

HUNTINGDONSHIRE DISTRICT COUNCIL

Title: Treasury Management
Review of Performance: 6 Monthly Review

Meeting/Date: Cabinet
20 November 2014

Executive Portfolio: Resources: Councillor J A Gray

Report by: Head of Resources

Ward(s) affected: All Wards

Executive Summary:

In February 2014 the council adopted the 2014/15 Treasury Management Strategy. Best practice and prescribed treasury management guidance requires members to be kept up to date in respect of treasury management activity for the first half of the year, including investment and borrowing activity and treasury performance.

Recommendation(s):

It is recommended that Overview and Scrutiny notes the report and recommends the report to Cabinet and then to Council.

1. PURPOSE

- 1.1 To update members, in line with best practice and prescribed Treasury Management guidance, on treasury management activity for the first half of the year, including investment and borrowing activity and treasury performance.

2. TREASURY MANAGEMENT STRATEGY

- 2.1 The Council approved the 2014/15 treasury management strategy at its meeting on 13 February 2014.
- 2.2 All treasury management activity undertaken during the period complied with the CIPFA Code of Practice and relevant legislative provisions.
- 2.3 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.

3. TREASURY MANAGEMENT ACTIVITY

Cash Flow Management

- 3.1 The vast majority of activity over the past 6 months has been in managing short term fluctuations in cash flow by borrowing or investing for periods that ensure sustainable cash liquidity and at cost that is the most economically advantageous for the council.
- 3.2 Much of the investment activity has been in call accounts and Money Market Funds. These accounts offer two clear advantages considering the current investment market:
- One of the primary Treasury Management objectives is the security of funds invested; because these accounts allow immediate access to funds this reduces the risk of default.
 - These accounts provide a fair return on amounts invested.
- 3.3 There have also been deficits at various times over the period which has required the council to borrow temporarily from other Local Authorities at low rates (typically between 0.27% and 0.40%), the maximum period of borrowing has been 35 days.

Long Term Borrowing and Investments

- 3.4 During the period the council has made available the following investment facilities:
- £1.371m to Huntingdon Regional College, which has been back-to-back funded by long-term borrowing for the same amount from the Public Works Loans Board (PWLB).
 - £0.071m to Huntingdon Gym.
 - £0.010m to Alconbury Parish Council.

With regard to the investments in Huntingdon Gym and Alconbury Parish Council, these are currently being financed from within the Councils own working capital.

- 3.5 As at the 30 September the council had short and long term external investments of £9.2m and borrowing of £16.4m. The following table summarises the transactions during the period and further detailed analysis is shown in Appendix 1.

2013/14 £m			2014/15 £m
6.4	Investments	- as at 31 st March	3.5
(58.9)		- matured in period	(100.8)
65.8		- arranged in period	106.5
13.3		- as at 30 th September	9.2
(16.0)	Borrowing	- as at 31 st March	(17.4)
20.5		- matured/repaid in period	20.0
(22.0)		- arranged in period	(19.0)
(17.5)		- as at 30 th September	(16.4)
(9.6)	Net investments at 31st March		(13.9)
(4.2)	Net investments at 30th September		(7.2)

4. PERFORMANCE – INTEREST RETURN

- 4.1 As noted in para 3.4 the council borrowed a further £1.5m from the PWLB for 10 years, this was borrowed in August 2013 at 2.24% (2.44% less the 0.2% certainty rate). The investment with Huntingdonshire Regional College allows the council to make a small return on the cost of borrowing over the life of the investment.
- 4.2 To give an indication of net investment performance, the summary below excludes the above long-term 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 2014 – SEPTEMBER 2014					
Net investments	Performance	Benchmark	Variation from benchmark	Managed Funds	
				1 April £m	30 Sept £m
Excluding Huntingdon Regional College, Huntingdon Gym and Alconbury Parish Council	0.43%	0.23%	+0.20%	4.1	(2.7)

Note: The Benchmark performance is based on the local authority seven day deposit rate, this is the rate that a local authority can expect to earn on an investment. This rate is published on the Financial Times website.

5. PERFORMANCE – AGAINST BUDGET IN 2013/14

- 5.1 The latest forecast outturn is for the net cost of interest to be under budget by £39,000 (net cost of £0.361m against a budget of £0.400m). The small saving is attributable to a combination of low borrowing interest rates (especially between local authorities), reduction in revenue spending, delays in capital expenditure and higher than expected revenue reserves.

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

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

		Limits		Actual Sept 2014
		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:

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	Lower	Actual
Under 12 months	92%	0%	30%
12 months and within 24 months	92%	0%	0%
24 months and within five years	92%	0%	0%
Five years and within 10 years	93%	1%	9%
10 years and above	100%	7%	61%

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:

	2014/15 £m	2015/16 £m	2016/17 £m
Limit on investments over 364 days as at 31 March each year.	32.7	34.0	37.7
Actual principal invested beyond year end as at 30 September 2013	1.3	1.2	1.0

7. **COMMENTS OF THE OVERVIEW AND SCRUTINY PANEL**

7.1 The Overview and Scrutiny Panel (Economic Well-Being) reviewed the content of the report at their meeting on 6th November 2014. Members endorsed the recommendation set out at Section 8.

8. **REASONS FOR THE RECOMMENDED DECISIONS**

8.1 It is recommended that Overview and Scrutiny notes the report and recommends the report to Cabinet and then to Council.

9. **LIST OF APPENDICES INCLUDED**

Appendix 1 – Investments and Borrowing as at 30 September 2014

BACKGROUND PAPERS

Working papers in Financial Services

CONTACT OFFICER

Clive Mason, Head of Resources

☎ 01480 388157

David Ablett, Interim Accountancy Manager

☎ 01480 388026

Investments as at 30 September 2014

	£m	Investment date	Rate %	Repayment date
Term Deposits				
Alconbury Parish Council	0.010	08/07/13	0.50	08/07/16
Huntingdonshire Regional College	1.371	05/08/13	3.34	05/08/23
Huntingdon Gym	0.071	2/10/13	5.13	30/09/23
	1.452			
Liquidity Accounts				
NatWest	0.060	01/04/13	0.25	Call
Cambridge Building Society	0.100	09/10/13	0.50	Call
Santander	1.620	30/09/14	0.50	Call
Handelsbanken	2.000	22/09/14	0.40	Call
Barclays	0.950	23/09/14	0.45	Call
Ignis Liquidity Fund	2.000	15/09/14	0.40	Call
PSDF	1.000	15/09/14	0.36	Call
TOTAL	7.730			

Borrowing as at 30 September 2014

	£m	Borrowing date	Rate %	Repayment date
Long Term				
PWLB	1.433	07/08/13	2.44	07/08/23
PWLB	5.000	19/12/08	3.91	19/12/57
PWLB	5.000	19/12/08	3.90	19/12/58
Short Term				
Middlesbrough Council	5.000	11/09/14	0.29	03/10/14
TOTAL	16.433			