



East
Northamptonshire
Council

Finance Sub Committee – 26 November 2012

Treasury Management Half Yearly Activity Report as at 30 September 2012

Purpose of report

The purpose of this report is to provide Members with an update in the activity of the Treasury Management function for the first half of 2012/13 and the likely performance for the remainder of the year.

Attachment(s)

None

1.0 Background

- 1.1 The Treasury Management Strategy for 2012/13 was underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009. The Treasury Management Strategy for 2012/13 was approved by the Council on 29th February 2012.
- 1.2 The CIPFA Code recommends that Members are informed of treasury management activities at least twice a year; this report therefore embraces best practice.
- 1.3 The report is designed to provide Members with:
 - A summary of the economic conditions affecting the Council's investment strategy,
 - Details of investments made during the first half of the year,
 - A summary of the Council's current investment portfolio.

2.0 Market Conditions

- 2.1 At the time of determining the 2012/13 strategy in February 2012, the Eurozone was in turmoil, with hesitation from the European Central Bank to provide any clear bailout strategy and the prospects for economic growth looking bleak. During the first half of this financial year, a double dip recession was confirmed with lower than forecasted GDP results and the continuation of the coalition's commitment to continued fiscal discipline by sticking to its 'Plan A' for deficit reduction. Inflation continues to fall. By September 2012 CPI and RPI were 2.2% and 2.6% respectively; this is the lowest level in CPI since November 2009. The reduction is largely due to the household utility price increase falling outside of the index calculation.
- 2.2 In September the European Central Bank announced its Outright Monetary Transactions (OMT) facility, which allows the ECB to buy unlimited amounts of 1-3 year sovereign bonds. There was also a higher than forecasted GDP result for September (mainly attributable to the impact of the Olympic Games in July 2012), indicating the possibility of the economy starting to show signs of recovery.
- 2.3 At the time of writing this report, economic growth remains uncertain. Tight credit conditions and weak earnings are constraining consumer and corporate spending. The latest forecast for interest rates, based on information from the Council's treasury advisers Arlingclose, is shown in table 1 below.

Table 1

	Dec -12	Mar -13	Sep -13	Mar - 14	Sep -14	Mar -15	Sep -15
Official Bank Rate							
Upside Risk			0.25	0.25	0.50	0.50	0.50
Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside Risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

3.0 Treasury Management Position and Performance

Investments

- 3.1 Table 2 summarises the council's current portfolio of investments as at 30 September 2012 and the latest rates of return on the instant access accounts. The interest rates on the fixed term deposits are, as the name suggests, fixed for the duration of the investment term.

Table 2

Lender	Amount	Rate %	End Date
Instant Access Accounts			
Santander UK	1,840,613	0.80	
Barclays Business Premium Account Plus	2,020,406	0.60	
Bank of Scotland	999,661	0.75	
Nat West SIBA	978	0.80	
Prime Rate Sterling Liquidity Fund (Money Market Fund)	2,781,720	0.66	
Deutsche Bank Sterling Fund (Money Market Fund)	2,108,622	0.56	
Fixed Term Deposits			
Lloyds TSB	2,000,000	1.35	05/11/12
Nationwide Building Society	<u>3,000,000</u>	0.56	16/11/12
	<u><u>14,752,000</u></u>		

- 3.2 The average return on the council's portfolio for the first half of 2012/2013 is 0.70%. This is 0.18% above the average 7 day LIBID rate of 0.52%.
- 3.3 The amount of interest earned on the Council's portfolio for the first half year of 2012/13 was £37k against an initial budget of £54k.
- 3.4 Due to uncertainty within the market and ongoing weakness in the banking sector, the Council has endeavoured to follow its strategy of keeping liquid money in AAA rated money market funds and instant access accounts with banks that meet the minimum criteria of A- as set out in the policy. This has become an increasing challenge with numerous banks being downgraded and advice from Arlingclose to reduce the amounts held with any one counter party. This limits our ability to maximise interest income on a daily basis. To counter this the Council is reviewing its options, including diversification of investments into certificates of deposit and gilts.

Borrowing

3.6 At the time of writing this report, the redevelopment of the Nene Centre has started, as part of the capital programme approved for 2012/13 and, as outlined in the previous treasury update, may trigger the need for temporary borrowing.

3.7 At present the Council has not had to undertake any temporary borrowing to finance its capital programme and will continue to closely monitor its cash flow requirements on a regular basis, to ensure the best use of cash resources.

4.0 Equality and Diversity Implications

4.1 This report is for information. There are no equality and diversity implications arising from the content.

5.0 Legal Implications

5.1 This report is for information. There are no legal implications arising from the content.

6.0 Risk Management

6.1 This report is for information. There are no significant risks arising.

7.0 Financial Implications

7.1 The financial implications of the current economic climate on the expected level of investment income are set out in paragraph 2.3.

8.0 Corporate Outcomes

8.1 The report demonstrates support for the following corporate outcomes:

- Good Value for Money
- Effective Management

9.0 Recommendation

9.1 The Working Party is recommended to note the Treasury Management performance (*Reason – in accordance with CIPFA guidance and best practice in Treasury Management*)

Legal	Power: Local Government Act 2003				
	Other considerations: Prudential Code				
Background Papers:	Treasury Management Policy and working papers.				
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Date:	14 November 2012				
CFO		MO		CX	

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