FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
4 November 2013

Portfolio:	Policy and Resources
Subject:	**Treasury Management Monitoring Report 2013/14**
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 30 September 2013 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 30 September 2013 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 2013	**10.0**	**12.0**	**10.8**	**32.8**
New	7.0	9.0	62.9	78.9
Repaid	7.0	7.0	52.2	66.2
At 30 Sept 2013	**10.0**	**14.0**	**21.5**	**45.5**

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 treasury management monitoring report be noted.

Reason:
To inform the Executive of the Council's investment, borrowing and repayment activity up to 30 September 2013.

Cost of proposals:
Not applicable.

Appendices	**A:**	Externally & Internally Managed Investments (Confidential Appendix)
	B:	Q2 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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Executive Briefing Paper

Date: 4 November 2013

Subject: Treasury Management Monitoring Report 2013/14

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 30 September 2013 was £45.5 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 2013	**10.0**	**12.0**	**10.8**	**32.8**
New	7.0	9.0	62.9	78.9
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3. The increase in funds of £12.7 million during the first half 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 30 September 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.

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5. Throughout this period of uncertainty, officers have been taking advice from the Council's retained treasury advisor, Capita Asset Services (previously known as Sector), 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	1.0	0	17.5	18.5
For periods of 1 to 3 months	2.0	0	0	2.0
For periods of 3 to 6 months	0	5.0	4.0	9.0
For periods of 6 to 12 months	5.0	9.0	0	14.0
For periods of 1 to 2 years	2.0	0	0	2.0
Total Investments at 30 Sept 2013				
Investments for periods < 365 days	8.0	14.0	21.5	43.5
Investments for periods 365+ days	2.0	0	0	2.0

8. To increase the liquidity of the Council's investments, call accounts with Nat West (including a 95 day notice account), Santander and HSBC 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 30 September 2013 is set out in the following table:-

Call Accounts	**£m**
NatWest	5.5
NatWest - 95 day notice	4.0
Santander UK	6.0
HSBC	6.0
Total	**21.5**

ECONOMIC UPDATE

10. Summary for the quarter ended 30 September:
    - After strong growth of 0.7% in Q2, it appears that the UK GDP is likely to have grown at an even faster pace in Q3.
    - Consumer spending also continued to rise and may beat the increase seen in Q2.

- The run of good news on the labour market continued, with the unemployment rate falling to 7.7% in July from 7.8% in June.
- The cost of new credit has continued to fall, perhaps in response to the extension of the Bank of England's Funding for Lending Scheme (FLS) earlier this year.
- Demand in the housing market continued to grow at a fast pace, supported by the FLS and the Government's Help to Buy scheme, which provide equity loans to credit-constrained borrowers.
- The new Governor of the Bank of England, Mark Carney, took office in July. Alongside the August Quarterly Inflation Report, the Bank introduced its new policy of forward guidance in which the Monetary Policy Committee pledged not to raise official interest rates, or reduce the size of the asset purchase facility until the unemployment rate falls to 7%. The guidance was subject to three 'knockouts' which, if breached, would invalidate the guidance.
- CPI inflation fell from a 2013 peak of 2.9% in June to 2.7% in August. The fall was primarily the result of a drop in the contribution from petrol prices and a reduction in core inflation.

11. Summary outlook for the UK:
    - Growth has been on an upward trend – 0.3% in Q1; 0.7% in Q2 and likely to be much stronger in Q3. The so called double dip recession at the beginning of 2012 was erased by the latest revision of statistics.
    - Business surveys, consumer confidence, consumer borrowing and house prices are all on the up and may help to create a wide spread feel good factor. However, this is still a long way away from the UK getting back to sustainable strong growth.
    - A fair proportion of UK GDP is dependent on overseas trade; the high correlation of UK growth to US and EU GDP growth means that the UK economy is still vulnerable to what happens in overseas markets.
    - Consumer expenditure is likely to remain suppressed by inflation being higher than increases in average earnings i.e. disposable income will continue to be eroded.

12. Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during the remainder of 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

INTEREST RATES

13. The base rate has remained at 0.5% since March 2009. Capita Asset Services undertook a review of its interest rate forecasts in late September as a result of an increase in confidence in economic recovery, chiefly in the US, but more recently, also in the UK and Eurozone. The latest forecast now includes a first increase in Bank Rate in quarter 3 of 2016 (previously quarter 4).

14. Investment rates available in the market have continued at historically low levels and have fallen further during the first half of the year as a result of the Bank of England's Funding for Lending Scheme. Investment income has dropped significantly over the past few years as long term investments with high interest rates have matured. Actual investment income for 2012/13 was £647,800 with the budget for 2013/14 set at £737,700 for the General Fund and HRA.

BORROWING

15. The Council's external long term debt amounted to £40.6 million as at 1 April 2013. This is as a result of the HRA reforms (£40m) and the Hampshire County Council interest free loan for Portchester Community Centre (£0.6m). Further borrowing is anticipated in 2013/14 in relation to the Solent Growing Places Fund for Daedalus.

16. 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**

17. Interest payable for 2013/14 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

18. The Council's Treasury Management Strategy Statement for 2013/14, which includes the Annual Investment Strategy 2013/14, was approved by the Council on 22 February 2013. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

19. 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 12 months with highly credit rated financial institutions.

20. 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 5 institutions where the total investment is at the maximum level. They are Lloyds TSB Bank (£8m limit), Barclays Bank, HSBC, Santander (£6m limit), and Skipton BS (£2m limit)

21. No changes to the Council’s Treasury Management Strategy Statement and Annual Investment Strategy 2013/14 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

22. 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 11 February 2013.

23. Performance for the first half of the year 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

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

Reference Papers:
11 February 2013 Executive Report - Treasury Management Strategy and Prudential Indicators 2013/14