

# REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF: HEAD OF FINANCE**

**REPORT NO: HOF 212**

**DATE: 6<sup>th</sup> December 2012**

<b>TITLE:</b>	<b>Treasury Management Activity 2012/13 – Mid Year Review</b>	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	None	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Councillor Mike Taylor Resources and Assets Portfolio Holder	
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<b>INITIAL IMPACT ASSESSMENT:</b>	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
<b>Equality and Diversity</b>	N/A	No
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	HOF189 - Budget Council	

## 1. RECOMMENDATION

Members are asked to note the mid-year activity position of 2012-13 (April 2012 to September 2012)

## 2. PURPOSE OF THE REPORT

**Treasury Management** is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services. In line with the Code the Council has adopted a treasury management policy statement that requires regular reports on treasury and debt management operations during the financial year.

Additionally, under Part 1 of the Local Government Act 2003, the Council is required to have regard to the Prudential Code for Capital Finance including the setting of Prudential Indicators. Relevant treasury management indicators were incorporated into the Treasury Management Strategy 2012/13 approved by Council on 1<sup>st</sup> March 2012.

This report is submitted in accordance with these requirements and provides a review of treasury management for the period ended 30 September 2012 and reviews current developments.

The CIPFA Treasury Management Panel promotes the view that Council's monitor performance at least half yearly. In addition to this, a report by the Audit Commission entitled 'Risk and Return' identifies the need for Local Authorities to report regular to members in addition to the annual review.

### **3. DETAILS OF REPORT**

This report sets out the following for the 6 month period from 1 April to 30 September 2012:

- a. A review of debt management operations;
- b. A review of investment operations;
- c. A summary of interest rate movement and investment performance; and
- d. An update on the treasury management Prudential Code Indicators.

#### DEBT MANAGEMENT OPERATIONS

##### Long Term Borrowing

No additional long term borrowing was required during Quarter 2. All Council borrowing is with the Public Works Loans Board (PWLB). The average rate of interest paid on the debt portfolio was 2.96%. Appendix A is a schedule of loans outstanding at 30 September 2012. At the point in time when some of the PWLB loans were taken these do appear high in the context of today's interest rates. The overall average is greatly reduced following the HRA self financing arrangements which was taken at a much lower rate. Regular reviews are undertaken to review redemption costs of natural maturity against new borrowing to settle the outstanding debt early. Currently, it is not cost effective to settle early but the position continues to be reviewed in conjunction with our Treasury Management advisors. As part of borrowing requirements around the HRA self financing proposals the Council has created two separate debt portfolios which apportion the existing debt above between the General Fund and HRA.

### Short-Term/Temporary Borrowing

This can be defined as borrowing which is due to be repaid within 364 days. No loans were repaid during the reporting period.

### INVESTMENT OPERATIONS

The average size of the investment portfolio for the 6 month period was £42.8 million compared to an average portfolio size of £39.6 million during the same period in 2011/12. These cash balances are used for investment, which include balance sheet reserves and provisions, unapplied capital receipts and grants and also cash arising from the timing of large receipts and payments.

### Investment Activity in the period ended 30 September 2012

The Council uses a number of methods to invest its reserves which include direct deposit, money market funds and certificates of deposit held with King and Shaxson's custodian service. A schedule of investments at 30 September 2012 can be found at Appendix B.

As at 30 September 2012 the Council held short term investments of £37.7 million, and £3 million long term investment. The Treasury Management Strategy stipulates that the Council should hold not more than 25% of investments as long term and this was adhered during the first half of 2012/13.

Short Term Fixed Deposits – In the period ended 30 September 2012 short term fixed deposits were made on 8 occasions for £15 million. £40.7 million of deposits were being lent out as at 30 September 2012.

Service Investments – In July 2012 a fixed rate deposit of £1 million was placed with Lloyds TSB for a period of 5 years at 3.79% for the Local Authority Mortgage scheme (LAMS). As at 30<sup>th</sup> September 2012, 2 loans have been completed with an indemnity amount of £37,200 and a further 4 loans are in progress.

### Economy Background

Prospects for the UK economy to recover swiftly from recession, suffered a major blow in August when the Bank of England substantially lowered its expectations for the speed of recovery and rate of growth over the coming months and materially amended its forecasts for 2012 and 2013. It was noted that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that on-going negative expectations in that area would inevitably permeate into the UK's economic performance.

With regard to the Eurozone, investor confidence remains weak because successive "rescue packages" have first raised, and then disappointed, market expectations. However, the uncertainty created by the continuing Eurozone debt crisis is having a major effect in undermining business and consumer confidence not only in Europe and the UK, but also in America and the Far East/China.

In the UK, consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. Whilst inflation has fallen considerably (CPI @ 2.6% in July), UK GDP fell by 0.5% in the quarter to 30 June, the third quarterly fall in succession. It is also the slowest recovery from a recession of any of the five UK recessions since 1930 and total GDP is still 4.5% below its peak in 2008.

The Monetary Policy Committee has kept Bank Rate at 0.5% throughout the period while quantitative easing was increased by £50bn to £375bn in July.

On a positive note, despite all the bad news on the economic front, the UK's sovereign debt remains one of the first ports of call for surplus cash to be invested in and gilt yields, prior to the ECB bond buying announcement in early September, were close to zero for periods out to five years and not that much higher out to ten years.

#### Expected future activity

It is expected that low growth in the UK will continue, with Bank Rate unlikely to rise in the next 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed. The Bank of England has also cut their growth rate predictions from 2% to 1% for next year and expects inflation to remain higher for longer.

#### TREASURY MANAGEMENT PRUDENTIAL CODE INDICATORS

Prudential Code indicators specific to treasury management are designed to ensure that treasury management is carried out in accordance with professional practice. Indicators for 2012/13, 2013/14 and 2014/15 were approved by Council in March 2012 as part of the Treasury Management Strategy 2012/13.

The 2012/13 indicators and actual figures for the 6 months to 30 September 2012 are set out at Appendix C. All investment activity has been maintained within the indicator limits.

#### **4. OTHER OPTIONS CONSIDERED**

None

#### **5. RESOURCE IMPLICATIONS**

This report has no direct impact on the Council's resources, including finance/ budget, people, land/property etc.

#### **6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)**

There are no high risks associated with this report.

**7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT**

None

**8. CRIME AND DISORDER IMPLICATIONS**

None

**9. COMMENTS OF FINANCIAL SERVICES**

The financial implications are laid out in the main body of the report. The detail presented is in line with best practice and current guidance.

**10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

This report provides details of the Council's performance in respect of treasury management against the policy set out as part of the Budget and Policy Framework. Members should note the performance and scrutinise any elements to assist the role of the Governance and Audit Committee in its review of the Treasury Management strategy.

**11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER**

None

**12. APPENDICES:**

- A – Debt Maturity Analysis
- B – Investment Maturity Analysis
- C – Treasury Management Prudential Indicators

## APPENDIX A

### Debt Maturity Analysis

#### Public Works Loan Board

<b>Maturing within</b>	<b>At 30 Sept 2012 £</b>	<b>Interest rate %</b>	<b>Maturity Date</b>
Under 12 months	500,000.00	10.375	09-May-13
12 months to 2 years	500,000.00	10.500	09-Nov-13
2 to 5 years	500,000.00	10.875	09-May-15
	500,000.00	9.000	09-May-17
5 to 10 years	500,000.00	9.125	09-Nov-17
	25,000,000.00	1.990	27-Mar-20
Over 10 years	95,041,133.33	3.030	28-Mar-42
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Total	122,541,133.33	2.960	(average rate)

## APPENDIX B

### Investment Maturity Analysis

#### Schedule of Managed Cash Funds

	<b>As at 30 Sept 2012</b>	<b>Average interest rate</b>
	<b>£</b>	<b>%</b>
<u>Short term investment</u>		
Natwest SIBA	nil	0.800
Natwest 30 Day Notice	2,000,000.00	1.000
RBS Global Treasury Fund	595,000.00	variable
Federated Prime Rate MMF	4,300,000.00	variable
Insight £ LQF	2,000,000.00	variable
Ignis Liquidity Funds	4,500,000.00	variable
BNP Paribas MMF	4,300,000.00	variable
Certificates Of Deposit	4,000,000.00	1.300
Short term Investment	16,000,000.00	2.969
<u>Long term investment</u>		
Lloyds TSB	3,000,000.00	3.017
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Total	40,695,000.00	1.80
<u>Service Investment</u>		
Lloyds TSB - LAMS	1,000,000.00	3.790

## **APPENDIX C**

### **TREASURY MANAGEMENT PRUDENTIAL CODE INDICATORS**

Treasury Management Prudential Indicators and Limits on Activity for South Kesteven District Council.

Treasury Management Indicators – Comparison for 2012/13 estimate to actual position for the 6months to 30 September 2012.

#### **Maturity Structure of borrowing – upper and lower limits**

**Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate**

	Upper Limit %	Actual Limit %
Under 12 months	40	0.4
12 months and within 24 months	40	0.4
24 months and within 5 years	100	0.8
5 years and within 10 years	100	20.8
10 years and above	100	77.6

Maturity structure of borrowing – these gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Total principal funds invested for greater than 365 days. These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.

#### **External debt indicators**

##### **Authorised limit for external debt**

	2012-13 £'000	Actual To date £'000
Borrowing	148,000	122,541
Other long term liabilities	0	0
<b>Total</b>	<b>148,000</b>	<b>122,541</b>

The authorised limit – this represents the limit beyond which borrowing is prohibited, and needs to be set and revised by members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

**Operational boundary for external debt**

	2012-13 £'000	Actual To date £'000
Borrowing	123,685 *	122,541
Other long term liabilities	0	0
<b>Total</b>	<b>123,685</b>	<b>122,541</b>

\* Average of 2011-12 + 2012-13

The operational boundary – this indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.