

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 02 February 2015

Portfolio:	Policy and Resources
Subject:	Treasury Management Monitoring Report 2014/15
Report of:	Director of Finance and Resources
Strategy/Policy:	Finance and Treasury Management Strategies
Corporate Objective:	A dynamic, prudent and progressive council

Purpose:

This report summarises the Council's investment activity up to 31 December 2014 and provides details of the Council's money market transactions.

Under the Code of Conduct that governs the operation of the money markets, it is not possible to make public details of specific transactions. For this reason, Appendix A is included in the confidential part of the agenda.

Executive summary:

This report gives the Executive the opportunity to review the treasury management activity up to 31 December 2014 along with the Treasury and Prudential Indicators.

The overall position is set out in the following table:

Investments	Externally Managed £m	Internally Managed £m	Call Accounts £m	Total £m
At 1 April 2014	10.0	18.0	12.8	40.8
New	8.0	18.0	95.3	121.3
Repaid	8.0	15.0	94.1	117.1
At 31 Dec 2014	10.0	21.0	14.0	45.0

The actual fixed term investments are set out in Appendix A with more detailed information set out in the briefing paper.

Performance for the first half of the year for the treasury and prudential indicators are shown in detail in Appendix B. During the financial year to date the Council has operated within the treasury limits and prudential indicators.

Recommendation:

That the Executive notes the contents of the Treasury Management Monitoring report.

Reason:

To inform the Executive of the Council's investment, borrowing and repayment activity up to 31 December 2014.

Cost of proposals:

Not applicable.

Appendices:

A: Externally & Internally Managed Investments (Confidential Appendix)

B: Q3 Treasury and Prudential Indicators

C: Treasury and Prudential Indicators Explained

Background papers:

Exempt by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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BOROUGH COUNCIL

Executive Briefing Paper

Date: 02 February 2015

Subject: Treasury Management Monitoring Report 2014/15

Briefing by: Director of Finance and Resources

Portfolio: Policy and Resources

INTRODUCTION

1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly. This report therefore ensures this Council is implementing best practice in accordance with the Code.
2. The total amount of fixed term investments and call accounts as at 31 December 2014 was £45 million, as summarised below. The movements during the year for fixed term investments are detailed in Appendix A.

Investments	Externally Managed £m	Internally Managed £m	Call Accounts £m	Total £m
At 1 April 2014	10.0	18.0	12.8	40.8
New	8.0	18.0	95.3	121.3
Repaid	8.0	15.0	94.1	117.1
At 31 Dec 2014	10.0	21.0	14.0	45.0

3. The increase in funds of £4.2 million during the first 9 months of the year was mainly due to the timing of precept payments, receipts of grants and progress on the capital programme.

INVESTMENT STRUCTURE

4. The structure of the investments at 31 December is shown in the table below. Over the past few years, most investments have been held on short periods to mitigate the risks that have been seen during the recession. At the same time, officers have actively sought to spread investments across a wider range of counterparties rather than operating at the upper limit for investments to limit the exposure to financial loss.
5. Throughout this period of uncertainty, officers have been taking advice from the Council's retained treasury advisor, Capita Asset Services, to ensure that decisions are taken in light of the latest facts at the time. This has given rise to

lower interest rates being secured but this is the lowest priority consideration compared to the security of investments and the liquidity of cash flow.

6. The Council's fixed term investments are partly managed externally by Tradition UK Ltd. The role of the broker is to determine the most appropriate investment option within criteria set by the Council. All cash transfers are made by Council officers and Executive approval has been given for the allocation of up to £13 million to the externally managed portfolio. This retains sufficient funds within the direct management of officers, while still ensuring that maximum yield is achieved from the longer term investments.
7. The investment structure is sufficient to meet the capital programme and other large cash outflows.

Investment Structure	External £m	Internal £m	Call £m	Total £m
For periods of less than 1 month	0	1.0	10.0	11.0
For periods of 1 to 3 months	0	7.0	0	7.0
For periods of 3 to 6 months	2.0	7.0	4.0	13.0
For periods of 6 to 12 months	5.0	5.0	0	10.0
For periods of 1 to 2 years	3.0	1.0	0	4.0
Total Investments at 31 Dec 2014				
Investments for periods < 365 days	7.0	20.0	14.0	41.0
Investments for periods 365+ days	3.0	1.0	0	4.0

8. To increase the liquidity of the Council's investments, call accounts with Nat West, Santander, HSBC and Svenska Handelsbanken are being used. These accounts offer quick access to funds however they do attract a lower rate of interest than some of the fixed term investments shown in the table above.
9. The balance within each call account as at 31 December 2014 is set out in the following table:-

Call Accounts	£m
NatWest	0
Santander - 95 day notice	4.0
Svenska Handelsbanken	4.0
HSBC	6.0
Total	14.0

ECONOMIC UPDATE FROM CAPITA ASSET SERVICES

10. After strong UK GDP growth in 2013 at an annual rate 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards.
11. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods,

both of which need to substantially improve on their recent lacklustre performance.

12. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable.
13. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.
14. Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

INTEREST RATES

15. The base rate has remained at 0.5% since March 2009. The latest forecast by Capita Asset Services includes a move in the timing of the first increase in Bank Rate from quarter 2 of 2015 to quarter 4 of 2015. This is as a result of the sharp fall in inflation due to the fall in the price of oil and the cooling of the rate of growth in the UK.
16. Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme. Actual investment income for 2013/14 was £770,881 with the budget for 2014/15 set at £676,900 for the General Fund and HRA.

BORROWING

17. The Council's external long term debt amounted to £40.4 million as at 1 April 2014. This is as a result of the HRA reforms (£40m) and the Hampshire County Council interest free loan for Portchester Community Centre (£0.4m). Borrowing may be required in the last quarter of the year for the Daedalus capital scheme.
18. The Council has taken out ten £4 million loans from the PWLB with duration of between 40 and 50 years at an average interest rate of 3.50% as detailed in the table below:-

Repayment Date	Loan Amount	Interest Rate
30/09/2052	£4m	3.52%
30/09/2053	£4m	3.51%
30/09/2054	£4m	3.51%
30/09/2055	£4m	3.51%
30/09/2056	£4m	3.50%
30/09/2057	£4m	3.50%
30/09/2058	£4m	3.50%
30/09/2059	£4m	3.49%
30/09/2060	£4m	3.49%
30/09/2061	£4m	3.48%
Total	£40m	3.50% average

19. Interest payable for 2014/15 is budgeted at £1,870,900 and will be met by the HRA. £1,400,400 relates to the PWLB loans and £470,500 for interest on internal borrowing between the General Fund and the HRA.

STRATEGY COMPLIANCE

20. The Council's Treasury Management Strategy Statement for 2014/15, which includes the Annual Investment Strategy 2014/15, was approved by the Council on 21 February 2014. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

21. The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs but also to seek out value available in higher rates in periods up to 2 years with highly credit rated financial institutions.

22. The compliance with the various elements of the strategy are set out in the following table:-

Compliance on Individual Elements	Yes/No	Notes
Borrowing only up to "supported" level	Yes	No borrowing this quarter
All investments with approved institutions	Yes	Treasury management advisors provide updated list of approved institutions weekly
All individual investments within prescribed financial limits	Yes	There are currently 6 institutions where the total investment is at the maximum level. They are Lloyds Bank (£8m limit), HSBC (£6m limit), Skipton BS, Leeds BS, Principality BS and West Brom BS (£2m limit).

23. No changes to the Council's Treasury Management Strategy Statement and Annual Investment Strategy 2014/15 are considered necessary at this time as the rules currently being applied to investments are much tighter than those approved within the Treasury Management Strategy.

COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

24. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordable limits) were approved by the Executive at its meeting on 10 February 2014.
25. Performance up to 31 December 2014 is shown in Appendix B and the purpose of each indicator is explained in more detailed in Appendix C. During the financial year to date the Council has operated within the treasury and prudential indicators.

RISK ASSESSMENT

26. There are no significant risk considerations in relation to this report.

Reference Papers:

10 February 2014 Executive Report - Treasury Management Strategy and Prudential Indicators 2014/15