

**TREASURY MANAGEMENT
REVIEW OF PERFORMANCE: 6 Monthly Review
(Report by the Head of Financial Services)**

1. INTRODUCTION

- 1.1 In February the Council adopted the latest edition of the *CIPFA Treasury Management in the Public Services: Code of Practice*, which requires full Council to approve a treasury management strategy before the start of each financial year and to receive a mid-year report and an annual report after the end of the year. This report covers the period 1st April to 30th September 2012.
- 1.2 In addition, the *Communities and Local Government Guidance on Local Government Investments* recommends that local authorities regularly review their investment strategy in the light of any changes in internal or external circumstances.
- 1.3 This report meets the requirements of both sets of guidance by reviewing the strategy, updating the Council on the performance of investments, and identifying any concerns over the credit-worthiness of counterparties.

2. TREASURY MANAGEMENT STRATEGY

- 2.1 The Council approved the 2012/13 treasury management strategy at its meeting on 22 February 2012.
- 2.2 On 4 July 2012 the Council approved an amendment to the 2012/13 Treasury Management Strategy that reduced the minimum credit ratings for Liquidity Accounts to F2 because general reductions in credit ratings had started to reduce the accounts that could be used. Liquidity accounts minimise the risk of investment not being repaid because repayment can normally be requested the same day.
- 2.3 All treasury management activity undertaken during the period complied with the *CIPFA Code of Practice* and relevant legislative provisions.
- 2.4 The investment strategy is to invest any surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest. The Council's borrowing strategy permits borrowing for cash flow purposes and funding current and future capital expenditure over whatever periods are in the Council's best interests.

- 2.5 Further, officers have started to invest in money market funds (MMF), which are AAA (the highest rating) investment vehicles. Since July 2012, the Council has invested up to £0.500m in the Public Sector Deposit Fund MMF and a further account has recently been opened with Ignis but as yet funds has not been used.

3. TREASURY MANAGEMENT ACTIVITY

- 3.1. Short-term investment and borrowing rates continue to be very low whilst long-term borrowing rates are significantly higher. Given the Council's financial pressures it is considered to be appropriate, for the present, to use the Councils own revenue reserves, supplemented by mostly short term borrowing, to temporarily fund the capital programme pending the return to a more "normal" interest rate structure. The challenge is to judge the appropriate moment to shift from short term to longer term borrowing. The inability of commentators for many months, or even years, to correctly forecast the timing of rate increases clearly makes this more difficult.
- 3.2 Therefore, during the last 6 months most activity has been in managing short term fluctuations in cash flow by borrowing or investing for short periods.
- 3.3 Much of the investment activity has been in liquidity accounts where the funds are accessible without notice, thus providing more security than term deposits, but also providing a good (in relative terms) rate of return.
- 3.4 There have also been deficits at other times which have required the Council to borrow temporarily from other Local Authorities at low rates (typically only 0.3%) and for less than a month.
- 3.5 As at the 30 September the Council had short and long term investments of £15.0m and borrowing of £10.0m. The following table summarises the transactions during the period and further detailed analysis is shown at Annex A.

		£m
Investments	- as at 31 st March 2012	10.4
	- matured in period	(101.6)
	- arranged in period	106.2
	- as at 30 th Sept 2012	15.0
Borrowing	- as at 31 st March 2012	(14.5)
	- matured/repaid in period	26.4
	- arranged in period	(21.9)
	- as at 30 th Sept 2012	(10.0)
	Net investments at 31st March 2012	(4.1)
	Net investments at 30th September 2012	5.0

3.6 The rise in net investments from April to September reflects the fact that the Council Tax is predominantly collected in 10 monthly instalments from April to January thus giving an improved cash flow from mid-April to mid-January each year with the worst position being around the 31st March.

4. PERFORMANCE SUMMARY

4.1 The portfolio comprises of a mixture of short-term investments and temporary borrowing to manage cash flow; £10m was borrowed from the PWLB in December 2008 at 3.9 and was temporally invested as follows:

Borrower	Amount £000	Investment Date	Repayment Date	Investment Rate
Royal Bank of Scotland	5.0	December 2008	December 2012	4.04%
Skipton Building Society	5.0	December 2008	December 2013	4.85%

4.2 The performance summary below, however excludes the above investments and borrowing to give a fairer comparison with the current benchmark of the 7 day rate.

SHORT-TERM PERFORMANCE FOR THE 6 MONTHS APRIL 2012 – SEPTEMBER 2012					
Net investments	Performance	Benchmark	Variation from benchmark	Managed Funds	
				1 April £m	30 Sept £m
Excluding RBS	0.69%	0.18%	+0.51%	4.1	(5.0)

5. PERFORMANCE AGAINST BUDGET IN 2012/13

- 5.1 The latest forecast outturn is for net cost of interest to be £11k against a budget of -£11k. The extra cost is due to actual interest rates and cash flow differing from the assumptions used in the budget.

6. TREASURY MANAGEMENT INDICATORS

- 6.1 The Council measures its exposures to certain treasury management risks with the following indicators which generally relate to the position as at 30 September.

6.2 Interest rate exposures

	Limit
Upper limit on fixed rate exposures	100%
Upper limit on variable rate exposures (all items on fixed rates for less than 12 months are defined as variable)	90%

The intention of this indicator was to highlight any risk from interest rate exposure. This is really only relevant on borrowing or investments for a period longer than one year as all items for less than a year are regarded as variable rate because the Council is only locked into them for a relatively limited period.

Unfortunately the target recommended is far from ideal in the Council's particular circumstances as it does not differentiate between long and short and borrowing and investing.

It is therefore proposed to replace it with the following indicators which better illustrate the position:

	Limits		Actual Sept 2012
	Max.	Min.	
Borrowing: longer than 1 year			
Fixed	100%	75%	100%
Variable	25%	0%	0%
Investments: longer than 1 year			
Fixed	100%	100%	100%
Variable	0%	0%	0%

All borrowing and investing for less than one year is variable by definition.

Control over the council's exposure to interest rates will be achieved as follows:

Long Term Borrowing

- Fixed
Fixed rate borrowing will only be undertaken when interest rates are deemed to be low in long run terms. This will also need to take account of current short term rates and historic trends. At some point the Council is likely to take further fixed rate borrowing.
- Variable
Variable rate borrowing is less likely, at least until there has been an increase in fixed rate borrowing, and then only to create some spread of risk in case the market does not follow long term trends. Limit set at 25% of long term borrowing.

Long Term Investments

- Fixed
Long term investment will be rare unless the conditions become attractive for borrowing in advance. This is not anticipated but if it did fixed rate investments would minimise the Council's financial risk and so the indicator is based on all long term investments being at fixed rates.

6.3 Maturity structure of borrowing

This indicator prescribes the limits within which the Council can borrow to either maintain effective cash flow or to cover capital expenditure.

Borrowing	Upper Limit	Lower Limit	Actual
Under 12 months	86%	0%	0%
12 months and within 24 months	86%	0%	0%
24 months and within five years	86%	0%	0%
Five years and within 10 years	86%	0%	0%
10 years and above	100%	14%	100%

6.4 Investment repayment profile – limit on the value of investments that cannot be redeemed within 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The total principal sums invested to final maturities beyond the period end were:

	2012/13 £m	2013/14 £m	2014/15 £m
Limit on principal invested beyond year end	32.0	25.0	24.7
Actual principal invested beyond year end as at 30 September 2012	5.0	0.0	0.0

7. RECOMMENDATIONS

7.1 Cabinet is requested to recommend to Council:

- that it approves the revised targets in paragraph 6.2.
- it notes the contents of this report.

BACKGROUND PAPERS

Working papers in Financial Services

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ANNEX A

Investments as at 30 September 2012

		£m	Investment date	Rate %	Repayment date
Term Deposits					
Royal Bank of Scotland	Temporary investment of PWLB borrowing	5.000	19/12/08	4.04	19/12/12
Skipton Building Society		5.000	19/12/08	4.85	19/12/13
Liquidity Accounts					
Cambridge Building Society		3.000	15/09/12	1.25	call
Santander		0.600	15/09/12	0.80	call
Public Sector Deposit Fund		0.500	15/09/12		call
NatWest		0.930	28/09/12	0.80	call
TOTAL		15.030			

Borrowing as at 30 September 2012

	£m	Borrowing date	Rate %	Repayment date
Long Term				
PWLB	5.000	19/12/08	3.91	19/12/57
PWLB	5.000	19/12/08	3.90	19/12/58
Short Term				
None	0			
TOTAL	10.000			