

Subject:	Amendment to Treasury Management Strategy 2015-16	Status:	For Publication
Report to:	Full Council	Date:	15 th July 2015
Report of:	Finance Manager	Portfolio Holder:	Resources & Performance
Key Decision:	<input type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	General Exception	<input type="checkbox"/> Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required:	Yes /No	Attached: Yes /No
Biodiversity Impact Assessment	Required:	Yes /No	Attached: Yes /No
Contact Officer:	Janice Crawford	Telephone:	01706 252416
Email:	janicecrawford@rossendalebc.gov.uk		

1.	RECOMMENDATION(S)
1.1	Members are asked to approve an amendment to the Treasury Management Strategy to include the potential to invest in Money Market Funds.

2. PURPOSE OF REPORT

- 2.1 As reported previously to Members at Cabinet on the 8th July, the implication of poor interest rates on the Council's bank deposits has prompted officers to consider some investment in Money Market Funds in order to maintain target income levels. This will require an amendment to the Treasury Management Strategy approved at Full Council in February 2015.

3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- **Regenerating Rossendale:** This priority focuses on regeneration in its broadest sense, so it means supporting communities that get on well together, attracting investment, promoting Rossendale, as well as working as an enabler to promote the physical regeneration of Rossendale.
 - **Responsive Value for Money Services:** This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.
 - **Clean Green Rossendale:** This priority focuses on clean streets and town centres and well managed open spaces, whilst recognising that the Council has to work with communities and as a partner to deliver this ambition.

The primary focus of the Council's budget setting is to support its Corporate priorities.

4. RISK ASSESSMENT IMPLICATIONS

- 4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:
- Financial monitoring of General Fund budgets focuses on the key risk areas, including income, in order to meet the Medium Term Financial Strategy (MTFS) challenges.
 - The budget-setting exercise for 2015/16 and beyond identified a further reduction in resources over the medium term producing a future in-year deficit now totalling up to £1.4m by 2019/20. Members, collectively, continue to face some difficult choices in

order to balance expenditure with available resources over the medium term.

- Risks associated with treasury management strategy and practices are managed within the Council's Treasury Management Strategy and Treasury Management Practices documents. Any investment with Money Market Funds will be in line with advice from our treasury management advisors, Capita, bearing in mind their relevant credit ratings to balance risk with return.

5. BACKGROUND AND OPTIONS

5.1 2014/15 Interest Income Out-turn

The Budget for 2014/15 set a target of £89k for interest income on the Council's bank accounts and deposits. However, during 2014/15 the interest rate applicable to almost all the accounts fell considerably, some seeing more than one reduction during the year.

as at 1st April 2014	Current Balance £k	Effective Interest Rate %
NatWest SIBA	779	0.25
RBS Instant Access	1,500	0.50
RBS 30-day notice	-	0.50
Handelsbanken instant	-	0.70
Handelsbanken 35-day	1,500	0.75
NatWest 95-day notice	2,000	0.30
Lloyds for 364 days	2,000	1.01
Total Bal & Avg interest	7,779	0.60
	Capita	0.64

as at 31st March 2015	Current Balance £k	Effective Interest Rate %
NatWest SIBA	1,563	0.25
RBS Instant Access	1,000	0.25
RBS 30-day notice	-	0.25
Handelsbanken instant	-	0.30
Handelsbanken 35-day	3,500	0.50
Lloyds instant access	1,000	0.40
Lloyds 32-day notice	-	0.57
Lloyds Deposit 12mths A	2,000	1.00
Lloyds Deposit 12mths B	2,000	1.00
Total Bal & Avg interest	11,063	0.61
	Capita	0.72

Despite the bank balances rising during the year from £7.7m at 1st April 2014 to £11m at 31st March 2015, the interest income has not achieved the original budget target, returning an adverse variance of £21.7k.

	Original Budget 2014-15 £	Actual 2014-15 £	Variance Fav/(Adv) £
Interest from Bank Accounts	89,000	67,271	(21,729)

5.2 Capita Model Portfolio

Capita operate a model portfolio which provides a benchmark for their clients. A copy of the March 2015 portfolio position is shown below and this includes two Money Market Fund deposits, which can be treated as on-call funds, which were earning 0.47%.

In comparison, the Council's on-call funds were earning only 0.25% or 0.3%. The Council uses NatWest, RBS, Lloyds and Handelsbanken for its instant access accounts, but for most of the year the funds with Handelsbanken have been at the maximum of £5m in the 35-day notice account. This only changed in the last 2-weeks of the year as funds were moved to cover the last main benefits run of the year and the first precept runs in the new year. This was back up at £5m by the 13th April 2015.

The Lloyds 32-day notice account was being opened at the end of the year and this is now fully operational with £2m in it earning 0.57%.

At 31st March 2015 the portfolio comprises the following investments.

Each tranche equates to 10% of the portfolio	Investment Type	Date of the Fund 31/03/15	Interest Rate	Maturity Date
IGNIS	MMF	Call	0.47%	01/04/2015
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Credit Agricole	Deposit	6mth	0.63%	27/05/2015
Deutsche 95DN	Notice	95DN	0.70%	04/07/2015
Santander 95 DN	Notice	95 DN	0.60%	04/07/2015
Nationwide BS	Deposit	6mth	0.66%	27/07/2015
DZ	Deposit	1yr	0.96%	27/08/2015
Helaba	Deposit	6mth	0.75%	27/08/2015
Bank of Scotland	Deposit	1yr	1.00%	10/11/2015
Bank of Scotland	Deposit	1yr	1.00%	10/11/2015
Running Yield			0.72400%	WAM

5.3 Current Treasury Management Practices

Officers are careful to balance risk with return and ensure diversification of the deposits to reduce risk. The Treasury Management Practices limit deposits with any one institution to £5m or 50% of the funds at the time and any one group to an absolute £10m.

In reality staff have been adhering more to the £5m limit, other than in a few cases for very short periods of time where the main NatWest SIBA account has required funds above this ahead of some large withdrawals. However, in early June the 2015/16 cash flow forecast has been reviewed and the use of the Lloyds has risen to £7m, with a £2m deposit in the 32-notice account to earn 0.57%. As funds were over £14m at the time this was within the Practice limits above.

5.4 Money Market Funds

Officers have been advised by Capita Asset Services treasury management specialists to consider some investment in Money Market Funds. In order to do this the Strategy will need to be amended.

Money Market Funds are a pool of cash managed by an independent fund management company. Frequently these are well known banks or investment houses investments whose objective is to earn interest for shareholders while maintaining a net asset value (NAV). A money market fund's purpose is to provide investors with a safe place to invest easily accessible, cash-equivalent assets. It is a type of mutual fund characterized as a low-risk, low-return investment and local authorities are permitted to invest in sterling denominated funds with a AAA credit rating and domiciled in the EU. UK-based Funds are regulated by the Financial Services Authority.

A money market fund's portfolio is comprised of short-term (less than one year) securities representing high-quality, liquid debt and monetary instruments. Shares can be purchased and sold on the same day if necessary and without penalty. Unlike stocks, money market fund shares are always worth £1. What changes is the rate of interest those shares earn, called "yield."

As a client of its Asset Services division, the council could purchase shares of money market funds through Capita's brokerage system, benefiting from their professional credit worthiness reports and yield analysis comparisons.

5.5 Amendment to Treasury Management Strategy 2015-16

In order for officers to investigate the use of Money Market Funds to maintain interest income levels, members are asked to consider the recommendation from Cabinet to approve the following amendment to the Treasury Management Strategy to include Money Market Funds in the list of approved investment counterparties.

- Money Market Funds - using only those with AAA long-term rating backed up with lowest volatility rating (MR1+)

6. SECTION 151 OFFICER

6.1 Financial matters are noted in the report.

7. MONITORING OFFICER

7.1 Unless specifically commented upon within the report, there are no specific implications for consideration.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Unless specifically commented upon within the report, there are no implications for consideration.

8.2 Consultation has been carried out with Capita Asset Services specialist treasury management advisors and the Cabinet members have considered this as part of the Q4 Draft Out-turn Report for 2014/15 presented at the meeting on the 8th July 2015.

9. CONCLUSION

9.1 With the MTFS challenges in mind officers are seeking member approval of an amendment to the Treasury Management Strategy to allow investment in Money Market Funds in the future.

Background Papers

Documents	Place of Inspection
Financial monitoring statements and Cash Flow forecasts	Financial Services.
Capita Citywatch monthly reports	Financial Services
Banking sector credit reports	Financial Services