



1. **PURPOSE OF REPORT**

To inform the Select Committee of the Council's Treasury Management activity in the first quarter of 2014/15.

2. **RECOMMENDATION**

That the Select Committee note the report.

3. **BACKGROUND TO THE REPORT**

At its meeting in February 2014 the Council approved the Council's Treasury Management Policy for the year 2014/15 and delegated the oversight of the execution of the Policy to the Select Committee.

This report sets out the Treasury Management activities for the first quarter of 2014/15 and shows that they are in line with the limits set out in the Policy.

Treasury Management covers two main areas:-

1. The management of day to day cash flows by way of short term investing and borrowing. Longer term investment opportunities may arise depending on cash flow requirements.
2. Management of the Council's Long term debt portfolio which is used to finance capital expenditure that cannot be immediately funded by internal resources (e.g. by Capital Receipts).

3.1 **Economic Background**

- After strong UK GDP growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, and 0.8% in Q1 2014, it appears very likely that strong growth will continue into 2014 as forward surveys are very encouraging. There are also positive indications that recovery is starting to broaden away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster through the threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, now broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. Accordingly, markets are expecting a first increase around the end of 2014.

- Also encouraging has been the sharp fall in inflation (CPI), reaching 1.5% in May, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly 1%. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed in this quarter.
- In June, the Federal Reserve continued with its monthly \$10bn reductions in asset purchases, which started in December 2014. Asset purchases have now fallen from \$85bn to \$35bn and are expected to stop by Q3 201, providing strong economic growth continues this year. First quarter GDP figures were depressed by exceptionally bad winter weather, but growth rates since then look as if they are recovering well.
- The Eurozone is facing an increasing threat from deflation. In May, the inflation rate fell further, to reach 0.5%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB did take some rather limited action in June to loosen monetary policy in order to promote growth.

3.2 Investment Activity

The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time, ensuring adequate liquidity, with the investment return being the final objective. Following the economic background above, officers are implementing an operational strategy which tightens the controls already in place in the approved investment strategy.

The Council's investment criteria, approved by Council in February 2014 are:-

- **Banks 1 - Good Credit Quality** – the Council will only use banks which:
 - i) Are UK banks; and/or
 - ii) Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA.

And have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

- i) **Short Term** – F1
 - ii) **Long Term** – A
 - iii) **Individual / Financial Strength** – C (Fitch / Moody's only)
 - iv) **Support** – 3 (Fitch only)
- **Banks 2 – Guaranteed Banks with suitable Sovereign Support** – In addition, the Council will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:
 - (a) wholesale deposits in the bank are covered by a government guarantee;

- (b) the government providing the guarantee is rated “AAA” by all three major rating agencies (Fitch, Moody’s and Standard & Poors); and
 - (c) the Council’s investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.
- **Banks 3 - Eligible Institutions** - the organisation was considered an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. These institutions were subject to suitability checks before inclusion.
 - **Banks 4** - The Council’s own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
 - **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above.
 - **Building Societies** – the Council will use all Societies which:
 - i) Meet the ratings for banks outlined above
Or are both:
 - ii) Eligible Institutions; and
 - iii) Have assets in excess of £500m.
 - **Money Market Funds** - AAA
 - **UK Government** (including gilts and the DMADF)
 - **Local Authorities, Parish Councils etc**
 - **Supranational institutions**

Funds for investment come from the following Sources

- a) Revenue Account Balances held by the Council
- b) Earmarked Reserves and Provisions
- c) Unapplied Capital Receipts
- d) Cash flow balances - income received before expenditure needs to be incurred

As at 30 June 2014 the Council held the following investments totalling £17,132,000 details as given in the table below

Counterparty	Investment Date	Maturity Date	Amount	Interest Rate
Coventry BS	02/06/14	02/07/14	1,000,000	0.4100
Coventry BS	24/06/14	24/07/14	1,000,000	0.4100
Hinckley & Rugby	19/06/14	18/07/14	2,000,000	0.4000
Hsbc Call account	30/06/14	01/07/14	2,982,000	0.3500
Nationwide BS	02/06/14	02/07/14	1,000,000	0.4100
Nationwide BS	09/06/14	09/07/14	2,000,000	0.4100
Newcastle BS	19/06/14	21/07/14	500,000	0.3800
Nottingham BS	24/06/14	24/07/14	500,000	0.3500
Nottingham BS	02/06/14	02/07/14	1,500,000	0.3500
Principality BS	30/06/14	31/07/14	1,650,000	0.4200

Skipton BS	02/06/14	02/07/14	2,000,000	0.4000
West Brom BS	18/06/14	18/07/14	1,000,000	0.4300

Details of all investments held from April 2014 to June 2014 are included in Appendix A

Details of the weighted average investment to June 2014 are shown in the table below together with the average overnight, 7 day and 1 month London Inter Bank Bid (LIBID) as a bench mark to the rates received by the Council.

Period	Weighted Average invested	Average period (days)	HBBC Average Return	Overnight LIBID	7 Day LIBID	1 Month LIBID
April 14 to June 14	4,527,301	11.03	0.6220	0.3400	0.3409	0.3629

figures above show that the Council received a rate of return that is compatible with the returns available in the market.

It also shows that the weighted average period is within the maximum set of 0.5 years.

Due to current economic conditions officers have decided to limit investment to a one month excluding weekends, and not to invest with banks other than with the Council's Bank. This together with mergers of Building Societies has meant the Counter Party invest list of organisations has shrank. Average investments returns are however still higher then the comparable inter bank rate (return of 0.6220% compared against 0.3629%).

3.3 Borrowing Activities

Long term borrowing to finance Capital Expenditure

Excluding the HRA self financing element the Council has a Capital Financing Requirement of around for the current year is £19.162m which arises from previous decisions to incur Capital Expenditure that was not financed immediately by internal resources e.g. Capital Receipts or Grants giving rise to the need to borrow to finance the expenditure. This borrowing requirement can either be met by long or short term external borrowing or by internal borrowing i.e. using the cash behind the authority's balances and reserves and foregoing investment income. At the present time the interest payable on long term borrowing is significantly greater than the returns the Council could expect on its investments and therefore the Council has adopted a policy of being "underborrowed" with only £3.3m of long term loans on its books. One year loans from the PWLB currently cost 1.62% so if the Council was fully funded with short term money and was receiving investment income of 0.35% there would be a cost of £201,000 pa. With 20 year rates at about 4.27% the additional cost would be £628,000pa. In these circumstances the Council has not undertaken any long term borrowing in the current year and has relied on short term borrowing to meet cash flow needs.

Additionally, as part of the Self Financing HRA Settlement £67.652m has been borrowed from PWLB. Repayment options have been discussed with members and were presented to the Executive on 13th March 2012. Repayments for principal amounts for these loans will commence in 7 years time. The loan will be repaid in equal instalments of £2.9414m over 23 yrs.

3.4 Short Term Borrowing (to cover cash flow shortfalls).

Some short term borrowing took place to cover temporary cash flow shortfalls. The movements are as follows:-

Amount outstanding at 1 April 2014	£000
Plus Total Amount borrowed to March 2014	£7,000,000
Less Total Amount repaid in year	£7,000,000
Amount outstanding at June 2014	Nil
The average amount borrowed was	£383,562
Average period of loans	20 Days
Number of occasions	1
Average rate of interest paid	0.3000%

All borrowing was conducted with the Operational Limit set by the Council.

5. FINANCIAL IMPLICATIONS (IB)

Any variations to budgets resulting from borrowing investing activities are reported within the Outturn position.

5. LEGAL IMPLICATIONS (AB)

There are no legal implications arising directly from this report.

6. CORPORATE PLAN IMPLICATIONS

This report supports the following Corporate Aims

- Thriving Economy

7. CONSULTATION

None

8. RISK IMPLICATIONS

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion

based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
Loss of investments due to failure of Counterparty	Ensure Counterparty is financially secure prior to lending by confining activity to institutions on a list of approved institutions based on credit ratings.	I Bham
	Ensure that lending is for appropriate periods and amounts as per Counterparty list	I Bham

9. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

Treasury management activities support all activities of the Borough Council and therefore impact on all areas of and communities within the Borough

10. **CORPORATE IMPLICATIONS**

By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector implications

Background papers: Investment and borrowing records

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