Agenda Item 8

East Northamptonshire Council

Finance Sub Committee – 24 June 2013

Treasury Management Report 2012/13

Purpose of report

The purpose of this report is to report the final position for Treasury Management 2012/13.

Attachment(s)

None

1.0 Background

1.1 The Treasury Management Strategy for 2012/13 was approved as part of the Medium Term Financial Strategy (MTFS) in February 2012. The Treasury Management Strategy was underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009.

1.2 The CIPFA Code of Practice recommends that Members are informed of treasury management activities at least twice a year; this report therefore embraces best practice.

1.3 The report provides:

- A summary of the economic conditions affecting the Council's investment strategy
- Details of investments made during the year
- A summary of the Council's current investment portfolio.

1.4 The Council's investment priorities are:

- Security of capital invested
- Liquidity of capital invested
- Return on investment

2.0 Market Conditions

2.1 The global outlook stabilised mainly due to central banks maintaining low interest rates and expansionary monetary policy for an extended period. Equity market assets recovered sharply with the FTSE 100 registering a 9.1% increase over the year. This was despite economic growth in G-7 nations being either muted or disappointing.

2.2 In the UK the economy shrank in the first, second and fourth quarters of calendar 2012. It was the impressive 0.9% growth in the third quarter, aided by the summer Olympic Games, which allowed growth to register 0.2% over the calendar year 2012. The expected boost to net trade from the fall in the value of sterling did not materialise, but raised the price of imports, especially low margin goods such as food and energy. Avoiding a 'triple-dip' recession became contingent on upbeat services sector surveys translating into sufficient economic activity to overhaul contractions in the struggling manufacturing and construction sectors.

2.3 Household financial conditions and purchasing power were constrained as wage growth remained subdued at 1.2% and was outstripped by inflation. Annual CPI dipped below 3%, falling to 2.4% in June before ticking up to 2.8% in February 2013. Higher food and energy prices and higher transport costs were some of the principal contributors to inflation remaining above the Bank of England's 2% CPI target.

2.4 The lack of growth and the fall in inflation were persuasive enough for the Bank of England to maintain the Bank Rate at 0.5% and also sanction additional £50 billion asset purchases (QE) in July, taking total QE to £375 billion. The possibility of a rate cut was discussed at some of Bank's Monetary Policy Committee meetings, but was not implemented as the potential drawbacks outweighed the benefits of a reduction in the Bank Rate. In the March Budget the Bank's policy was revised to include the 2% CPI inflation remit alongside the flexibility to commit to intermediate targets.

3.0 Treasury Management Activity

3.1 At the start of 2012/13 there was uncertainty surrounding the amount of risk in the banking sector. Subsequently, advice from Arlingclose, the Council's Treasury Management Advisors, was to invest surplus cash for shorter durations. As a result of this advice the Council invested its surplus cash in overnight deposit accounts with a limited number of Counterparties.

3.2 This uncertainty and advice from Arlingclose meant that there were very few opportunities to invest surplus cash for longer durations in Fixed Deposits.

3.3 Investing for shorter durations reduces the counterparty risk the Council is exposed to but also reduced the yield (interest rate) that the Council can achieve. This can have an impact on investment returns for the year, and did have an impact on the Council as the investment rates achieved were lower during the start of 2012/13.

3.4 Later in the financial year the advice from Arlingclose was revised and this included extending the limit for investment duration from overnight (very short deposits) to 6 to 12 months.

3.5 This gave the Council the opportunity to increase the duration of investment. The Council was able to invest in fixed deposits for periods up to 3 months. This increased duration allowed the Council to access slightly higher rates of interest being quoted across the money markets.

4.0 Treasury Management Position and Performance

4.1 **Table 1** summarises the Council's investment portfolio as at 31st March.

Table 1

Lender	**Amount**		**Rate (%)**	**Maturity Date**
Instant Access Accounts				
Santander UK	£2,857,950		0.80%	
Barclays Bank	£389,216		0.60%	
Bank of Scotland	£1,740		0.75%	
NatWest	£984		0.80%	
Prime Rate (MMF)	£1,690		0.44%	
Deutsche Bank (MMF)	£954	**£3,252,534**	0.38%	
Fixed Term Deposits				
Lloyds TSB	£1,000,000		0.70%	08/04/2013
Lloyds TSB	£2,000,000		0.70%	07/05/2013
Nationwide Building Society	£3,000,000	**£6,000,000**	0.44%	20/05/2013
Total Investments at 31/03/2013		**£9,252,534**		

4.2 The average return on the council's portfolio for 2012/2013 is 0.67%. This is 0.18% above the benchmark, 7 day LIBID rate of 0.49%.

4.2 The amount of interest earned on the council's portfolio for 2012/2013 was £64k.

4.3 The Treasury Management performance during 2012/13 compared to budget is set out in **Table 2**.

Table 2
Treasury Management Budget vs. Outturn

	Budget £000	Outturn £000	Variance £000	
Investments	(£53.8)	(£64.0)	(£10.2)	Return on investments were lower than anticipated, however, the Council held higher cash balances than budgeted.
Borrowing	£76.9	£0.0	(£76.9)	Re-profiling of the Capital Programme meant that borrowing was not required in the short term
Total	**£23.2**	**(£64.0)**	**(£87.2)**	

5.0 Equality and Diversity

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

6.0 Legal Implications

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

7.0 Risk Management

7.1 This risks arising from Treasury Management activity are recorded in the Risk Register. The risks are constantly under review.

8.0 Financial Implications

8.1 This report is for information, there are no financial implications arising from this report.

9.0 Corporate Outcomes

9.1 The report demonstrates support for the following corporate outcomes:

- Good Value for Money
- Effective Management

10.0 Recommendation

10.1 Finance Sub Committee is recommended to:

- Note the Treasury Management performance

(Reason – in accordance with CIPFA guidance and best practice in Treasury Management)

Legal	Power:				
	Other considerations:				
Background Papers:	Treasury Management Strategy 2012/13 Medium Term Financial Strategy (MTFS) 2012/23				
Person Originating Report:	Kelly Watson, Finance Manager, 01832 742267 kwatson@east-northamptonshire.gov.uk				
Date: 11 June 2013					
CFO **13.6.2013**		**DMO**		**CX** **12.6.2013**	D. Oliver