

1. Purpose of the Report

- 1.1 To report on the Treasury Management performance of the Authority for 2014/2015 in line with best practice as prescribed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011).

2. Description of Decision

- 2.1 The Committee is requested to note the Treasury Management performance of the Authority for 2014/2015.

3. Introduction

- 3.1 Sunderland City Council, as lead authority, performs the treasury management function on behalf of the Authority.
- 3.2 This report sets out the annual borrowing and investment performance for the financial year 2014/2015 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by the Authority on 24th March 2014. The Treasury Management Strategy comprises a Borrowing and Investment Strategy which set out the Authority's strategy for borrowing and its policies for managing its investments (which gave priority to the security and liquidity of those investments).
- 3.3 The TM Policy Statement and Strategy complies with best practice, including the Department of Communities and Local Government Investment Guidance which came into effect from 1st April 2010 and it incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The Code of Practice was revised in November 2011 mainly to accommodate the changes to local authority housing finance regulations.

4. Review of Performance 2014/2015 - Summary

4.1 Cost of Borrowing

The performance of the Authority's Treasury Management function continues to contribute significant financial savings that are used to provide funding to support future years' capital programmes and help support the Authority's revenue

budget. The average rate of the lead authority's borrowing at 3.11% is one of the lowest in the country and is in the top quartile when benchmarked against other authorities. This has helped to keep the revenue cost of the Authority's borrowing low in comparison to other Authorities. Section 5 sets out more details of the Authority's Borrowing Strategy, for the information of members.

4.2 Rate of Return on Investments

The Authority has benefited from additional investment income during the year of over £16,500 in cash terms based on a higher rate of return in 2014/2015 of 0.41% as compared to the benchmarked rate of 0.35%. The investment policy continues to reflect the priority to 'protect' the funds of the Authority first and foremost. More details are set out in Section 7 below on the Authority's Investment Strategy and Policy.

4.3 Treasury Management Prudential Indicators

In summary the Authority has not exceeded any of its Treasury Management Prudential Indicators during 2014/2015. These indicators help to control the day to day Treasury Management activity which is closely monitored to ensure limits set each year by the Authority are not exceeded and which means capital expenditure can be appropriately financed and is affordable within the constraints of the revenue budget.

It is also very important that the Authorised Borrowing Limit for External Debt for the Authority which is a statutory limit which must be set each year under section 3(1) of the Local Government Act 2003 is not exceeded. This limit was set at £54.828m for 2014/2015 and the highest level reached by the Authority of £38.322m during the year was well below this limit. More details of all of the Prudential Indicators are set out in Section 6.

5. Borrowing Strategy and Performance – 2014/2015

5.1 The basis of the agreed Borrowing Strategy was to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Authority's future borrowing requirement when market conditions were favourable;
- use a benchmark financing rate of 5.00% for long-term borrowing (i.e. all borrowing for a period of one year or more);
- take advantage of debt rescheduling opportunities as appropriate.

5.2 The Borrowing Strategy has been regularly reviewed by this Committee throughout the year and was updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2014/2015 was based upon the views of the Finance Officer, supplemented with market data, market information and leading economic forecasts provided by the Authority's treasury management adviser, Capita Asset Services.

5.3 The view in February 2014, at the time the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until March 2016 before steadily rising to 1.25% by March 2017 and that PWLB borrowing rates would increase during 2014/2015 across all periods. Financial analysts continue to speculate over the precise timing of any change in rates with most not expecting any movement until the second quarter of 2016.

Sunderland City Council successfully applied to access PWLB loans at a discount of 0.20%. This certainty rate is available for those authorities that provide “improved information and transparency on their locally determined long-term borrowing and associated capital spending plans”. The discount came into effect on 1st November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until 31st October 2015.

5.4 The table below shows the average borrowing rates in 2014/2015.

2014/2015	Qtr 1 (Apr - June) %	Qtr 2 (July – Sept) %	Qtr 3 (Oct – Dec) %	Qtr 4 (Jan – Mar) %
7 days notice	0.35	0.35	0.35	0.41
1 year	1.29*	1.40*	1.24*	1.14*
5 year	2.66*	2.66*	2.23*	1.92*
10 year	3.56*	3.39*	2.91*	2.49*
25 year	4.22*	3.98*	3.60*	3.16*
50 year	4.18*	3.96*	3.60*	3.14*

* Rates take account of the 0.2% discount to PWLB rates available to eligible authorities from 1st November 2012.

The strategy for 2014/2015 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 5.00% for long-term borrowing was set for 2014/2015 in light of the views prevalent at the time the Treasury Management policy was set in March 2014.

The Greek Debt crisis and expectations of low inflation and economic growth have forced the Eurozone via the European Central Bank (ECB) into implementing a significant package of financial support measures to bolster the EU economy. Added to this is the continuing conflict in the Ukraine and other geopolitical concerns which have weighed heavily on global markets in 2014/2015 with the result that there has been considerable movement of funds into UK gilts as investors sought safer investment options. This has had the effect of pushing down both gilt yields and PWLB rates to historic lows. In line with discussions with the Authority’s economic adviser, Sunderland City Council took advantage of the low borrowing rate troughs that have occurred at each stage during the year, which will benefit the Authority’s revenue budget over the longer term. As a result Sunderland City Council has taken out £50 million of new borrowing during the

financial year as these rates were considered opportune at each point in time. The new borrowing is summarised in the following table.

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
50 years	08/08/2014	12/08/2014	12/08/2064	3.84	10.0
50 years	29/08/2014	02/09/2014	02/09/2064	3.72	10.0
50 years	16/10/2014	20/10/2014	20/10/2064	3.54	10.0
49.5 years	03/02/2015	05/02/2015	05/08/2064	2.84	10.0
14.5 years	12/02/2015	16/02/2015	16/08/2029	2.84	10.0

Since taking out this new borrowing, rates have fluctuated with a comparable 50 year rate of 3.08% at 31st March 2015 and have continued to fluctuate upward since (standing at 3.25% at the end of May 2015).

- 5.5 The Treasury Management Strategy for 2014/2015 included provision for debt rescheduling but also stated that because of the proactive approach taken by the Authority in recent years, and because of the very low underlying rate of the Council's long-term debt it would be difficult to refinance long-term loans at interest rates lower than those already in place.
- 5.6 The lead authority's borrowing portfolio position (of which the Authority forms a part) at 31st March 2015 is set out below:

		Principa (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	177.9		
	Market	39.5		
	Other	1.5	218.9	3.11
Variable Rate Funding	Temporary / Other		27.6	0.41
Total Borrowing			246.5	3.11
Total Investments*	All managed In-House		229.7	
Net Position			(16.8)	

* Total investments includes monies invested on behalf of the North Eastern Local Enterprise Partnership for whom Sunderland City Council is the accountable body.

6. Prudential Indicators – 2014/2015

- 6.1 All external borrowing and investments undertaken in 2014/2015 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Authority's performance for all of the other Prudential Indicators as follows:

The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was originally set by the Authority for 2014/2015 in total as £54.828m which was detailed as follows:

	£m
Borrowing	31.555
Other Long Term Liabilities	<u>23.273</u>
Total	<u>54.828</u>

The Operational Boundary for External Debt for 2014/2015 was set at £49.828m as follows:

	£m
Borrowing	26.555
Other Long Term Liabilities	<u>23.273</u>
Total	<u>49.828</u>

Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Authority's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

The Authority's maximum external debt position for 2014/2015 was £38.322m and is well within the borrowing limits set for both of these indicators.

6.2 The table below shows that all other Treasury Management Prudential Indicators for the lead authority have been complied with during 2014/2015.

Prudential Indicators	2014/2015	
	Limit £'000	Actual £'000
P10 Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	250,000	90,181
P11 Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	60,000	15,655
P12 Maturity Pattern	Upper Limit	
Under 12 months	50%	19.57%
12 months and within 24 months	60%	0.66%
24 months and within 5 years	80%	5.69%
5 years plus	100%	83.75%
A lower limit of 0% for all periods		
P13 Upper limit for total principal sums invested for over 364 days	75,000	0

The Lead Authority is currently within the limits set for all of its TM Prudential Indicators.

7. Investment Strategy and Performance – 2014/2015

7.1 The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities in order of importance are:

- 1) The **security** of capital;
- 2) The **liquidity** of its investments and then;
- 3) The Authority aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

The Annual Investment Strategy has been fully complied with in 2014/2015.

7.2 At 31st March 2015 the Authority had outstanding investments of £27.514 million. The table below shows the return made on the Authority's total investments for 2014/2015 compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Authority uses to assess its performance.

	2014/2015 Return	2014/2015 Benchmark
	%	%
In-house Managed Funds	0.41	0.35

7.3 All investments placed in 2014/2015 have been made in accordance with the approved Investment Strategy and comply with the Criteria and the Approved Lending List set by the Authority on 24th March 2014 and also taking into account subsequent revisions reported and approved during the year.

The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Authority. The rate of return on investments, as reported during the year, has remained at very low levels compared to previous years

Investment rates available in the market have continued at historically low levels and due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management adviser is to continue to limit investments to all financial institutions to shorter term periods.

7.4 As Members will be aware, the regular updating of the Authority's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. The Finance Officer has the delegated authority to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported to Authority and the Governance Committee retrospectively, in accordance with normal Treasury Management reporting procedures. Changes made during 2014/2015 have already been reported to Members previously but these are included in the attached Appendices for information.

8. Reasons for Decision

8.1 To note the Treasury Management performance for 2014/2015.

9. Alternative Options

9.1 No alternatives are submitted for Members consideration.

Lending List Criteria

Appendix 1

Counterparty Criteria

The Authority takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management adviser.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	<u>Maximum Deposit</u> £m	<u>Maximum Duration</u>
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					350	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £120 million with a maximum of £50 million in any one fund.					120	Liquid Deposits

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA+ will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above, these new limits are as follows

Appendix 1

Country Limit

It is proposed that only countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £100 million which can be invested in other countries provided they meet the above criteria. A separate limit of £350 million will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	350
Non UK	100

Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	350
Local Government	350
UK Banks	350
Money Market Funds	120
UK Building Societies	100
Foreign Banks	100

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA+; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix 2



Approved Lending List

Appendix 2

	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
UK	AA+	-	Aa1	-	AAA	-	350	2 years
Lloyds Banking Group (see Note 1)							Group Limit 100	
Lloyds Bank Plc	A+	F1	A1	P-1	A	A-1	100	2 years
Bank of Scotland Plc	A+	F1	A1	P-1	A	A-1	100	2 years
Royal Bank of Scotland Group (See Note 1)							Group Limit 100	
Royal Bank of Scotland Group plc	BBB+	F2	Ba1	P-2	BBB-	A-3	100	2 years
The Royal Bank of Scotland Plc	BBB+	F2	A3	P-2	A-	A-2	100	2 years
National Westminster Bank Plc	BBB+	F2	A3	P-2	A-	A-2	100	2 years
Ulster Bank Ltd	BBB+	F2	Baa3	P-3	BBB+	A-2	100	2 years
Santander Group							Group Limit 65	
Santander UK plc	A	F1	A2	P-1	A	A-1	65	364 days
Barclays Bank plc	A	F1	A2	P-1	A-	A-2	50	364 days
Clydesdale Bank / Yorkshire Bank ^{*/**}	A	F1	Baa2	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	Caa2	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A	A-1	65	364 days
HSBC Bank plc	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Nationwide BS	A	F1	A2	P-1	A	A-1	65	364 days
Standard Chartered Bank	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A	F1	A3	P-2	-	-	50	364 days
Leeds BS	A-	F1	A3	P-2	-	-	50	364 days
Newcastle BS ^{**}	BB+	B	-	-	-	-	0	



	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
Nottingham BS **	-	-	Baa2	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa3	P-3	-	-	0	
Skipton BS **	BBB	F2	Baa3	P-3	-	-	0	
West Bromwich BS **	-	-	B2	NP	-	-	0	
Yorkshire BS **	A-	F1	Baa1	P-2	-	-	0	
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA		Aaa		AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Standard Life Investments Liquidity Fund	AAA		-		AAA		50	Liquid
Deutsche Managed Sterling Fund	-		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £100m								
Australia	AAA		Aaa		AAA		100	2 years
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
National Australia Bank	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Westpac Banking Corporation	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Canada	AAA		Aaa		AAA		100	2 years
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Royal Bank of Canada	AA	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Finland	AAA		Aaa		AA+		100	2 years
Nordea Bank Finland plc	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Pohjola Bank	A+	F1	Aa3	P-1	AA-	A-1+	70	364 days
Germany	AAA		Aaa		AA+		100	2 years
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	A1	P-1	AA-	A-1+	70	364 days



	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	100	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Hong Kong	AA+		Aa1		AAA		100	2 years
The Hong Kong and Shanghai Banking Corporation Ltd	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Luxembourg	AAA		Aaa		AAA		100	2 years
Banque et Caisse d'Epargne de l'Etat	-	-	Aa1	P-1	AA+	A-1+	100	2 years
Clearstream Banking	AA	F1+	-	-	AA	A-1+	80	2 years
Netherlands	AAA		Aaa		AA+		100	2 years
Bank Nederlandse Gemeenten	AA+	F1+	Aaa	P-1	AA+	A-1+	100	2 years
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AA+	A-1+	100	2 years
Singapore	AAA		Aaa		AAA		100	2 years
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Sweden	AAA		Aaa		AAA		100	2 years
Nordea Bank AB	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Svenska	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
USA	AAA		Aaa		AA+		100	2 years
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
HSBC Bank USA, N.A.	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
JPMorgan Chase Bank NA	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Northern Trust Company	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years

	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
State Street Bank and Trust Company	AA	F1+	Aa2	P-1	AA-	A-1+	75	2 years
U.S. Bancorp	AA-	F1+	A1	P-1	A+	A-1	70	364 days
Wells Fargo Bank NA	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years

Notes

Note 1

Nationalised / Part Nationalised

The counterparties in this section will have the UK Government's AA+ rating applied to them thus giving them a credit limit of £100m.

* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

