

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: HEAD OF FINANCE

REPORT NO: HOF 255

DATE: 21st November 2013

TITLE:	Treasury Management Activity 2013/14 – Mid Year Review	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Councillor Mike Taylor Resources and Assets Portfolio Holder	
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INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
Equality and Diversity	N/A	No
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	HOF225 - Budget Council The above reports can be located by putting their reference number in the search section of the committee website via the link below: http://moderngov.southkesteven.gov.uk/ieDocSearch.aspx?bcr=1	

1. RECOMMENDATION

Members are asked to note the mid-year activity position of 2013-14 (April 2013 to September 2013)

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 2013/14 approved by Council on 1st March 2013.

This report is submitted in accordance with these requirements and provides a review of treasury management for the period ended 30 September 2013 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 2013:

- 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 2.93%. Appendix A is a schedule of loans outstanding at 30 September 2013. 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. One loan was repaid during the reporting period of £0.500m.

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 2012/13. 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 2013

The Council uses a number of methods to invest its reserves which include direct deposit and money market funds. A schedule of investments at 30 September 2013 can be found at Appendix B.

As at 30 September 2013 the Council held short term investments of £28.4 million, and £10 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 2013/14.

Short Term Fixed Deposits – In the period ended 30 September 2013 short term fixed deposits were made on 2 occasions for £4 million. £38.4 million of deposits were being lent out as at 30 September 2013.

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 30th September 2013, 29 loans have been completed with an indemnity amount of £841,646. At the Council meeting in July 2013 a further £1M was approved to support the scheme and the maximum loan size per application was increased to £147,250 in order to increase the take up of the scheme in the PE9 area.

Economy Background

In the UK, the Bank of England August 2013 Inflation reports a weaker inflation outlook, expected to reach target rate by Q3 of 2015 and remain below 2% for the rest of the forecast period. The economy continued to show positive growth in Q2 2013 at 7%. The Chancellors Budget downgraded forecasts of GDP growth in 2013 and 2014 to 0.6% and 1.8% respectively. Public Sector net Borrowing forecasts were raised and total debt as a percentage of GDP would not now start falling until 2014/18.

The loss of the UK's 'triple A' credit rating by Moody's and Fitch did not come as much of a shock to the markets but emphasised the lack lustre performance of the economy. Much of the UK GDP is dependent on overseas trade; high correlation of UK growth to

US and EU GDP growth means that the UK economy is likely to register weak growth in the next two years. Consumers are likely to remain focused on paying down debt; weak consumer sentiment and job security fears will all act to keep consumer expenditure suppressed. The coalition government have been hampered in promoting growth by the need to tackle the budget deficit and there has been little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.

Alongside Eurozone concerns, there is potential for even more QE to keep gilt yields suppressed during the next twelve months. 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.

Expected future activity

Q2 UK GDP displayed further growth in the economy, rising 0.7%, following the revised 0.4% rise in Q1. Compared with a year ago, output was 1.3% higher and better than the original estimate. Growth was attributed to net trade which provided a significant boost for Q2.

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 2013 as part of the Treasury Management Strategy 2013/14.

The 2013/14 indicators and actual figures for the 6 months to 30 September 2013 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

Maturing within	At 30 Sept 2013 £	Interest rate %	Maturity Date
Under 12 months	500,000.00	10.500	09-Nov-13
12 months to 2 years	500,000.00	10.875	09-May-15
2 to 5 years	500,000.00	9.000	09-May-17
	500,000.00	9.125	09-Nov-17
5 to 10 years	25,000,000.00	1.990	27-Mar-20
Over 10 years	91,819,399.99	3.030	28-Mar-42
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Total	118,819,399.99	2.926	(average rate)

APPENDIX B

Investment Maturity Analysis

Schedule of Managed Cash Funds

	As at 30 Sept 2013	Average interest rate
	£	%
<u>Short term investment</u>		
Natwest SIBA	4,000,000.00	0.800
Natwest 95 Day Notice	4,000,000.00	0.500
RBS Global Treasury Fund	nil	variable
Federated Prime Rate MMF	3,403,500.00	variable
Insight £ LQF	nil	variable
Ignis Liquidity Funds	5,000,000.00	variable
BNP Paribas MMF	nil	variable
Certificates Of Deposit	nil	
Short term Investment	12,000,000.00	1.115
<u>Long term investment</u>		
Lloyds TSB	10,000,000.00	1.74
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Total	38,403,500.00	1.04
<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 2013/14 estimate to actual position for the 6months to 30 September 2013.

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	1.8
12 months and within 24 months	40	2.7
24 months and within 5 years	100	9.4
5 years and within 10 years	100	34.6
10 years and above	100	51.5

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 364 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

	2013-14 £'000	Actual To date £'000
Borrowing	139,652	128,956
Other long term liabilities	0	0
Total	139,652	128,956

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

	2013-14 £'000	Actual To date £'000
Borrowing	124,191 *	128,956
Other long term liabilities	0	0
Total	124,191	128,956

* Average of 2012-13 + 2013-14

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.