Finance Sub Committee – 18 November 2013

Treasury Management Report Quarter 2 2013/14

Purpose of report

The purpose of this report is to note the latest position for Treasury Management 2013/14.

Attachment(s)

None

1. Introduction

1.1. The Treasury Management Strategy for 2013/14 was approved as part of the Medium Term Financial Strategy (MTFS) in February 2013. 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. Market Conditions

2.1. **Growth:** The UK economy showed some improvement, with consumer spending boosting growth. GDP for the first quarter of 2013 was revised up to +0.4% and for the second quarter was +0.7%. Recent data suggests a stronger rate in quarter three. Revisions by the Office of National Statistics to GDP back-data showed the UK avoided a double-dip recession in 2012, but that the downturn in 2008-09 was deeper than previously estimated. Growth is now still over 3% below its peak back in 2007.

2.2. Some positive signs for household spending emerged. The deterioration in real earnings growth (i.e. earnings less inflation) slowed, which implied a slower erosion of purchasing power. Consumer confidence improved. Household savings rates remained high, which is unsurprising given the uncertain economic outlook, but appear to be on a downward track, suggesting spending was being driven by borrowing or lower savings. This raises questions about the sustainability of the recovery at these rates of growth.

2.3. **Inflation:** Annual Consumer Price Index (CPI) for August (published September) was 2.7%. Inflation fell in line with expectations and is expected to remain close to this level throughout the autumn. Further out, inflation should fall back towards the 2% target as external price pressures fade and a revival in productivity growth curbs domestic cost pressures. The oil price (Brent Crude) climbed above $100/barrel on the back of political unrest in Egypt and the unresolved crisis in Syria.

2.4. **Monetary Policy:** There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively.

2.5. Whilst the outlook for the global economy appeared to have improved over the first half of calendar 2013/14, significant economic risks remain, particularly in China and the Eurozone. The Chinese banking system is facing tighter liquidity conditions as officials seek to slow down rampant credit growth, and, despite the time gained by the European Central Bank (ECB) to allow individual members and the Eurozone as a whole to reform their economies, the Eurozone debt crisis has not gone away.

2.6. **Interest Rates:** The latest forecast for interest rates, based on information from the Council's Treasury Management advisors, is shown below:

Official Bank Rate	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Mar-16
Upside Risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75
Central Case	**0.50**	**0.50**	**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	0.25	0.25

3. Treasury Management Activity

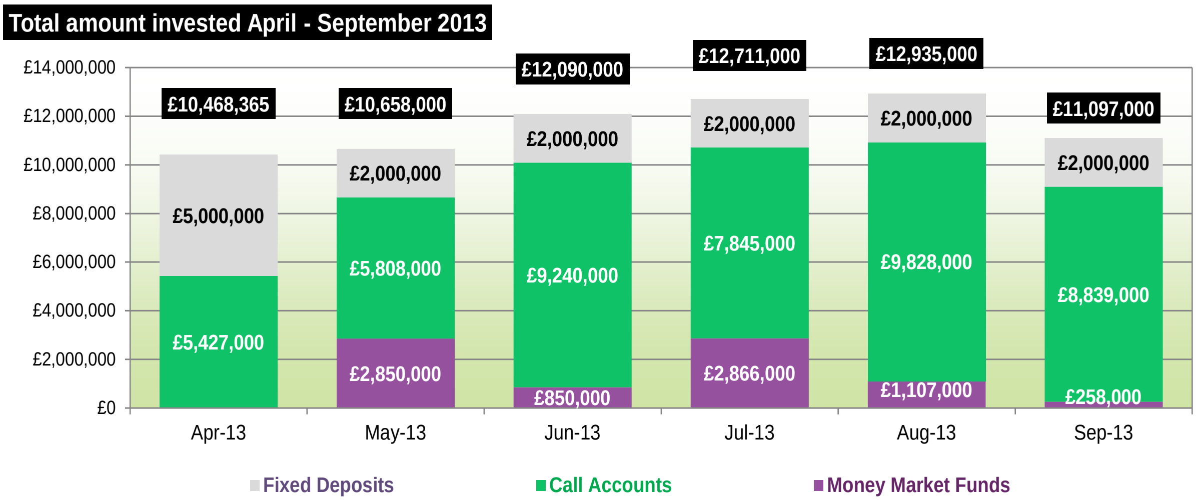
3.1. During the first half of the year, the opportunity for the Council to invest its surplus cash for periods in excess of 12 months in duration has diminished.

3.2. Investing for shorter durations reduces the counterparty risk the Council is exposed to but also reduces the yield (interest rate) the Council can achieve. This has impacted on the average investment rates achieved for the first half of 2013/14.

3.3. The Council will continue to monitor the economic outlook and money markets to ensure it is able to achieve a yield in line with market expectations whilst ensuring security and liquidity of capital are maintained.

3.4. Future investment decisions will be made within the parameters of the Annual Treasury Management Strategy and in line with advice from the Council's Treasury Management Advisors.

3.5. The charts below demonstrate the change in investment type (i.e. shift towards shorter investments) over the first half of 2013/14.



3.6. Call accounts and Money Market Funds (MMF) are very short term, liquid investments. They are generally overnight deposits or short term notice accounts where the balance invested can be withdrawn immediately. Fixed Deposits are investments with a longer duration, where cash is invested for a contractually agreed period with no opportunity to withdraw cash prior to the maturity date of the deposit.

4. Treasury Management Position and Performance

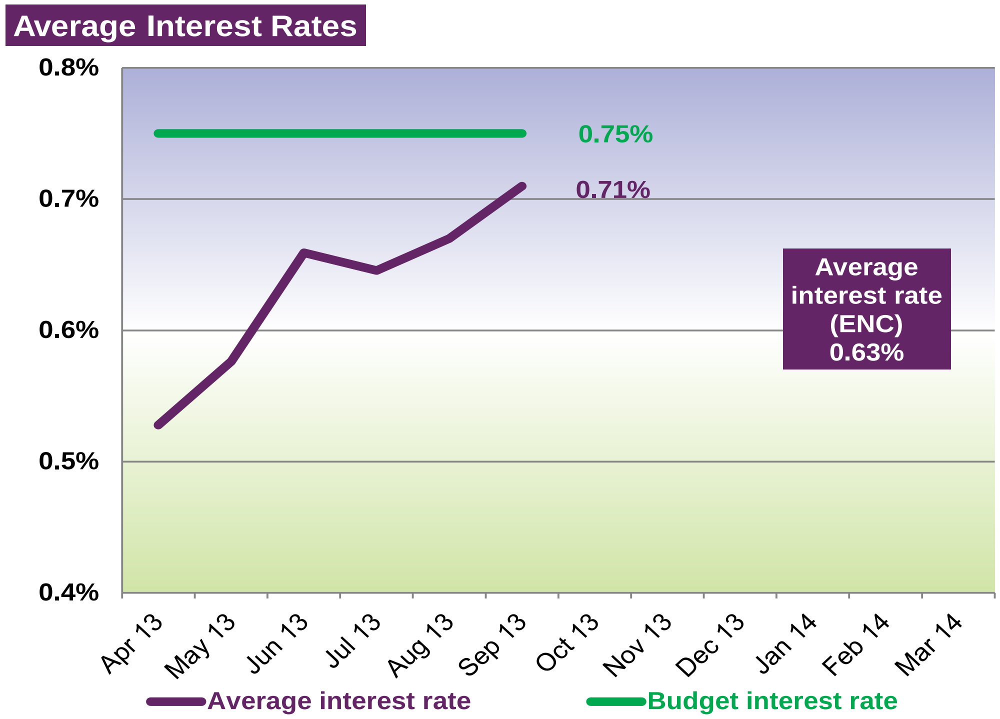
4.1. The table below summarises the council's current portfolio of investments as at 30 September 2013.

Counterparty / Lender	Amount	Rate %	Maturity Date
Call Accounts			
Santander UK	£2,857,950	0.80	
Bank of Scotland	£7,642	0.40	
Close Brothers (30 day notice)	£2,990,164	1.00	
Nat West SIBA	£2,983,693	0.50	
Federated Sterling Liquidity Fund (Money Market Fund)	£256,992	0.41	
Deutsche Bank Sterling Fund (Money Market Fund)	£754	0.32	
Fixed Term Deposits			
Lloyds Bank	£2,000,000	0.80	22/11/2013
	£11,097,195		

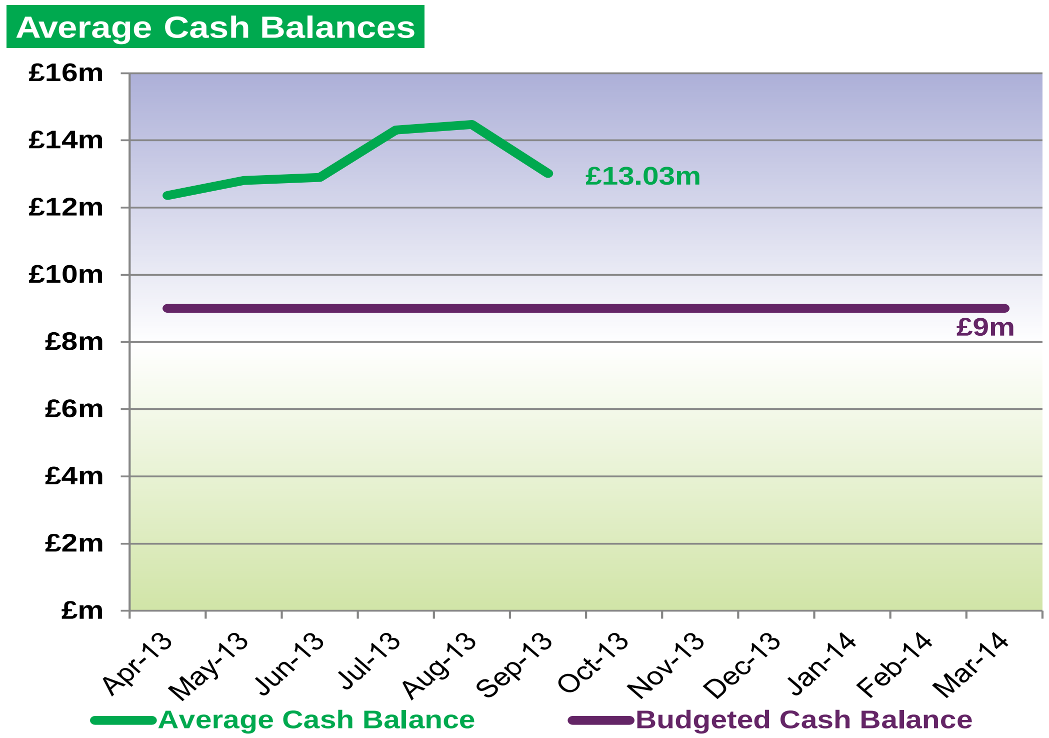
4.2. The average return on the Council's portfolio to 30 September 2013 is 0.63%. This is 0.25% above the average 7day London Interbank Bid Rate (LIBID) of 0.38%.

4.3. The amount of interest earned on the Council's portfolio for the period is £42,242 against an annual budget of £67,500.

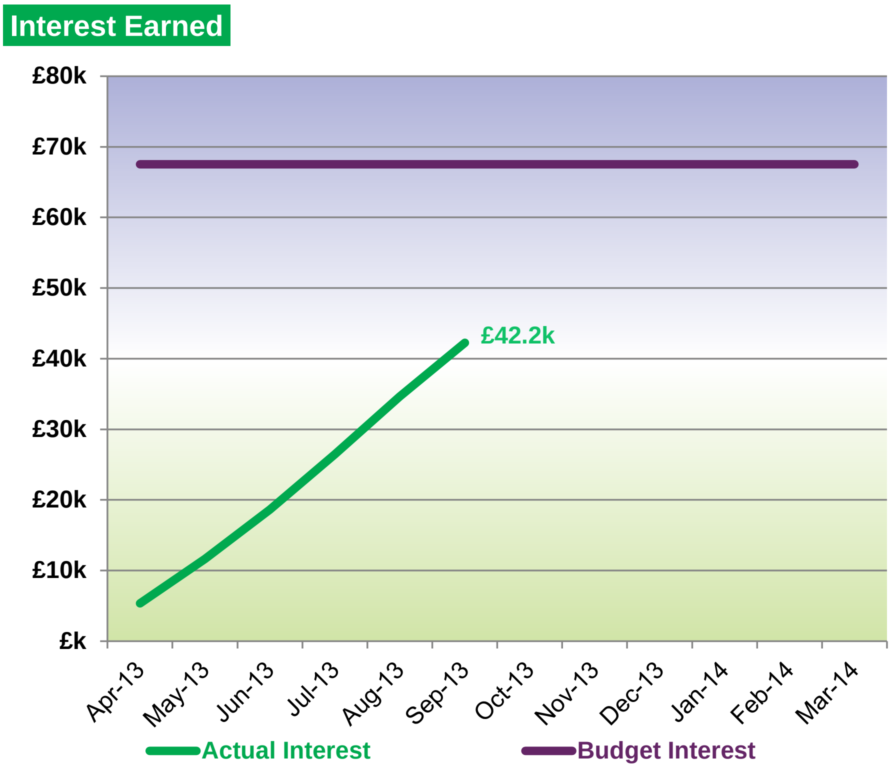
4.4. As detailed above, the Council's current interest rate achievable on its investment portfolio is lower than anticipated when the budget was set in February 2013.



4.5. The level of cash balances held by the Council is higher than anticipated when the budget was set in February 2013. The increase in cash balances is largely due to the income received as a result of Nene Centre Roof mediation settlement.



4.6. Although the Council's investments are achieving lower rates of return, the volume of cash being held means that the amount of interest receivable remains on target to achieve the budget (£67,500) as shown below.



4.7. During 2013/14 the capital reserves will be fully depleted. Delayed asset sales will lead to a requirement for short term borrowing to support the capital programme expenditure in 2013/14. The Council is planning to use its surplus cash reserves to finance this borrowing requirement in 2013/14, rather than borrowing externally. There will be an opportunity cost of using surplus cash reserves to finance the capital programme, namely lost investment income on the surplus monies. However, this is considered a better value for money option than borrowing externally at this point in time, and will be kept under review as the interest rate environment changes.

4.8. As a result of using surplus monies there has been no requirement during quarter 2 to undertake any external borrowing. No interest payable has been incurred during this period.

4.9. The overall Treasury Management performance during quarter 2 is set out below.

Treasury Management Budget vs. Outturn				
	Budget £000	Outturn £000	Variance £000	
Investments	(£67,500)	(£67,500)	£0	Lower interest rates being achieved, offset by higher than expected cash balances
Borrowing	£180,636	£45,159	(£135,477)	External Borrowing not requried (Apr to Dec 2013)
Total	**£113,136**	**(£22,341)**	**(£135,477)**	

5. Equality and Diversity Implications

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

6. Legal Implications

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

7. Risk Management

7.1. This risks arising from Treasury Management activity are recorded in the Risk Register. The risks are subject to regular review and update.

8. Financial Implications

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

9. Corporate Outcomes

9.1. The report demonstrates support for the following corporate outcomes:

- Effective Management - *the report demonstrates that the Council is effectively managing its surplus reserves and cash balances*

10. Recommendations

10.1. Finance Sub Committee is recommended to note the Treasury Management performance for quarter 2 2013/14.

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

<table>
<tr><td rowspan="2">Legal</td><td colspan="5">Power:</td></tr>
<tr><td colspan="5">Other considerations:</td></tr>
<tr><td colspan="6">Background Papers:</td></tr>
<tr><td colspan="6">Person Originating Report: Kelly Watson, Finance Manager,
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<tr><td>CFO</td><td></td><td>MO</td><td></td><td>CX</td><td></td></tr>
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