

Strategy and Resources Committee

30 July 2019

2018-19 TREASURY MANAGEMENT YEAR-END PERFORMANCE

Head of Service/Contact: Lee Duffy, Chief Finance Officer
Urgent Decision?(yes/no) No
If yes, reason urgent decision required: N/A
Annexes/Appendices (attached): **Annex 1 – Treasury Management Review**
Annex 2 – Prudential Indicators

Other available papers (not attached): Fund Manager Performance Reports and Final Accounts Working Papers 2018/19

Report summary

This report reviews the performance of the council's treasury management function in 2018/19.

Recommendation (s)

That the Committee:-

- (1) receives the report on the Council's treasury management performance 2018/19;
- (2) approves the actual 2018/19 prudential indicators.

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

- 1.1 Income earned from investments is used to help finance Council's services and contributes to the key priority "Managing Our Resources".

2 Background

- 2.1 The Treasury Management Strategy, approved annually by Council in February, sets out the strategy and procedures that are adopted to manage the investment of reserves, provisions and cash flow.

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- 2.2 A review of treasury management performance and activity is prepared on an annual basis. This is completed in line with Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Sector and the Treasury Management Strategy approved by Council.
- 2.3 The reporting requirements of the annual performance review meet the requirements of the CIPFA Prudential Code.
- 2.4 The Council, as part of its financial strategy, maintains revenue reserves, provisions and capital reserves. For several years the main part of the Council's cash balances has typically been invested with external fund managers who use their expertise to invest in secure money markets to achieve maximum returns within defined risk parameters. The Council currently uses one external fund manager, Aberdeen Asset Management. At the end of March 2019 the Council had £4.1 million invested with this fund manager.
- 2.5 Internally managed balances can be invested in long term gilts or deposits with a balance retained to meet short term cash flows invested in temporary loans or money market funds. At the end of March 2019 the Council held £5.3 million in money market funds and a £3.0m fixed term deposit with Lloyds Bank.
- 2.6 In total at 31 March 2019, the Council's treasury investments were £12.4m (£12.6m March 2018).
- 2.7 At the same reporting date, the Council had external debt with the Public Works Loans Board of £64.4m (£64.4m March 2018).
- 2.8 The Committee will note that the Pension Fund does not form part of the Council's investments and is managed on our behalf by Surrey County Council.
- 2.9 The aim of treasury management is to ensure that funds are invested with institutions that balance the need to maximise investment returns with that of minimising risk on the monies invested. This means not investing in banks/building societies/institutions that offer high investment returns but are at high risk of defaulting.

3 Performance Review

- 3.1 A report on Treasury Management performance for 2018/19 is attached to this report at **Annex 1**.
- 3.2 No temporary borrowings were required in 2018/19 except occasional use of the Council's bank overdraft facility.

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- 3.3 The average gross return achieved for 2018/19 of 0.84% compares favourably with the benchmark seven day London Interbank Bid (LIBID) rate of 0.51%. This amounted to total income for the year of £162,642, generated on reserves, working balances and cash flow.
- 3.4 The final outturn position shows an increase in income by £42,642 compared to the forecast reported in the half year report to Financial Policy Panel in December 2018, when it was anticipated that income from investments would be £120,000 at the end of the year.
- 3.5 The performance for 2018/19 on the Council's investments were as follows;

	Average Investment	Interest Received	Average Rate of Return
Internally Managed Funds	£'m	£'000	%
Money Market Funds	6.3	46	0.73
Interest Bearing Account	0.1	1	0.36
Fixed Rate Deposit	2.0	20	1.00

Externally Managed Funds			
Aberdeen Asset Management	10.8	96	0.89
Total	19.3	163	0.84

- 3.6 Gross returns on investments for 2018/19 were £42,642 higher than the budgeted income for the year and the average annualised return on investments was 0.84%.
- 3.7 Epsom and Ewell Borough Council has achieved this performance by following the strategy of investing its long to medium term funds in 1 year fixed term deposits and with its external fund manager, Aberdeen Asset Management and keeping short term funds mainly in money market funds or in an interest bearing instant access account.

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4 Internally Managed Funds

Money Market Funds

- 4.1 Money market funds are pooled investments that allow instant access to withdraw monies. The benefit of MMFs is that the risk on the investment is very low as the money invested in the fund is spread across a range of counterparties, which limits the exposure of a significant sum being invested with a defaulting counterparty.
- 4.2 The return made on money market funds of 0.73% compared favourably to the benchmark of 0.51%. Investment in money market funds has been limited to short term investments from surplus funds which can be called back with no notice required.

Interest Bearing Accounts

- 4.3 Interest bearing accounts offer the same instant access as the money market funds and deliver a rate of return linked to base rate set by the Bank of England.
- 4.4 The risk on these investments may be higher than the money market funds as money is deposited with one counterparty. Funds invested in this type of investment tend to be surpluses of daily cash flows which need to be called back at short notice.
- 4.5 The return made on interest bearing accounts of 0.36% compared unfavourably to the benchmark of 0.51%. As such, the interest bearing account was utilised only rarely in the year, typically when limits with other counter parties were reached.

Fixed Interest Investments

- 4.6 The Council had one fixed term deposit at the end of March 2019. During the 2018/19 year, the amount invested in fixed term deposits averaged £2.0m. The average return made on these investments was 1.00% compared to the benchmark of 0.51%.
- 4.7 The current strategy and guidance obtained from our independent advisors is to limit fixed term investments to a period of one year.

5 Externally Managed Funds

- 5.1 In continuing difficult market conditions our external fund manager delivered returns of 0.89% for 2018/19 which compares to 0.59% for 2017/18. During 2018/19, the Bank of England base rate was 0.5% until August 2018, when it increased to 0.75% and remained at that level to the year-end. Returns have remained at historically low levels since October 2009 and opportunities for delivering significant returns remain limited.

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- 5.2 The Council continues to invest a significant element of its medium to long term funds with Aberdeen Asset Management (formerly known as Scottish Widows).
- 5.3 The main benefit to the Council of using external fund managers is to minimise the Council's risk, as the funds invested with Aberdeen Asset Management are spread across a wide portfolio of financial institutions. This results in the overall exposure to a potential defaulting bank being limited to a small percentage of the overall holding.

6 Financial and Manpower Implications

- 6.1 In line with previously agreed policy, income is credited to revenue reserves, trust funds and other accounts based on the total return for the year. In summary, income was credited to the following accounts:

	£'000	Purpose
General Fund Revenue Account	91	Used to maintain low Council Tax and finance services
Hospital Cluster Interest Reserve	2	Contingency for funding Hospital Cluster works
Repair and Renewals Fund	2	Used to fund the replacement of equipment
Insurance Reserve	3	Used to finance self-insured losses (e.g. sums below excess limits)
Hospital Cluster Commuted Sums	39	Used to fund maintenance costs
Property Maintenance Reserve	3	Used to fund backlog property repairs
Corporate Project Reserve	17	Provision for any high priority projects
Community Safety Partnership Fund	1	Used to finance community safety projects
Other Reserves/Accounts	5	Nonsuch Park Joint Management Committee and Epsom, Walton Downs Conservators, trust funds and bonds held
Total Interest Applied	163	
Funded by:		
Interest from Investments	(163)	

7 Interest Equalisation Reserve

- 7.1 The interest equalisation reserve was set up to enable variations in investment returns to be accommodated within the general fund budget without having an adverse effect on the levels of funds available for the delivery of services in year.

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- 7.2 The overall balance on this reserve as at the end of the financial year remains at £631,000. The level of this reserve will be reviewed by Financial Policy Panel in September 2019.

8 Legal Implications (including implications for matters relating to equality)

- 8.1 The legal issues around treasury management have been picked up in the body of the report. The key issue is to appropriately manage the risks around investment, and to ensure that all decisions are taken in accordance with the established governance arrangements.

9 ***Monitoring Officer's comments:*** none arising from the contents of this report.

10 Risk Assessment and Conclusion

- 10.1 Investment performance exceeded the benchmark level in 2018/19. The external fund manager, Aberdeen Asset Management, performed well against the benchmark.
- 10.2 The Council approved the Treasury Management Strategy for 2018/19, which includes a risk management approach to investment of funds and returns.
- 10.3 At 0.75%, the Bank of England base interest rate is marginally above the historic low levels seen since 2009. However, any further increases in interest rates are expected to be gradual and slow. The Council follows a policy of restricting the length of investments, which reduces the risks of loss of capital invested and investments being tied in at lower rates when interest rates do rise. However, this also reduces the level of return that can be achieved on investments.
- 10.4 The Council's externally managed investments of approximately £4.1m million (at 31/03/2019) are held within a pooled fund, valued at around £5.5 billion. This spreads the risk across a much wider number of holdings and reduces the level of fluctuation of the fund throughout the year.
- 10.5 It is currently envisaged that the fund manager will be able to achieve investment returns between 0.95% and 1.05% for 2019/20; this compares to an anticipated return built into the budget of 0.80%.
- 10.6 Any Councillors who have any questions on the treasury management performance for 2018/19 are requested to contact the Chief Finance Officer prior to the meeting.

WARD(S) AFFECTED: (All Wards)