Agenda Item No. 19

CABINET

11 JUNE 2013

SECTION 151 OFFICER MATT BOWMER

CABINET MEMBER WITH RESPONSIBILITY FOR FINANCE, PERFORMANCE AND LGSS: COUNCILLOR BILL PARKER

Subject:	Treasury Management Report, Outturn 2012-13
Recommendations:	To note the Treasury Management Report, Outturn 2012-13

1. Purpose of Report

1.1 This report provides the fourth quarterly update on the Treasury Management Strategy 2012-13, approved by Council in February 2012.

2. Relevant Corporate Outcomes

2.1 The content of this report supports the delivery of the following corporate outcomes:

Perspective	Outcome
Finance – to finance our vision, what must we do efficiently, effectively and economically?	• Maximised income and new funding mechanisms • Exploited fixed assets • Targeted spend and investments • Sustainable social resourcing

3. Background

3.1 Treasury Management is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code). The Code has been developed to meet the needs of Local Authorities and its recommendations provide a basis to form clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

3.2 The Code was adopted via the annual Treasury Management Strategy Statement (TMSS), which was approved by Council in February 2012. It requires the Council to produce an annual treasury report and a mid year report. Alongside these Cabinet will be provided with quarterly updates on progress against the strategy.

3.3 This report provides an update for the period to 31st March 2013.

4. Consultation and Scrutiny

4.1 This report has been developed in consultation with the Council's external investment managers and treasury advisers, Sector.

4.2 The report will also be subject to scrutiny through the Fiscal Outturn Sub Group of the Financial and Performance Scrutiny Committee.

5. Alternative Options Considered

5.1 This report has been based on factual information in accordance with Cabinet requirements.

6. Summary of Key Headlines

6.1 The main highlights for the quarter are:

- In house investment returns received on cash balances continue to compare favourably to the benchmarks. A return of 1.4% was achieved compared to the 3 month LIBID benchmark of 0.4% (see section 10.7). The appropriateness of the benchmark will be considered in 2013-14 given the disparity between actual investment returns achieved and benchmark yields.

- The underspend of £1.081m is partly as a result of a one off accounting adjustment from the available for sale reserve following a year end review. This relates to previous years net gains held on the balance sheet for the Investec Fund which had not been recognised. As a result £0.460m will be recognised in the Income and Expenditure account in 2012-13. In addition, there has been a net benefit of £0.621m which has been achieved by a more favourable net borrowing position over the course of the year.

7. The Economic Environment

7.1 UK economy technically avoided a triple dip recession as preliminary estimates showed growth of 0.3% for the quarter ending March.

7.2 Household spending, both on and off the high street, appears to have started the year on a stronger footing as retail sales indicators showed a rise in February of 2.1% which more than offset January's fall of 0.7%.

7.3 The latest data in respect of the unemployment suggests that the labour market's recent resilience is coming to an end. Employment continued to grow by 131,000 in the 3 months to January but this was at a slower than the 175,000 seen in the fourth quarter. Unemployment data was also softer with the International Labour Organisation showing a 7,000 rise in the three months to January, the first increase in a year.

7.4 The Budget contained a reaffirmation of the Monetary Policy Committee (MPC) 2% inflation target along with some minor tweaks to the MPC's remit, which will allow the MPC more flexibility in the communication of its policy. This fell short of speculation that the government could suspend of even scrap the 2% inflation target.

7.5 CPI inflation rose from 2.7% to 2.8% in March and fell to 2.4% in April. The largest downward contribution came from transport costs, motor fuel and airport fares.

7.6 The minutes from the MPC meeting in February showed that three members of the MPC, including Governor, Mervyn King were out voted in respect of seeking further increases quantitative easing. The asset purchase programme remains at £375bn since November 2012.

7.7 Asset prices in the UK and overseas largely continued to rise since the start of the year. Gilt prices were volatile, with the yield on 10-year gilts hitting 2.2% in early March, before falling back to 1.72% at the end of the quarter. The FTSE 100 rose from 5,897 to 6,400 during the quarter and has risen further since the end of March.

7.8 The economic recovery in the US appeared to gather momentum over the first quarter as indices show consistency with annualised growth of close to 3%. The level of growth of private payrolls also accelerated during the period, however the expiry of the payroll tax cut at the start of the year will hit real incomes.

7.9 In the Eurozone, crisis flared up again at the end of the quarter, after it was agreed that bank deposits could be subject to a haircut as part of an international bail out package for Cyprus. While a bail out package should avert disaster, the episode has raised fears about the safety of bank deposits in other periphery countries.

8. Summary Portfolio Position

8.1 The Council's debt and investment position is shown in the table below (see Appendix 5 for Net Borrowing Graph) :-

	TMSS Forecast February 2012 (as agreed by Council)		**Actual as at 31 March 2012**		**Actual as at 31 March 2013**	
	£m	Rate %	£m	Rate %	£m	Rate %
Long term borrowing PWLB (Public Works Loans Board). Market.	300.4 150.0		300.4 150.0		300.4 150.0	
Total	**450.4**	**4.1**	**450.4**	**4.2**	**450.4**	**4.3**
Short Term Borrowing	42.6		46.0	0.7	-	-
Total Actual Borrowing	**493.0**	**4.1**	**496.4**	**3.8**	**450.4**	**4.3**
Investments In-house. External fund manager.	150.0 0.0	1.3 0.0	145.3 15.7	1.5 1.5	135.4 -	1.5 -
Total Actual Investments*	**150.0**		**161.0**	**1.5**	**135.4**	**1.5**
Total Net Debt / Borrowing	**343.0**		**335.4**		**315.0**	

***Includes Silverstone loan**

8.2 Further analysis of borrowing and investments is covered in the following two sections.

9. Long Term Borrowing

9.1 The Council is required to borrow in order to fund spending for its Capital Programme for the benefit of Northamptonshire. The amount of new borrowing needed each year is determined by new capital schemes approved and included in the Capital Programme.

9.2 Long term borrowing is taken from 2 main sources:

- Public Works Loans Board (PWLB)
  - The PWLB is a statutory body operating within the UK Debt Management Office, an executive agency of H M Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies.
  - PWLB introduced the Certainty Rate in November 2012 which provides a discount of 0.2% to the published rates provided councils disclose greater information and clarity on capital funding. NCC has been successful in qualifying for these favourable interest rates on any new loans raised.
  - It was announced in the Autumn Statement that a further discounted rate (0.4%) known as the Project Rate would be available for one strategic priority identified in each Local Enterprise Partnership (LEP) areas. Once further information is available the Council will evaluate how it might realise the benefits.
- Money Markets
  - Money market loans are arranged through approved brokers with international banking institutions and other Local Authorities.

9.3 When market conditions are favourable long term loans can be restructured to:

- to generate cash savings

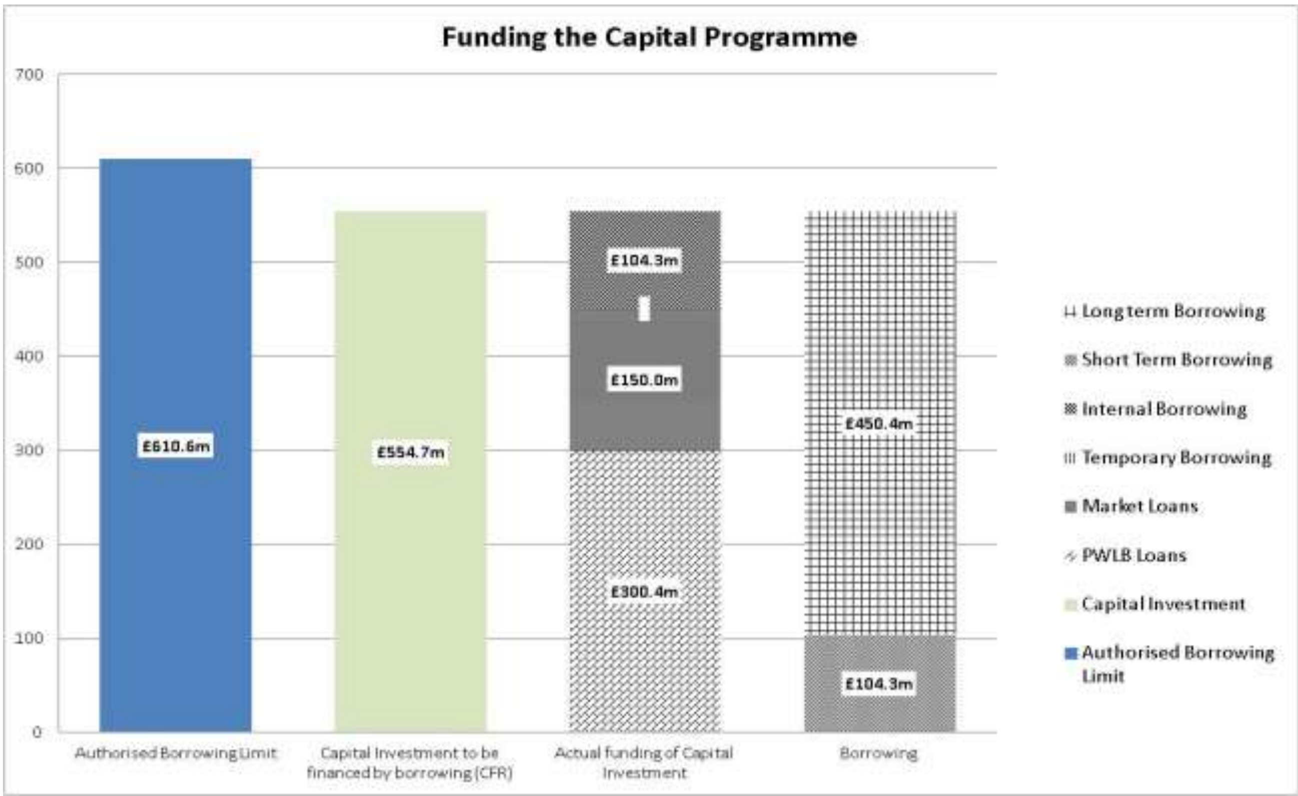
- to reduce the average interest rate

- to enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility. (Volatility is determined by the fixed/variable interest rate mix.)

During the quarter there were no opportunities for the Council to restructure its borrowing due to the position of the Council's borrowing portfolio compared to market conditions. Further debt rescheduling will be considered subject to conditions being favourable. The position will be kept under review, and when opportunities for savings do arise, debt rescheduling will be undertaken to meet business needs.

9.4 The Treasury Management Strategy Statement (TMSS) sets out the plan for treasury management activities over the next year. It identifies where the authority expects to be in terms of borrowing and investment levels. When the 2012-13 TMSS was set, it was anticipated that the Capital Financing Requirement (CFR), the Council's liability for financing the agreed Capital Programme, would be £550.6m. This figure is naturally subject to change as a result of changes to the approved capital programme.

9.5 The graph below compares the maximum the Council could borrow in 2012-13 with the forecast CFR at 31st March 2013 and the actual position of how this is being financed at 31st March 2013. The final column shows the split between short (internal and external borrowing with duration of less than one year) and long term borrowing.



9.6 The graph shows the Council's current capital investment that is to be funded via borrowing is £55.9m below the Authorised Borrowing Limit set for the Council at the start of the year.

9.7 In addition, the graph shows how the Council is currently funding its borrowing requirement. As at 31st March the Council was using £104.3m of internal borrowing to finance capital investment. Internal borrowing is the use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally.

9.8 The strategy anticipates that the Council continues to fund capital expenditure from long term borrowing. However, current projections show the CFR increasing in the short term and falling back in medium to long term which reflects the front funding of capital schemes in early years with receipts in future years reducing the need to borrow. It is not anticipated that there will be any further long term borrowing this year.

10. Investments

10.1 The Investment Strategy approved by Council in February 2012, sets out the investment priorities as being the security of capital, liquidity and yield in this order. The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate, although credit concerns have eased a little in recent months it is considered appropriate to keep investments short with durations up to on year.

10.2 The Council has strict criteria which it uses to assess the financial institutions it can invest its surplus cash with. These criteria are monitored closely so as to minimise credit risk and expert advice and a methodology is provided by Sector, however, the Council does not solely rely on this advice or information from the credit rating agencies. Most Eurozone countries and the Spanish controlled Santander group have been excluded from the counterparty list as a result of credit concerns within this area.

10.3 The Council has also taken action to limit its investment exposure to the financial markets by using a proportion of its cash to fund capital expenditure.

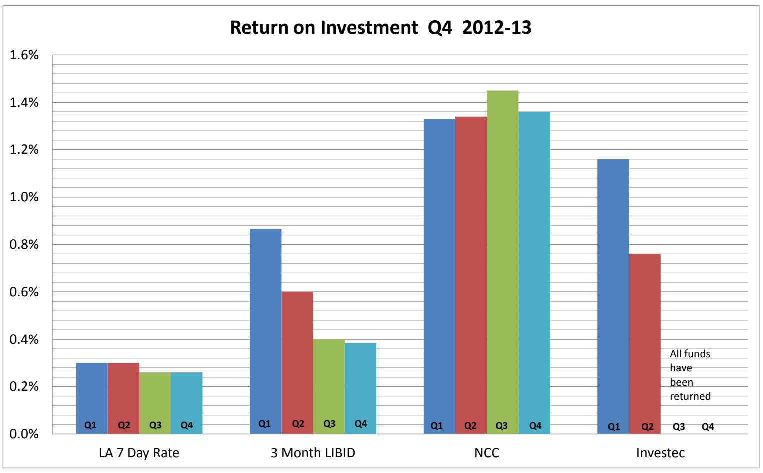
10.4 The Council has exposure to AAA rated Money Market Funds as a way to diversify and manage investment risk whilst providing daily liquidity. These are pooled funds which invest in a range of high credit quality institutions, not always accessible by individual investors. Money Market Funds are highly regulated and must comply with specific credit quality criteria and meet certain liquidity requirement.

10.5 At the Cabinet meeting on 11th May 2010 it was agreed to lend Silverstone Circuit £10m at a rate of 2% plus 12 month LIBOR. All payments have been made in accordance with an agreed schedule of repayments of capital and interest.

10.6 As at 31st March the level of investment totalled £135.0m (including Silverstone). The level of cash available for investment can be derived from the balance sheet. Analysis at 31st March 2012 shows the following:

- The Council held £186m in Reserves and Balances at 31st March 2012. Sums are set aside in various reserves, provision and balances and these monies are typically available for long periods of time. The funds can be invested in long term deposits, placed with external fund managers or can be used to reduce external borrowings.
- The Council also has a net working capital surplus of £76m at 31st March 2012. This is to say that creditors and receipts in advance are greater than debtors and payments in advance. These funds vary significantly during the year and as result the council needs keep funds available to meet these short term working capital commitments (e.g. paying employees and suppliers). Funds are typically invested in instant access accounts.

10.7 The graph below compares the returns on investments with the relevant benchmarks for each quarter this year.



- In house funds returned 1.36% during the quarter significantly more than the both the 7 day (0.26%) and 3 month LIBID (0.38%) benchmarks. Performance has been strong because investments have been locked out for periods up to one year with nationalised banks (UK Government backed) at high rates of interest. However it can be seen that 3 month LIBID rates have over halved during the year and we now see this feeding though to rates achieved on investments.

- All funds have been returned from the external fund manager.

10.8 Further analysis on the duration and size of investments placed during the quarter is provided in Appendix 1.

11. Compliance with Treasury Limits and Prudential Indicators

11.1 With effect from 1st April 2004 The Prudential Code became statute as part of the Local Government Act 2003 and was revised in 2011.

11.2 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable. To ensure compliance with this the Council is required to set and monitor a number of Prudential Indicators.

11.3 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (TMSS) and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 3.

12. List of Appendices

Appendix 1: Analysis of Investments: Q4 2011-12 vs. Q4 2012-13
Appendix 2: Treasury related Prudential Indicators: comparison of current position (31 March 2012) to indicators approved by Council in February 2012.
Appendix 3: New borrowing and Long Term Cash Investments 2012-13.
Appendix 4: Net Borrowing Graph
Appendix 5: "Credit Crunch" Graph

Author:	Name: Mike Batty Team: LGSS Corporate Finance
Contact details:	Tel: 01604 367858 Fax: 01604 237771 Email: mike.batty@cambridgeshire.gov.uk
Background Papers:	• Treasury Management Strategy 2012-13 • Investment Strategy 2012-13 • Prudential Indicators 2012-13
Does the report propose a key decision is taken?	NO
If yes, is the decision in the Forward Plan?	NO
Will further decisions be required? If so, please outline the timetable here	NO
Is this report proposing an amendment to the budget and/or policy framework?	NO
Have the financial implications been cleared by the Strategic Finance Manager	YES Name of SFM: Neil Walker

(SFM)? Have any capital spend implications been cleared by the Capital Asset Investment Group (CAIG)	N/A
Has the report been cleared by the relevant ACE?	YES Name: Matt Bowmer(S151)
Has the relevant Cabinet Member been consulted?	YES Cabinet Member: Bill Parker
Has the relevant scrutiny committee been consulted?	The report will be reviewed by the Finance Improvement Plan working group.
Has the report been cleared by Legal Services?	YES Name of Solicitor: Shahin Ismail Solicitor's comments: None
Have any communications issues been cleared by Communications and Marketing?	YES Name of Officer: Simon Deacon
Has an Equalities Impact Assessment been carried out in relation to this report?	NO
Are there any community safety implications?	NO
Are there any environmental implications:	None apparent
Are there any Health & Safety Implications:	NO
Are there any Human Resources Implications:	NO
Are there any human rights implications:	None apparent
Constituency Interest:	Countywide