Nottinghamshire County Council

Report to County Council

01 November 2012

Agenda Item: 14

REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT

TREASURY MANAGEMENT HALF-YEAR REPORT 2012/13

Purpose of the Report

1. To provide a review of the Council's treasury management activities in 2012/13 for the 6 months to 30 September 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 half 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 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 borrowing was raised
   - The Council earned 1.06% on short term lending, outperforming the average London Inter-Bank Bid rate of 0.43%.

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 half of 2012/13.

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Team Manager – Investments

For any enquiries about this report please contact: Simon Cunnington

Constitutional Comments

7. Because this report is for noting only no Constitutional Comments are required

Financial Comments (SRC 19/10/12)

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

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT

TREASURY MANAGEMENT HALF YEAR REPORT 2012-13

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 30/09/2012 is shown in Table 1 below.

Table 1. Treasury Position at 30 September 2012		£m	£m	Average Interest Rate
EXTERNAL BORROWING				
Fixed Rate	PWLB	185.4		6.39%
	Market Loan	100.0	285.4	3.85%
Variable Rate	PWLB	0.0		
	Market Loan	0.0	0.0	
Total			**285.4**	5.50%
Other Long-Term Liabilities			**138.0**	
Total Gross Debt			**423.4**	
Less: Investments			37.1	1.39%
Total Net Debt			**386.3**	

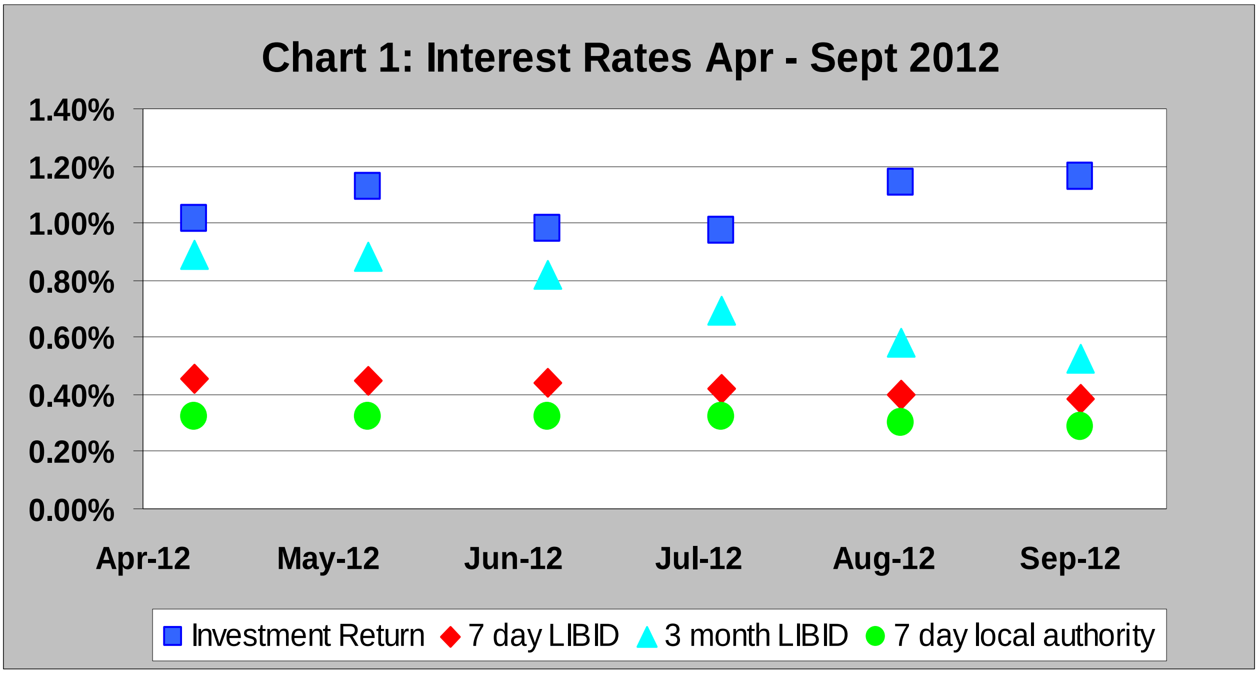
Note 1: PWLB = Public Works Loans Board
Note 2: Market Loans = Lenders' Option, Borrowers' Option (LOBO) loans

1.2 Over the first 6 months of 2012/13 the Council's cashflows were maintained with no new borrowing, and surplus cash was invested through the wholesale money market. The net position shows outstanding temporary lending of £37.1m, compared to the opening position of £38.5m. The average level of funds available for investment purposes over the period was £64m. 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 2012	0.00	(38.50)	(38.50)
Raised/ (lent) during period	0.00	(474.15)	(474.15)
Repayments during period	0.00	475.55	475.55
Outstanding 30 Sep 2012	0.00	(37.10)	(37.10)

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



1.5 The Council has significantly outperformed the benchmark which averaged 0.43% against actual returns of 1.06%, an out-performance of 0.63%. This equates to additional interest of £203,000 for the first half of the year. The weighted average maturity of investments over this period was 59 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	36.2	241.8	1.36%
Bank Call Accounts	11.3	43.5	0.77%
Money Market Funds	16.8	55.3	0.65%
Total	**64.3**	**340.6**	**1.06%**

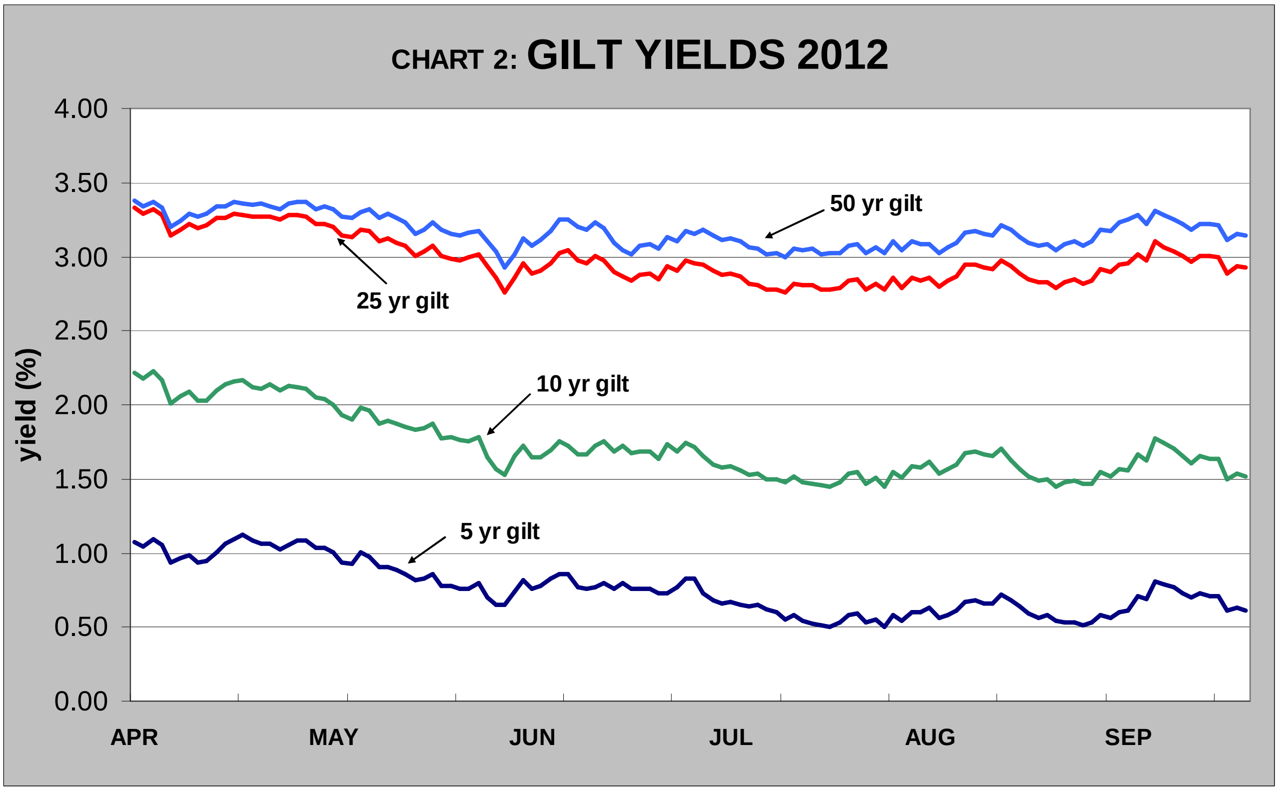
1.6 The Council has maintained average cash balances at £64m over the first half of the year. This exceeds the planned minimum cash balance of £50m to minimize long-term borrowing yet maintain sufficient liquidity to meet payments as they fall due.

1.7 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 had no funds invested with these counterparties although the pension fund had a total of £25m invested which matured 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 Since the start of the financial year gilts have reduced across all durations with the 10 year gilt showing the largest fall of 70 basis points (as shown in Chart 2). 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")

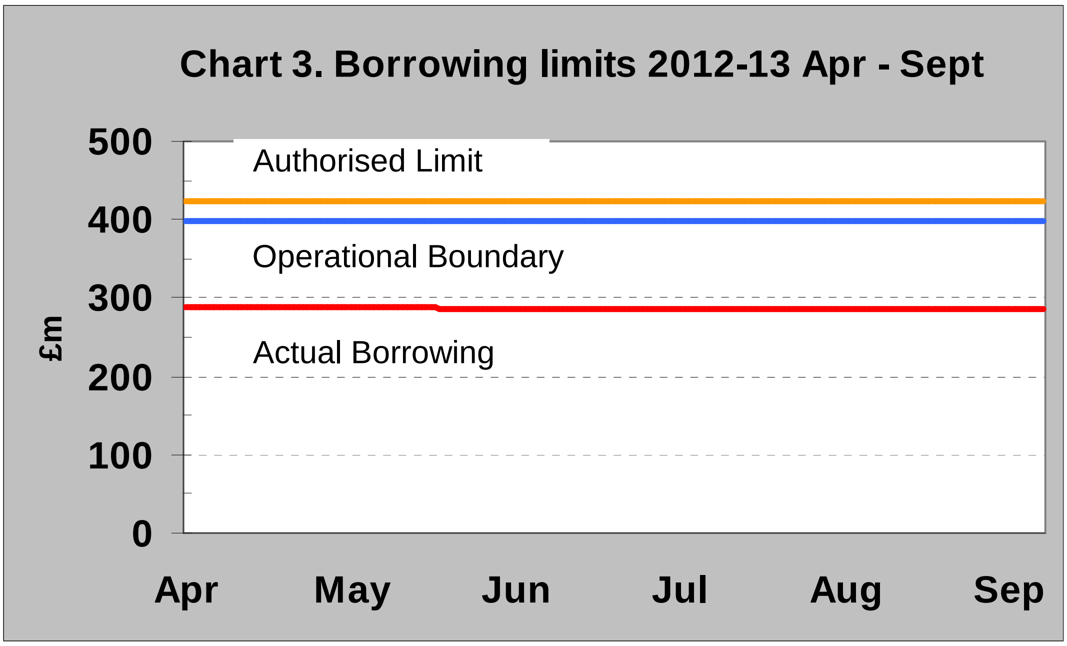


2.2 The Council's Treasury Management Strategy Report for 2012/13 indicated borrowing of up to £100m would be required in 2012/13. No new borrowing has yet been undertaken this year due to the level of cash balances as described in paragraph 1.2 above. The actual level of new borrowing will be dependent on whether the Council has sufficient cash resources to fund the capital programme and may be significantly lower than originally forecast. 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.

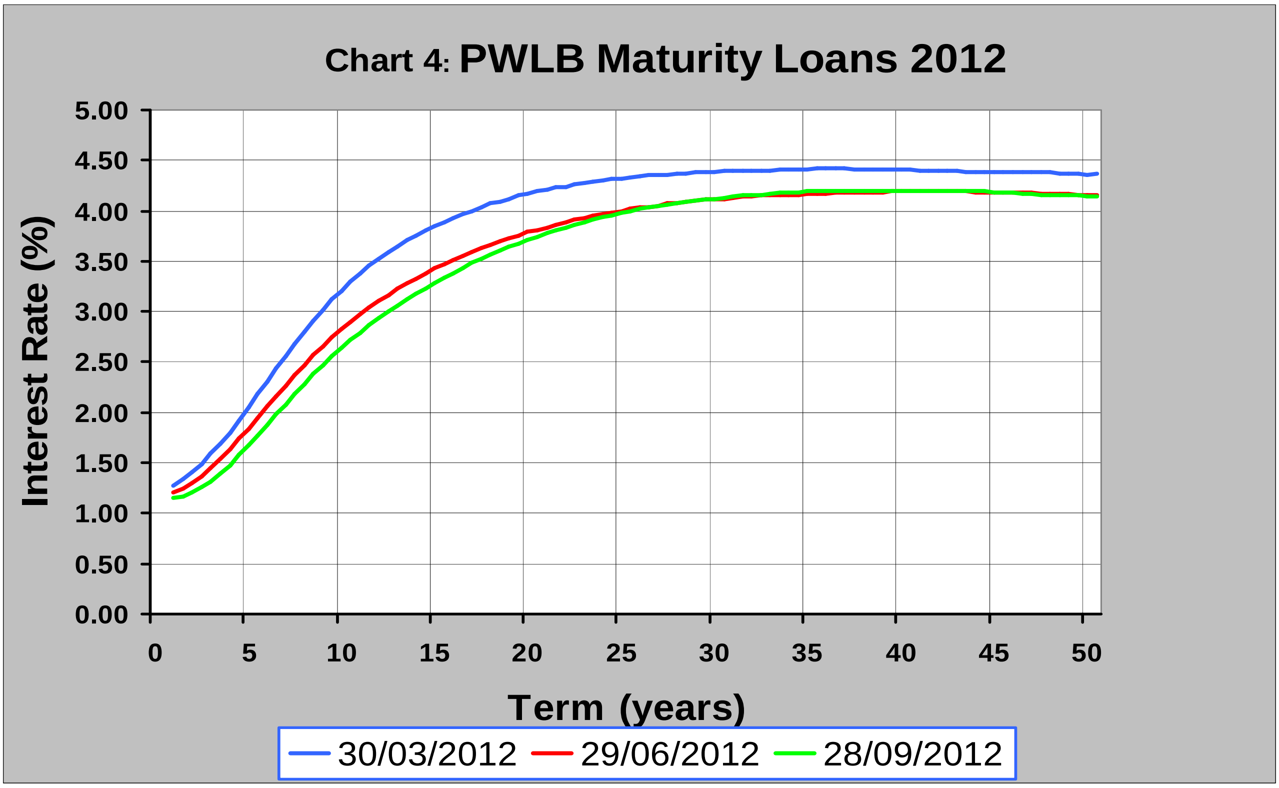
Table 4 Movements in Long-term Borrowing 2012-13 Apr - Sept

Lender	B/fwd 31/03/12 £m	Advances 2012/13 £m	Repayments at maturity 2012/13 £m	Premature Repayments 2012/13 £m	C/fwd 30/09/12 £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 half of the year following the reductions in gilt yields as explained in paragraph 2.1. Since the start of the financial year rates are lower over all durations with falls of over 60 basis points for durations between 10 and 16 years.



2.5 Borrowing rates over the remainder of the year are likely to remain within this range due to the continuation of the challenging economic environment. The PWLB will be offering a new “certainty rate” from 1 November for local authorities providing information about their borrowing plans. This rate will be 20 basis points lower than the standard rate. The Council has submitted the required information to benefit from this reduction.

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.