

17 September 2012**Agenda Item: 6****REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT
TREASURY MANAGEMENT REPORT 2012/13 QUARTER 1****Purpose of the Report**

1. To provide a review of the Council's treasury management activities for first quarter to 30 June 2012.

Information and Advice

2. Treasury management is defined as "the management of the council's investments and cashflows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
3. County Council approves the Treasury Management Policy and Strategy and also receives mid year and full year outturn reports. In accordance with the Council's new constitution, the scrutiny role for the Treasury Management function is the responsibility of the Finance and Property Committee. Quarterly reports will be presented to cover compliance with the Policy and Strategy and treasury management activities within the quarter.
4. In the first quarter of 2012-13, borrowing and investment activities have been in accordance with the approved limits as set out in the Council's Treasury Management Policy and Strategy. Appendix A provides a detailed report on these treasury management activities. The main points from this report are:
 - All treasury management activities were effected by authorised officers within the limits agreed by the Council
 - All investments were made to counterparties on the Council's approved lending list
 - No new borrowing was raised
 - The Council earned 1.04% on short term lending, outperforming the average London Inter-Bank Bid rate of 0.57%.

Statutory and Policy Implications

5. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

6. Financial implications are contained in the body of the report

RECOMMENDATION/S

- 1) To note the treasury management activities for the first quarter of 2012/13 and comment as appropriate.

Simon Cunnington
Investments Manager

For any enquiries about this report please contact:

Constitutional Comments

7. Because the report is for noting only, no constitutional comments are required.

Financial Comments

8. To follow

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

Electoral Division(s) and Member(s) Affected

All

REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT

TREASURY MANAGEMENT REPORT 2012-13 Quarter 1

1. Treasury Management Activities

- 1.1 The Council's treasury management strategy and associated policies and practices for 2012/13 were approved on 23 February 2012 by Full Council. The Council manages its investments in-house and invests with institutions on the Council's approved lending list, aiming to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Council's treasury portfolio position at 30/06/2012 is shown in Table 1 below.

| Table 1. Treasury Position at 30 June 2012 | | £m | £m | Average Interest Rate |
|---|-------------|--------------|--------------|-----------------------------|
| EXTERNAL BORROWING | | | | |
| Fixed Rate | PWLB | 185.4 | | 6.39% |
| | Market Loan | <u>100.0</u> | 285.4 | 3.85% |
| Variable Rate | PWLB | 0.0 | | |
| | Market Loan | <u>0.0</u> | 0.0 | |
| Total | | | 285.4 | 5.50% |
| Other Long-Term Liabilities | | | 138.0 | |
| Total Gross Debt | | | 423.4 | |
| Less: Investments | | | 73.4 | 0.99% |
| Total Net Debt | | | 350.0 | |

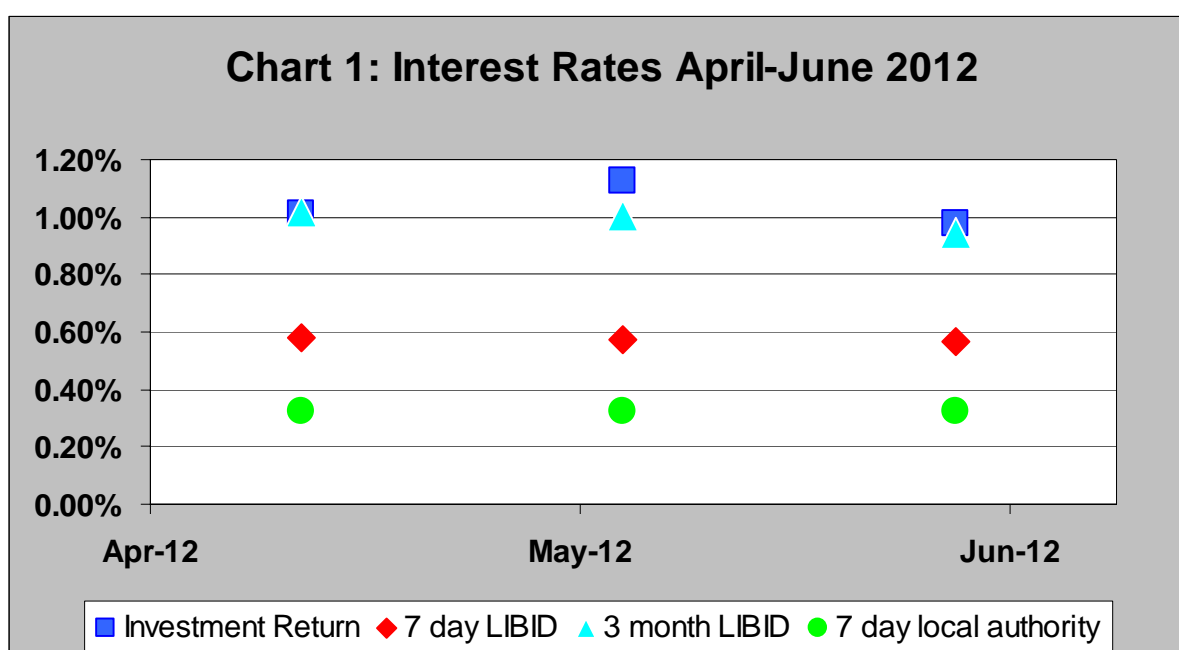
Note 1: PWLB = Public Works Loans Board

Note 2: Market Loans = Lenders' Option, Borrowers' Option (LOBO) loans

- 1.2 Over the 3 months to 30 June 2012, the Council's cashflows were maintained without no new borrowing, and surplus cash was invested through the wholesale money market. The net position shows outstanding temporary lending of £73.4m. The average level of funds available for investment purposes over the period was £70.0m. This was mainly dependent on the timing of precept payments, receipt of grants, progress on the capital programme and net movement on creditors and debtors. The Council's temporary borrowing and lending activity over the quarter is set out in Table 2 below.

| Table 2 Temporary Borrowing and Lending | Borrowing £m | Lending £m | Net Position £m |
|--|-------------------------|-----------------------|--------------------------------|
| Outstanding 1st April 2012 | 0.00 | (38.50) | (38.50) |
| Raised/ (lent) during period | 0.00 | (273.15) | (273.15) |
| Repayments during period | 0.00 | 238.25 | 238.25 |
| Outstanding 30 June 2012 | 0.00 | (73.40) | (73.40) |

- 1.3** Council investment returns outperformed the benchmark (7 day London Inter-Bank Bid rate) every month in the first quarter of 2012/13. Chart 1 below shows the average monthly return achieved by the Council together with other key interest rates.



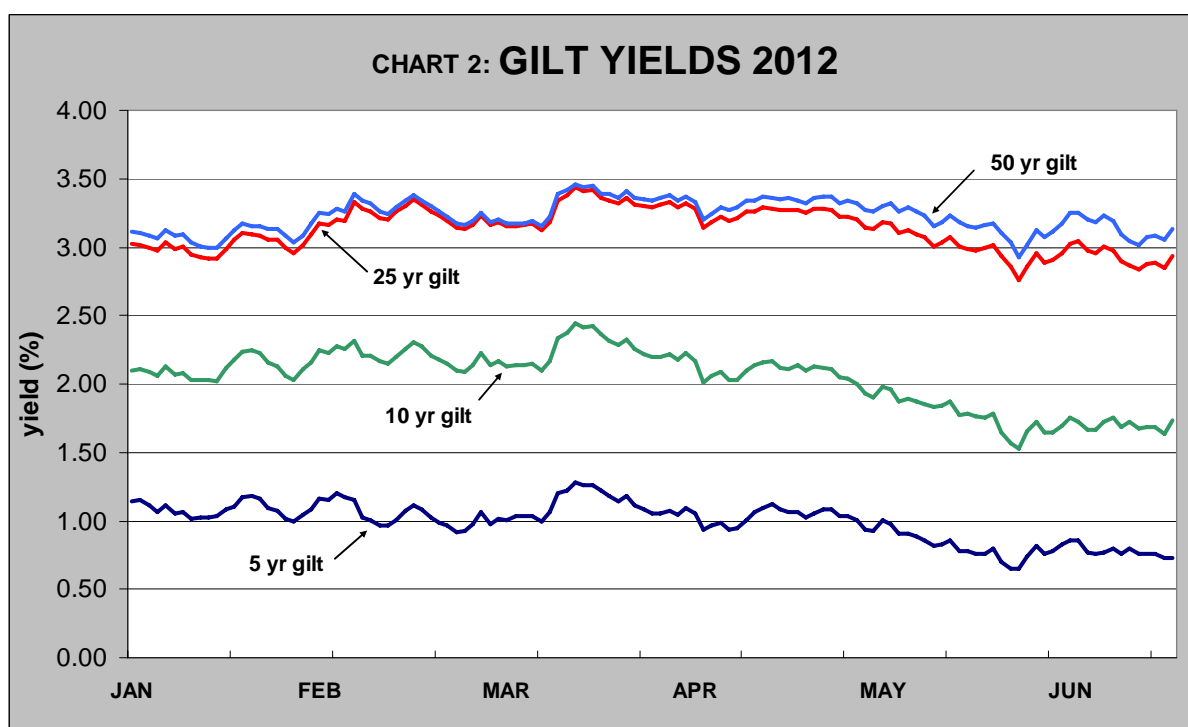
- 1.4** The Council has significantly outperformed the benchmark which averaged 0.57% against actual returns of 1.04%, an out-performance of 0.47%. This equates to additional interest of over £80,000 for the quarter. The weighted average maturity of investments over this period was 3.4 days. Table 3 shows that the use of fixed term investments has allowed a higher return to be achieved. The use of call accounts and money market funds has allowed the Council to optimize liquidity versus returns.

| Table 3 Returns on Investments | Average Balance £m | Interest Earned £k | Year to Date Return % |
|---|-----------------------------------|-----------------------------------|--|
| Fixed Term Investments | 39.2 | 127.4 | 1.30% |
| Bank Call Accounts | 12.4 | 23.0 | 0.75% |
| Money Market Funds | 18.4 | 31.1 | 0.67% |
| Total | 70.0 | 181.5 | 1.04% |

- 1.5** The Council has maintained average cash balances at £70m over the first quarter as a consequence of the general fund underspend in 2011-12 together with slippage on the capital programme. This exceeds the planned minimum cash balance of £50m to minimize long-term borrowing yet maintain sufficient liquidity to meet payments as they fall due.
- 1.6** During the first quarter two counterparties were removed from the approved lending list by the Treasury Management Group. In May Santander UK was suspended following the financial crisis in Spain which came to a head with Spain seeking a bail-out for its banks. Although Santander UK operates as a subsidiary regulated by the Financial Services Authority, there were fears of contagion from the Spanish parent Banco Santander. In June Danske Bank was suspended following rating downgrades by Moodys and Standard & Poor due to the challenging economic and financial environment created by the Eurozone crisis. The Council has no funds currently invested with these counterparties although the pension fund has a total of £25m invested, due to mature in July and August. The approved list continues to be monitored and action taken to suspend counterparties where concerns arise over security of funds.

2. Long Term Borrowing

- 2.1** Over the past six months gilt yields have continued downwards for most durations as shown in Chart 2. Durations over 25 years have seen a small increase in yields compared to falls of up to 42 basis points for 5 and 10 year gilts. These movements reflect a number of factors:
- UK seen as a safe haven from the Eurozone crisis
 - demand for gilts boosted by the Bank of England's quantitative easing programme
 - demand from banks to hold more secure assets under Basel III
 - lower prospects for UK economic growth.
 - investor sentiment ("risk on" – "risk off")

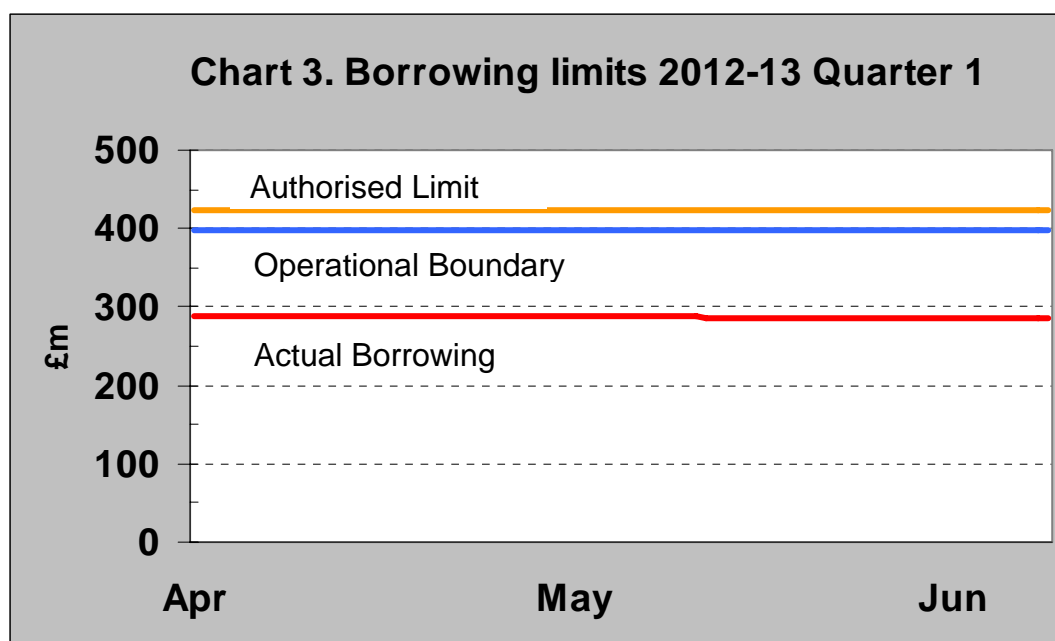


- 2.2** The Council's Treasury management Strategy Report for 2012/13 indicated borrowing of up to £100m would be required in 2012/13. No new borrowing has yet been undertaken this year due to the level of cash balances as described in paragraph 1.2 above. It is likely that the level of proposed borrowing will be reduced, provided the Council has sufficient cash resources to fund the capital programme. Table 4 below shows the movement in long-term borrowing which reflects the maturities of existing debt. There was one LOBO with a call date in June which was not exercised by the lender.

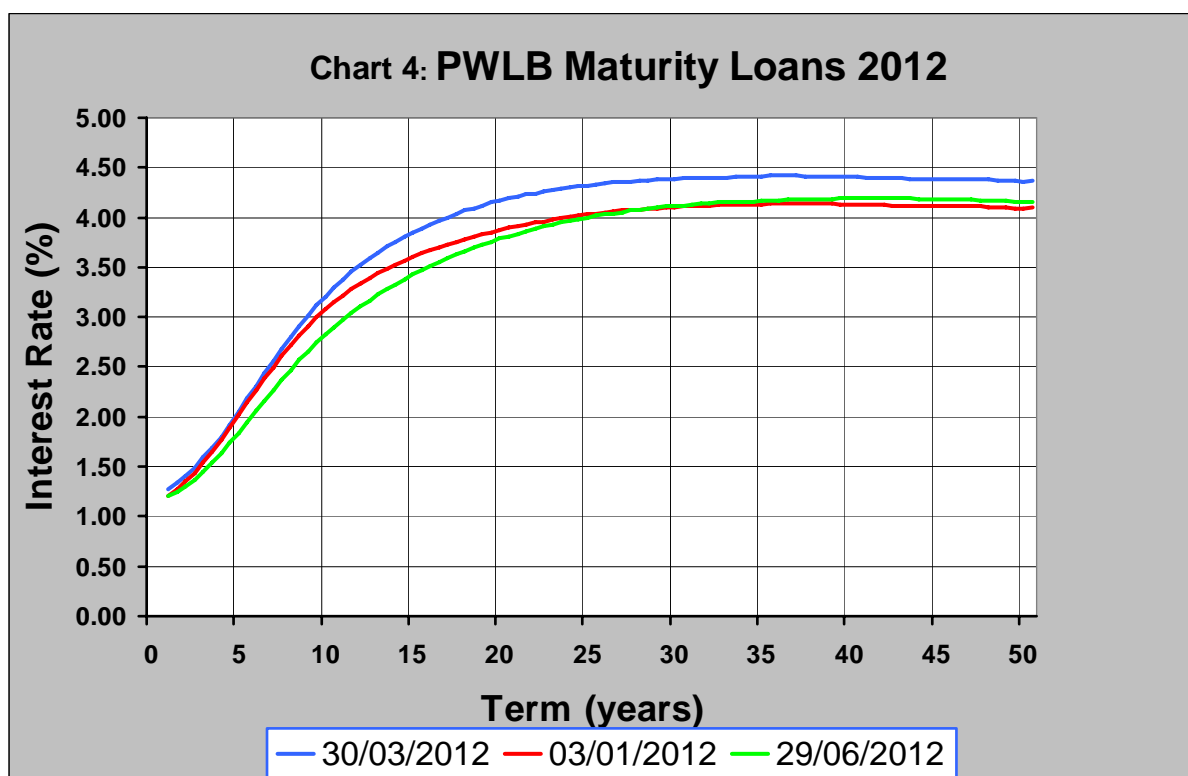
Table 4 Movements in Long-term Borrowing 2012-13 Quarter 1

| Lender | B/fwd 31/3/12 £m | Advances 2012/13 £m | Repayments at maturity 2012/13 £m | Premature Repayments 2012/13 £m | C/fwd 30/6/2012 £m |
|--------------|------------------------|---------------------------|--|--|--------------------------|
| PWLB | 188.8 | 0.0 | 3.3 | 0.0 | 185.5 |
| LOBO | 100.0 | 0.0 | 0.0 | 0.0 | 100.0 |
| Total | 288.8 | 0.0 | 3.3 | 0.0 | 285.5 |

- 2.3** Chart 3 shows how current borrowing compares with the prudential indicators and indicates little risk of them being breached. The Authorised Limit was set at £424m and the operational boundary at £399m.



- 2.4** Borrowing rates from the PWLB in Chart 4 below have fallen over the first quarter following gilt yields as explained in paragraph 2.1. Rates are lower for all durations with falls of up to 43 basis points for 10-15 year loans and up to 20 basis points for loans in excess of 40 years. This compares with falls of up to 20 basis points since January 2012 for 5-15 year loans and an increase of up to 7 basis points for loans in excess of 40 years.



- 2.5** Borrowing rates over the remainder of the year are likely to continue falling as a reflection of the economic climate. Further, the PWLB intend to offer reductions of at least 20 basis points in their lending rates for authorities who provide additional disclosures in a format yet to be determined. This measure was announced by the Chancellor in the budget. These factors all indicate that it would be advantageous to hold off from raising additional long-term borrowing until later in the year.
- 2.6** The Council has the option of rescheduling its existing long-term debt should market conditions indicate opportunities for savings. This is achieved by redeeming fixed rate debt and raising new debt at a lower rate of interest. This opportunity is provided primarily for PWLB debt and may give rise to premiums or discounts depending on the rate differentials. Opportunities for debt rescheduling may arise later in the year should rates continue to fall.