIBBLE BOROUGH COUNCIL
forward with South Ribble

SUBJECT	PORTFOLIO	AUTHOR	ITEM
Treasury Management Activity Mid-year review 2014/15	Finance & Resources	M L Jackson	8

1. SUMMARY AND LINK TO CORPORATE PRIORITIES

To review the Treasury and Investment Strategies approved by the Council on 5 March 2014, and to report on performance in the first half of the year and compliance with prudential indicators. No changes in the Strategies are proposed.

2. RECOMMENDATIONS

Cabinet is asked to note the report.

A revised list of financial institutions and investment criteria should be prepared and presented for approval with the Annual Investment Strategy for 2015/16.

3. DETAILS AND REASONING

The Code of Practice for Treasury Management specifies that Councils should review their Treasury Strategy and activity half yearly. This report meets that requirement.

4. INTEREST RATE FORECAST

The following table shows the interest rate forecast of the Council's Treasury Advisor, Capita Asset Services – Treasury Solutions.

Interest Rate Forecast	Dec 2014 %	Mar 2015 %	Jun 2015 %	Sep 2015 %	Dec 2015 %	Mar 2016 %	Jun 2016 %	Sep 2016 %
Bank rate	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25
5 yr PWLB	2.50	2.70	2.70	2.80	2.90	3.00	3.10	3.20
10 yr PWLB	3.20	3.40	3.50	3.60	3.70	3.80	3.90	4.00
25 yr PWLB	3.90	4.00	4.10	4.30	4.40	4.50	4.60	4.70
50 yr PWLB	3.90	4.00	4.10	4.30	4.40	4.50	4.60	4.70

Comparison with the forecast of six months ago, when the Treasury Strategy was drafted, shows that there is still no increase in base rate expected up to the end of 2014/15. However, Capita currently forecast an increase to 0.75% in the June quarter of 2015, whereas previously they did not expect an increase until 12 months later. On the other hand, the Bank of England has issued an inflation report in November, in which it suggests that the interest rate will remain at 0.5% until later in 2015, because inflation is likely to fall below 1% in early 2015.

Though Public Works Loan Board (PWLB) interest rates are expected to increase each quarter for the foreseeable future, rates through to September 2016 are now expected to be lower than estimated earlier in the year. As indicated below, the Council has no plans to incur external borrowing in the current financial year and the next two, so the increase in borrowing rates should have no immediate impact on the revenue budget.

5. REVIEW OF THE TREASURY STRATEGY

The Treasury Management and Investment Strategies for 2014/15 were approved by Council on 5 March 2014. They defined the Council's investment priorities as the security of capital sums invested, and the maintenance of liquidity. Consistent with these priorities, the optimum return (yield) on investments would be sought.

Cash available for investment can peak as high as £25m, in particular before precepts are due to be paid by the Council.

No changes to counterparties are proposed at present, though Capita Asset Services have recommended that their clients should change their credit methodologies to reflect changes by main rating agencies (Fitch, Moody's, and Standard & Poor's). See Appendix B for further explanation. A revised list of financial institutions and investment criteria will be prepared and presented for approval with the Annual Investment Strategy for 2015/16. The current list is attached as Appendix C.

Appendix B includes an update on the regulatory framework for Money Market Funds (MMFs). Capita Asset Services advise that they "continue to believe that Money Market Funds are an appropriate investment option for clients to consider, both now and in the future. They currently offer levels of security, liquidity and diversification that many other investment types cannot".

The need to monitor counterparty market stress indicators is emphasised by the fact that banks have rarely been out of the news headlines since the financial crisis of 2008. On 12 November 2014, for example, news media reported the significant fines imposed by US, UK and Swiss regulators on five banks, following a global probe into allegations of rate-rigging in the foreign exchange markets. This is referred to in the news media as the 'forex scandal' or 'forex probe'. The UK's Financial Conduct Authority (FCA) levied fines totalling £1.115 billion on Citibank, HSBC Bank, JPMorgan Chase Bank, The Royal Bank of Scotland, and UBS AG. The FCA is continuing an investigation in respect of Barclays Bank's foreign exchange business area. US regulators also fined the Bank of America. The Bank of England's chief currency trader was dismissed for 'serious misconduct' following an internal review by the Bank.

The 'forex scandal' followed the 'Libor scandal', a series of fraudulent actions connected to the Libor (London Interbank Offered Rate), of 2012 to 2014. In that period, UK and US regulators fined a number of banks, including Barclays Bank, UBS, The Royal Bank of Scotland, Deutsche Bank, JPMorgan, Lloyds Bank and Bank of Scotland.

On 10 November 2014, it was reported that the Financial Stability Board (FSB), a global regulator, has proposed new rules to prevent banks that are "too big to fail" from being bailed out by taxpayers. FSB Chairman and governor of the Bank of England Mark Carney explained that the new system would ensure that bank shareholders, and lenders to banks such as bondholders, would become the first in line to bear the brunt of future losses if banks could not pay out of their own resources. The proposed new rules are subject to consultation, and should take effect in 2019. Global systemically important banks would need to hold a minimum amount of cash to ensure that they would be able to survive big losses without turning to governments for help. The FSB has proposed that the cash set aside should be worth 15-20% of the bank's assets, which is a far bigger cushion against losses than is required by current banking rules.

The ratings agencies are removing the previous ratings "uplift" given due to implied levels of sovereign support in response to the evolving regulatory regime.

Capita Asset Services and CIPFA advise that local authorities should base investment decisions on multiple sources of intelligence, rather than relying on one source of information. Capita Asset

Services provide weekly summaries of the ratings produced by the main agencies. However, the Shared Financial Services' Financial Accountancy team has registered directly with Fitch, Moody's, and Standard & Poor's, so that up-to-date ratings can be checked on each agency's web site. Other sources of intelligence are being investigated. Daily e-mail alerts are received from the financial press. Company watch alerts have been set up for all appropriate UK banks, and copies of financial statements obtained.

6. TREASURY ACTIVITY

Investment activity in the half year is summarised in the following table:

	Average Daily Investment	Earnings to 31/10/2014	Average Rate
	£'000	£	%
Debt Management Office	1,411	671	0.25
Other fixed term deposits	4,794	24,299	0.86
Notice Accounts	995	4,668	0.80
Call accounts	8,008	19,099	0.41
Money Market Funds	5,104	11,580	0.39
Total	20,312	60,317	0.51

A full list of investments currently held is shown at Appendix A. The current total invested is £22.424m, including term deposits, call accounts, and money market funds.

The interest rate paid by Barclays Bank (0.55%) includes the annual bonus of 0.35%. Additional interest is paid once a year, and is calculated on the average daily balance for the year.

The interest earning benchmark is the average LIBID 7 day rate. This was 0.35% for the period reported, compared to the rate achieved of 0.51%. The rate achieved to the end of October has reduced slightly compared to the average rate to the end of August, which was 0.52% on an average daily investment of £19.55m. At this stage in 2013/14, the average rate achieved was 0.94%.

The following table compares the budgets for interest receivable against the latest projection. There is no reason to suppose that there will be a significant variation from the budget. Though interest rates have remained lower than expected, cash balances available to invest are currently higher than last year.

	Budget for year	Actual to 31/10/2014	Forecast for year
	£'000	£'000	£'000
Interest earned	100	60	100

7. BORROWING

The Treasury Strategy indicated that no borrowing was necessary in the current financial year and the next two years. This remains the case and no borrowing is planned.

8. PRUDENTIAL INDICATORS

It is a statutory requirement for the Council to determine and keep under review the "Affordable Borrowing Limits" which were reported in the approved Treasury Management Statement.

The following table shows the approved limits and the current position:

Prudential Indicator	March 2014 Indicator £'000	Actual £'000
Capital Financing Requirement (CFR) March 2014	6,284	5,691
Gross borrowing	0	0
Investments (note 1) actual as at 31/10/14	(10,000)	(22,424)
Net borrowing/(investments) actual at 31/10/14	(10,000)	(22,424)
Authorised limit for external debt 2014/15 (note 2)	3,100	1,125
Operational boundary for external debt 2014/15 (note 2)	1,100	1,125
Limit of fixed interest rates (based on net debt)	1,100	1,125
Limit of variable interest rates (based on net debt)	100% on inv cash	100%
Principal sums invested for periods exceeding 364 days	0	0
Maturity structure of borrowing limits		
Under 12 months	N/A	N/A
12 months to 2 years	N/A	N/A
2 years to 5 years	N/A	N/A
5 years to 10 years	N/A	N/A
10 years and above	N/A	N/A

Note 1 - The prudential indicators assumed investments of £10.000m at March 2014. The actual value at March 2014 was £15.342m (short-term investments, cash and cash equivalents less bank overdraft) and is currently £22.424m. However, this is expected to fall significantly by year-end.

Note 2 – The figure of £1.125m is not borrowings, but amounts owing under finance lease arrangements. The actual shown is as at March 2014.

9. TREASURY CONSULTANTS' ADVICE

Appendix B presents the advice of Capita Asset Services in respect of credit criteria, Money Market Funds regulatory update, economic performance to date and outlook, including interest rate forecasts.

10. WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	The financial implications are outlined within the report.

LEGAL	Compliance with various Regulations and statutory Codes of Practice

RISK	The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.

THE IMPACT ON EQUALITY	

OTHER (see below)	

Asset Management	*Corporate Plans and Policies*	*Crime and Disorder*	*Efficiency Savings/Value for Money*
Equality, Diversity and Community Cohesion	*Freedom of Information/ Data Protection*	*Health and Safety*	*Health Inequalities*
Human Rights Act 1998	*Implementing Electronic Government*	*Staffing, Training and Development*	*Sustainability*

BACKGROUND DOCUMENTS

Financial Strategy/Budget and Council Tax 2014/15
Treasury Management in the Public Services: Code of Practice
CIPFA Prudential Code for Capital Finance in Local Authorities
DCLG Guidance on Local Government Investments