Audit Committee		Agenda Item: 4
Meeting Date	11 December 2013	
Report Title	Treasury Management Half Year Report	
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance	
SMT Lead	Nick Vickers, Head of Finance	
Head of Service	Nick Vickers, Head of Finance	
Lead Officer	Olga Cole, Senior Accountancy Assistant	
Key Decision	No	
Classification	Reference number:	
Recommendations	1. Members are asked to note the performance information in this report.	

1 Purpose of Report and Executive Summary

1.1 The purpose of this report is to review the mid-year outturn position on treasury management transactions for 2013/14 including compliance with treasury limits and Prudential Performance Indicators. The report will go to Council on 22 January 2014.

1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. In accordance with the Code of Practice members are informed of Treasury Management activities twice a year.

1.3 The approach to the use of the cash surplus continues to be risk averse both in terms of the counterparties the Council will use and the duration of deposits.

2 Background

2.1 The counterparties agreed by Cabinet and Council earlier this year when the 2013/14 Treasury Strategy was agreed are:

- Debt Management Office – Debt Management Account Deposit Facility;
- Gilts (bonds issued by the UK Government);
- AAA rated Money Market Funds; and
- Major UK financial institutions with a lowest minimum long-term credit rating of A- or equivalent:
  - Royal Bank of Scotland Plc (RBS);
  - National Westminster Bank;
  - Lloyds TSB Bank Plc;

- Bank of Scotland Plc;
- Barclays Bank Plc;
- HSBC Bank Plc;
- Santander UK Plc;
- Standard Chartered Bank; and
- Nationwide Building Society.

2.2 The investment activity during the first six months conformed to the approved strategies at all times, with no breaches.

2.3 Investments held at 31 October 2013 can be found in Appendix I.

2.4 During the period since April the bank counterparties have continued to reduce the rates they pay on deposits. The Government's Funding for Lending Scheme means that the banks can access capital cheaply from this source and they have little need for local authority funds.

2.5 There is unlikely to be any change in this situation for a considerable time with Arlingclose, the Council's treasury advisers, not forecasting any increase in base rate until 2016.

2.6 The approach to deposits is focussed on preserving capital. Use of resources will be critical to balancing the Council's finances and supporting priority projects.

2.7 The Council did not need to borrow to cover cash flow purposes in the period.

2.8 Interest income received for the first half of 2013 was £21,000 above the original budget of £37,000.

2.9 For the six months to 30 September 2013, the Council maintained an average sum invested of £20m compared with an original budget of £16m, and an average rate of return of 0.58% compared to a budget of 0.45%.

2.10 The results for the six months to 30 September 2013 show that the Council achieved 0.15% above the average 7 day London Interbank Bid Rate (LIBID) and 0.08% average return rate above the Bank of England Base Rate.

Compliance with Prudential Indicators

2.11 The Council can confirm that it has complied with its Prudential Indicators for 2013/14 which were set in February as part of the Council's Treasury Management Strategy Statement.

2.12 Prudential Indicators are set out in Appendix II.

3. Alternative Options

3.1 The Head of Finance will consider changes to the counterparty criteria with reference to the Council's agreed policy with regard to risk.

4. Consultation Undertaken

4.1 Consultation has been undertaken with Arlingclose.

5. Implications

Issue	Implications
Corporate Plan	No direct application.
Financial, Resource and Property	As detailed in the report.
Legal and Statutory	The Council has powers to both borrow funds to support its work and to invest and earn interest on funds available.
Crime and Disorder	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice. The principle of security of funds over-rides investment performance.
Equality and Diversity	None
Sustainability	None

6. Appendices

6.1 The following documents are to be published with this report and form part of the report.

- Appendix I: Investments as at 31 October 2013
- Appendix II: Prudential Indicators

7. Background Papers

7.1 The background papers are held by Finance and include:

- Prudential Code for Capital Finance in Local Authorities (2013 Edition) – CIPFA

- Treasury Management in the Public Services Code of Practice and Cross Sectional Guidance Notes (2011 Edition) – CIPFA
- Treasury Management in the Public Services Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2011 Edition)– CIPFA
- Treasury Management Strategy Statement and Investment Strategy 2013/14

Investments as at 31 October 2013

Counterparty/ Country	Long-Term Rating (Fitch)	Balance Invested as at 31 October 2013 £'000
Lloyds TSB Bank Plc	A	4,000
Royal Bank of Scotland Plc (Call Account)	A	4,000
Santander UK Plc (Call Account)	A	4,000
Barclays Bank Plc	A	1,500
Natwest Bank (Call account)	A	2,000
Nationwide Building Society	A	1,000
Total Banks and Building Societies		**16,500**
Goldman Sachs Money Market Fund	AAA	2,000
Scottish Widows Money Market Fund	AAA	865
Total Money Market Funds		**2,865**
Gross Total		**19,365**

The ratings above are from Fitch ratings. The long-term rating is the benchmark measure of probability of default. These ratings are shown for illustrative purposes only, as the Council uses the lowest rating across three agencies on which to base its decisions

Investment Activity in 2013/14

Investments	Balance on 01/04/2013 £'000	Investments Made £'000	Investments Repaid £'000	Balance on 31/10/2013 £'000	Average Rate %	Average Life (days)
Short Term Investments	9,950	103,164	(93,749)	19,365	0.58	39
Long Term Investments	3	0	0	3	3.15	Undated
Total Investments	9,953	103,164	(93,749)	19,368		
Increase/(Decrease) in Investments				9,415		

Prudential Indicators

1. Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Authority has no external debt.

3. Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	**2012/13 Actual £'000**	**2013/14 Original Estimate £'000**	**2014/15 Original Estimate £'000**	**2015/16 Original Estimate £'000**
Total	**1,611**	**1,360**	**956**	**956**

Capital expenditure will be financed or funded as follows:

Capital Financing	**2012/13 Actual £'000**	**2013/14 Original Estimate £'000**	**2014/15 Original Estimate £'000**	**2015/16 Original Estimate £'000**
Capital receipts	64	102	0	0
Government Grants	1,168	1,178	906	906
Revenue contributions	379	80	50	50
Total Financing	**1,611**	**1,360**	**956**	**956**

4. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Actual %	2013/14 Original Estimate %	2014/15 Original Estimate %	2015/16 Original Estimate %
Total	**4.76**	**2.99**	**1.91**	**1.81**

5. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	31/03/13 Actual £'000	31/03/14 Original Estimate £'000	31/03/15 Original Estimate £'000	31/03/16 Original Estimate £'000
Total CFR	**6,298**	**6,104**	**5,727**	**4,973**

6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2013	£'000
Borrowing	0
Other Long-term Liabilities	1,328
Total	**1,328**

7. Incremental Impact of Capital Investment Decisions on Council Tax

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2012/13 Actual £	2013/14 Original Estimate £	2014/15 Original Estimate £	2015/16 Original Estimate £
Increase / (Decrease) in Band D Council Tax	0.05	(0.01)	(0.01)	0.00

8. Authorised Limit and Operational Boundary for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2013/14 Original Estimate £'000	2014/15 Original Estimate £'000	2015/16 Original Estimate £'000
Borrowing	5,000	5,000	5,000
Other Long-term Liabilities	2,000	2,000	2,000
Total	**7,000**	**7,000**	**7,000**

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt	2013/14 Original Estimate £'000	2014/15 Original Estimate £'000	2014/15 Original Estimate £'000
Borrowing	2,000	2,000	2,000
Other Long-term Liabilities	1,205	992	774
Total	**3,205**	**2,992**	**2,774**

The Head of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2013.

9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the revised CIPFA Treasury Management Code at its Council meeting on 22 February 2012.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments).

Upper Limits for Interest Rate Exposure	Existing level at 30/09/13 %	2013/14 Approved Limit %	2014/15 Approved Limit %	2015/16 Approved Limit %
Interest on fixed rate borrowing	0	100	100	100
Interest on fixed rate investments	-40	-100	-100	-100
Upper Limit for Fixed Interest Rate Exposure	**-40**	**0**	**0**	**0**
Interest on variable rate borrowing	0	100	100	100

Upper Limits for Interest Rate Exposure	Existing level at 30/09/13 %	2013/14 Approved Limit %	2014/15 Approved Limit %	2015/16 Approved Limit %
Interest on variable rate investments	-60	-100	-100	-100
Upper Limit for Variable Interest Rate Exposure	**-60**	**0**	**0**	**0**

As the Council has no borrowing, these calculations have resulted in negative figure.

11. Maturity Structure of Fixed Rate borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Maturity structure of fixed rate borrowing	Existing level at 30/09/13 %	Lower Limit for 2013/14 %	Upper Limit for 2013/14 %
Under 12 months	0	0	100
12 months and within 24 months	0	0	0
24 months and within 5 years	0	0	0
5 years and within 10 years	0	0	0
10 years and above	0	0	0

The Council does not have any external borrowing for capital purposes, and did not need to borrow for cash flow purposes during the six months to 30 September 2013.

12. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council’s assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- sovereign support mechanisms;
- credit default swaps (where quoted);
- share prices (where available);
- economic fundamentals, such as a country's net debt as a percentage of its GDP;
- corporate developments, news, articles, markets sentiment and momentum; and
- subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

The Head of Finance confirms that there were no breaches to counterparty limits or credit ratings at the time of placing investments.

13. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Total	7,000	7,000	7,000

14. Investment Benchmarking for the six months to 30 September 2013

Average Actual Return on Investments	**Original Estimate Return on Investments**	**Average Bank Rate**	**Average 7 day LIBID Rate**
0.58%	0.45%	0.50%	0.43%