

REPORT OF CHAIRMAN OF FINANCE AND PROPERTY COMMITTEE**TREASURY MANAGEMENT MID-YEAR REPORT 2013/14****Purpose of the Report**

1. To provide a mid-year review of the Council's treasury management activities in 2013/14 for the 6 months to 30 September 2013.

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. The Council delegates responsibility for the implementation, scrutiny and monitoring of its treasury management policies and practices to the Treasury Management Group, comprising the Service Director (Finance & Procurement), the Group Manager (Financial Strategy & Compliance), the Senior Accountant (Pensions & Treasury Management) and the Senior Finance Business Partner (Capital & External Funding).
4. In the first half of 2013/14, 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 the treasury management activities and Appendix B provides a breakdown of the transactions during the period. The main points to note 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 long term borrowing was raised
 - The Council earned 0.87% on short term lending, outperforming the average London Inter-Bank Bid rate of 0.38%.

Statutory and Policy Implications

5. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, 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) That the treasury management activities for the first half of 2013/14 are noted.

Councillor David Kirkham
Chairman of Finance and Property Committee

For any enquiries about this report please contact:
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Financial Comments (SRC 31/10/13)

7. Financial implications are contained in the report and associated appendices.

Constitutional Comments (KK 11/11/13)

8. This report is for noting only.

TREASURY MANAGEMENT MID-YEAR REPORT 2013/14

1. Treasury Management Activities

- 1.1 The Council's treasury management strategy and associated policies and practices for 2013/14 were approved on 28 February 2013 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 appropriate levels of security and liquidity. The Council's treasury portfolio position at 30/09/2013 is shown in Table 1 below.

Table 1

Treasury Position at 30 September 2013		£m	£m	Average Interest Rate
EXTERNAL BORROWING				
Fixed Rate	PWLB	206.5		5.99%
	Market Loan	100.0		3.85%
	Other	10.0	316.5	0.78%
Variable Rate	PWLB	0.0		
	Market Loan	0.0	0.0	
Temporary			6.7	
Total			323.2	5.29%
Other Long-Term Liabilities			129.0	
Total Gross Debt			452.2	
Less: Investments			42.5	1.02%
Total Net Debt			409.7	

Note 1: PWLB = Public Works Loans Board

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

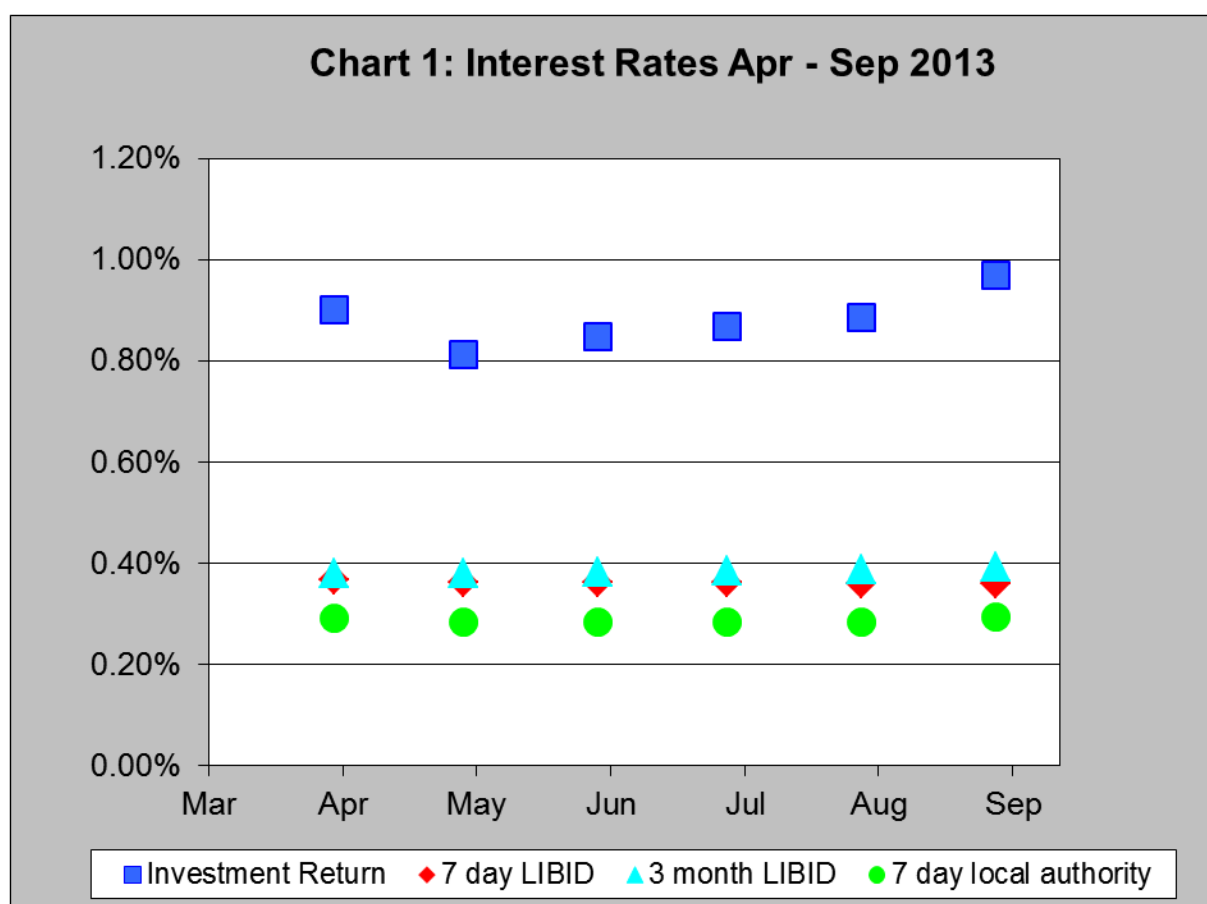
- 1.2 Over the first 6 months of 2013/14 the Council's cashflows were maintained with no new long-term borrowing, and surplus cash was invested through the wholesale money market. The gross temporary lending position shows outstanding balances of £42.5m, compared to the opening position of £41.6m. The average level of funds available for investment purposes over the period was £94m. 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.

- 1.3** The Council's temporary borrowing and lending activity over the period is set out in Table 2 below (Appendix B shows the treasury dealings for the period together with a detailed breakdown of the investment portfolio at the start and end of the period).

Table 2

Temporary Borrowing and Lending	Borrowing £m	Lending £m	Net Position £m
Outstanding 1st April 2013	0.00	(41.55)	(41.55)
Raised/ (lent) during period	19.55	(484.75)	(465.20)
Repayments during period	(12.85)	483.80	470.95
Outstanding 30 Sep 2013	6.70	(42.50)	(35.80)

- 1.4** Council investment returns outperformed the benchmark (3 month London Inter-Bank Bid rate) every month in the first half of 2013/14. Chart 1 below shows the average monthly return achieved by the Council together with other key interest rates. This shows an increasing return over the period due to the run-down of call accounts and money market funds, thereby increasing the relative proportion of funds held as fixed term deposits.



- 1.5** The Council has significantly outperformed the benchmark which averaged 0.38% against actual returns of 0.87%, an out-performance of 0.49%. This equates to additional interest of £231,000 for the first half of the year. The weighted average maturity of investments over this period was 85 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.

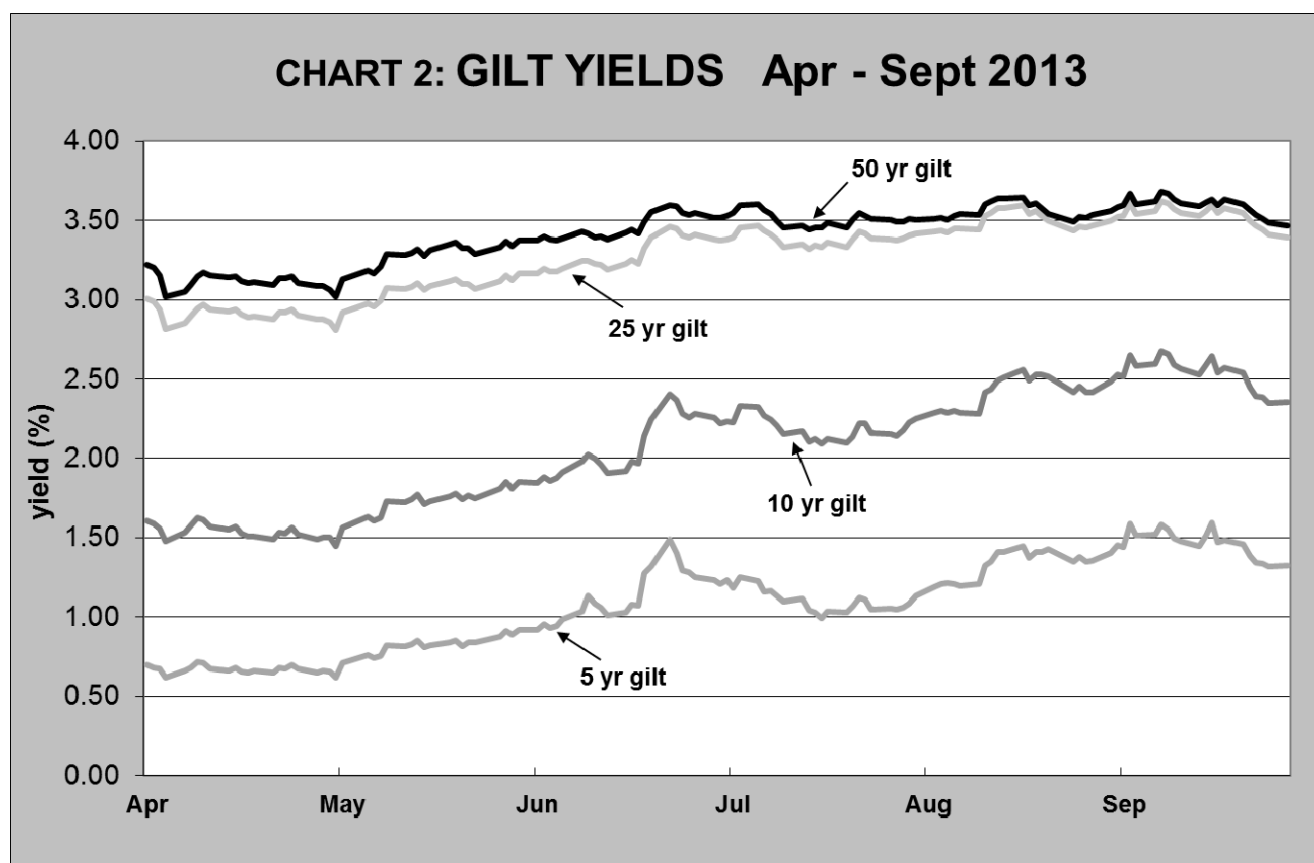
Table 3

Returns on Investments	Average Balance £m	Interest Earned £k	Investment Return %
Fixed Term Investments < 365 days	51.3	239.1	0.93%
Fixed Term Investments > 365 days	2.1	23.7	2.26%
Bank Call Accounts	30.4	125.7	0.82%
Money Market Funds	10.1	21.1	0.42%
Total	94.0	409.7	0.87%

- 1.6** The Council has maintained average cash balances at £94m over the first half of the year. This exceeds the planned minimum cash balance of £20m to minimize long-term borrowing yet maintain sufficient liquidity to meet payments as they fall due. This was a consequence of the re-phasing of the business rate element of the formula grant from central government where it was all received in the first half of the year rather than being paid out over the full year as previously.
- 1.7** During the first half of the year two counterparties were removed from the approved lending list by the Treasury Management Group. In May, the Co-op Bank was suspended following a ratings downgrade attributable to a £1.5 billion capital shortfall due to mainly non-performing commercial loans inherited from the former Britannia Building society. The Co-op Bank remains the Council's banker but no balances are currently invested in its call accounts or in any term deposits. In August Clydesdale Bank was suspended following a ratings downgrade attributable to commercial loan losses, although the bank remains well-supported by its parent bank, National Australia Bank. The Council had £15m invested with Clydesdale Bank in a fixed term deposit which matures on 8 November 2013. 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** Since the start of the financial year gilt yields have increased across all durations (as shown in Chart 2 below) with 25 to 50 year gilts up by around 50 basis points and 5 to 10 years gilts up by 70 and 100 basis points respectively. These movements reflect a number of factors:
- Improving prospects for the UK and world economy;
 - Market expectations of an earlier increase in UK base rate;
 - Increased stability in the Eurozone reducing 'safe-haven' flows into sterling assets

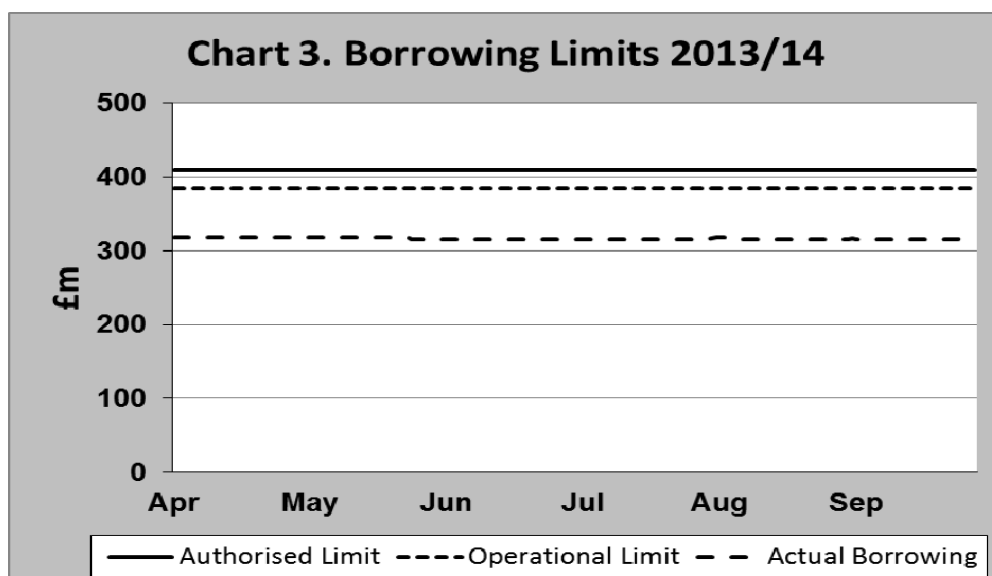


- 2.2** The Council's Treasury Management Strategy for 2013/14 indicated borrowing of up to £40m would be required to finance the capital programme and replenish cash balances. Over the past several years the Council has partly financed the capital programme by using its cash balances (referred to as 'internal borrowing'). This utilises earmarked reserves, general fund reserves and net movement on current assets until the cash is required for their specific purposes and has the effect of reducing external borrowing and also reducing credit risk (by having lower balances available for investments).
- 2.3** No new long term borrowing was undertaken in the first half of the year due to the level of cash balances as described in paragraph 1.2 above. New borrowing will be required, however, during the second half of the year in line with the approved strategy. Table 4 below shows the movement in long-term borrowing which reflects the maturities of existing debt. One LOBO call date (due in June) was not exercised by the lender.

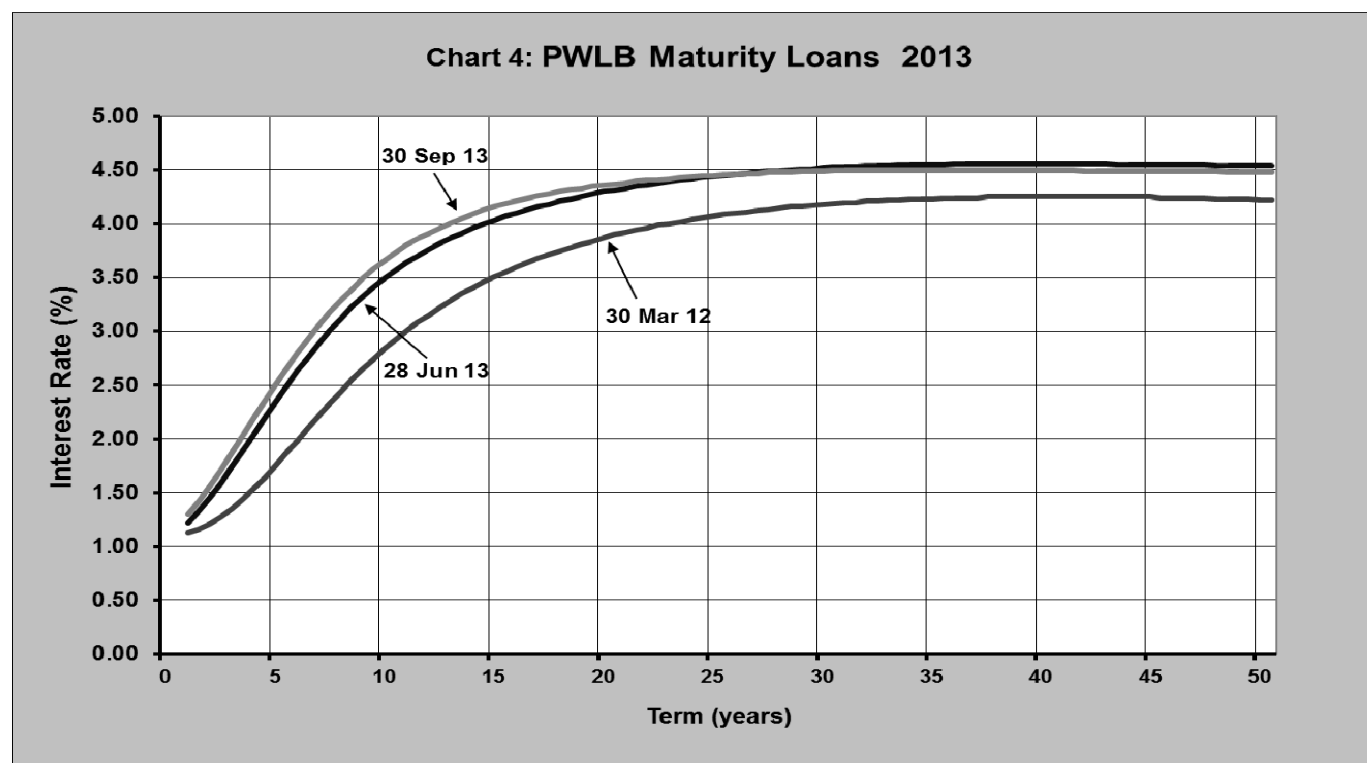
Table 4 Movements in Long-term Borrowing 2013/14 Apr - Sept

Lender	B/fwd 31/03/13 £m	Advances 2013/14 £m	Repayments at maturity 2013/14 £m	Premature Repayments 2013/14 £m	C/fwd 30/09/13 £m
PWLB	209.8	0.0	3.3	0.0	206.5
LOBO	100.0	0.0	0.0	0.0	100.0
Other	10.0	0.0	0.0	0.0	10.0
Total	319.8	0.0	3.3	0.0	316.5

- 2.4 Chart 3 shows how current borrowing compares with the prudential indicators and indicates that borrowing has been managed within these limits. The authorised limit was set at £409m and the operational boundary at £384m.



- 2.5 Standard borrowing rates from the PWLB in Chart 4 below have increased over the first half of the year following the increase in gilt yields as explained in paragraph 2.1. Since the start of the financial year, rates are higher over all durations with 25 – 50 year rates up by 20-30 basis points. The largest increase (of over 80 basis points) is for durations between 5 and 10 years. The tightening in the yield curve reflects market expectations of an earlier increase in base rates.



- 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. The PWLB provide a methodology for determining the cost of early redemption and publish a 'repayment rate' to be used but this will generally produce a premium to be paid. The current cash position, capital programme and level of existing borrowing mean that it is unlikely that sufficient resources will exist to be able to repay existing debt plus any premiums due (over and above that normally maturing).

TREASURY MANAGEMENT INVESTMENT ACTIVITY HALF-YEAR 2013/14

1. Transactions

a. Fixed Term Raised	Amount £m	Date Raised	Duration Days	Rate %
Bank of Scotland	5.0	11-Apr-13	183	0.80%
Lloyds Bank	5.0	11-Apr-13	274	0.95%
Lloyds Bank	5.0	11-Apr-13	364	1.10%
Clydesdale	15.0	19-Apr-13	203	0.58%
Bank of Scotland	5.0	11-Jul-13	92	0.70%
Other Local Authority	0.5	30-Aug-13	1826	2.74%
Total	35.5			

Matured	Date Matured
Lloyds Bank	11-Apr-13
Co-op Bank	22-Apr-13
Bank of Scotland	07-May-13
Co-op Bank	07-May-13
Co-op Bank	08-May-13
Co-op Bank	15-May-13
Bank of Scotland	11-Jul-13
Lloyds Bank	17-Jul-13
Bank of Scotland	07-Aug-13
Nationwide	08-Aug-13
Total	106.1

b. Bank Accounts	Deposits £m	Withdrawals £m	Net Deposits £m
Royal Bank of Scotland	61.0	71.0	-10.0
Santander UK	96.6	106.1	-9.5
Totals	157.6	177.1	-19.5

c. Money Market Funds	Subscriptions £m	Redemptions £m	Net Subscriptions £m
Legal & General	105.6	105.6	0.0
Ignis	95.0	95.0	0.0
Totals	200.6	200.6	0.0

2. Investment Portfolio

	31 March 2013		30 September 2013	
Counterparty	£m	%	£m	%
Bank of Scotland	10.0	24%	15.0	35%
Clydesdale Bank	0.0	0%	15.0	35%
Lloyds Bank	12.0	29%	12.0	29%
Royal Bank of Scotland	10.0	24%	0.0	0%
Santander UK	9.6	23%	0.0	0%
Other UK Local Authority	0.0	0%	0.5	1%
Total	41.6	100%	42.5	100%