Appendices
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Item No.

NORTHAMPTON BOROUGH COUNCIL

CABINET REPORT

Report Title	TREASURY MANAGEMENT MID YEAR REPORT 2013-14

AGENDA STATUS: **PUBLIC**

Cabinet Meeting Date:	13 November 2013
Key Decision:	NO
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	LGSS
Accountable Cabinet Member:	Alan Bottwood
Ward(s)	Not Applicable

1. Purpose

a) To inform the Cabinet of the Council's performance in relation to its treasury management activities, including its borrowing and investment strategy, for the period 1 April to 30 September 2013.

2. Recommendations

a) That Cabinet recommend to Council that they endorse the Council's treasury management activities and performance for the period 1 April to 30 September 2013.

3. Issues and Choices

3.1 Report Background

3.1.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (“the Treasury Management Code of Practice”).

3.1.2 The Treasury Management Code of Practice and the associated guidance notes for local authorities include recommendations on reporting requirements, including the requirement for an annual mid year report on treasury activities. The table below shows how the specific reporting requirements of the Treasury Management Code of Practice have been incorporated into this report.

Reporting Requirement	**Reference**
Activities undertaken	3.2.2 – 3.2.20 Appendices B,C,D,E,F
Variations (if any) from agreed policies and practices	3.2.21
Interim performance report	3.2.22 – 3.2.25 Appendix G
Regular monitoring	3.2.26 – 3.2.31 Appendix H,I,J
Monitoring of treasury management indicators for local authorities	3.2.28 Appendix H

3.1.3 The following topics are also covered in this report

Topic	**Reference**
Economic environment and interest rates	3.2.1 Appendix A
Monitoring of prudential indicators for local authorities	3.2.28 Appendix I
Monitoring of debt financing budget	3.2.29-3.2.31 Appendix J

3.2 Issues and Choices

Economic Environment and Interest Rates

3.2.1 An analysis of the economic position as at the end of September 2013, including the latest interest rate forecasts, is attached at **Appendix A.** This information has been provided by Capita Asset Services - Treasury Solutions (CAS Treasury Solutions), the Council's treasury management advisors.

Activities undertaken

Investments

3.2.2 **Appendix B** shows the Council's investment balances at 30 September 2013.

3.2.3 Cashflow balances available for investment come from working capital, amounts in provisions and reserves, and funds, such as capital grants, received in advance of expenditure. The Council's overall investment figure as at 30 September 2013 was £66.7m; average balances for the six-month period to 30 September were £67.4m. The lowest and highest balances during the period were £46.1m and £82.7m respectively.

3.2.4 Since the start of the current financial year, 11 new fixed term deposits have been entered into ranging in value between £1m and £5m, at rates between 0.47% and 1.10%, and for periods between 181 and 364 days. The average value of new fixed term investments was £2.2m, and the weighted average interest rate achieved for fixed term deposits was 0.79%. The average investment period was 265 days.

3.2.5 Fixed term deposits make up an average of 44% of the Council's investment portfolio, the remainder being balances held in instant access deposit accounts, call accounts and money market funds.

3.2.6 Deposit accounts, call accounts and money market funds have been used extensively during the first half of the year, in order to maintain liquidity and security of funds. The average balance held in deposit accounts, including notice accounts was £19m, around 29% of the Council's average investment portfolio. The average balance held in instant access money market funds was also £19m, around 28% of the Council's average investment portfolio.

3.2.7 **Appendix C** shows the maturity profile of the Council's investments at 30 September 2013 (remaining duration). £21m of investments are currently held as liquid investments (money market funds and deposit accounts) or are due to mature within the next month. Almost half of the maturing portfolio, £33m, falls in the 3 to 6 month period. All investments will come to maturity within the next twelve months as the few quality counterparties available to the Council for investments over 364 days, under the Council's counterparty limits, are not offering competitive rates.

3.2.8 CAS Treasury Solutions has advised that the Council's historic risk of default on its investment portfolio as at 30 September 2013 is 0.022%. This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment. The Council's risk level is very low - falling into the risk band associated with investments under one year with counterparties with credit ratings of between AA and A - and is consistent with the Council's investment risk management strategy.

3.2.9 Investment activity is carried out within the Council's counterparty policies and criteria, and with a clear strategy of risk management in line with the Council's treasury strategy for 2013-14. This ensures that the principle of considering security, liquidity and yield, in that order (SLY), is consistently applied. Any variations to agreed policies and practices are reported to Cabinet and Council (See paragraphs 3.2.21 below).

Borrowing

3.2.10 **Appendix D** shows outstanding long-term borrowing held on the balance sheet at 30 September 2013 at amortised cost. The total long-term debt outstanding, including non-current finance leases, is £218m. Of this amount, 88% is in the form of PWLB borrowing, 11% is money market LOBO loans, and the remaining 1% consists of the long-term element of an annuity loan with the Homes and Communities Agency (HCA) and non-current finance leases.

3.2.11 Following the introduction of the HRA self-financing reforms in March 2012, the Council operates a two pool approach whereby all long term borrowing is allocated to either the General Fund or the HRA. As shown at **Appendix D**, £193m (89%) of long term debt is attributable to the HRA, with the balance of £25m (11%) attributable to the General Fund.

3.2.12 No loans have been repaid since April 2013 other than the principal element (£21k) of the HCA annuity payment made in September, and annual amounts due on some finance leases.

3.2.13 No rescheduling of loans took place in the first half of the year.

3.2.14 The Council's policy on borrowing for 2013-14 has been to use internal borrowing (ie from cash flow balances) to fund its own capital programme expenditure financed by borrowing, subject to external borrowing rates remaining at high levels relative to investment rates. The borrowing market is showing signs of moving upwards, particularly the longer term rates. For example the 25 and 50 year PWLB fixed maturity rates are currently around 50 to 60 basis points (0.5% to 0.6%) above their lowest level this year (8 April 2013). Treasury officers are keeping a close eye on the rates and whether it is appropriate to move away from internal borrowing and into long term borrowing where it would provide value for money over the life of assets to do so.

3.2.15 The Council has taken out £1.5m of borrowing from the Public Works Loans Board (PWLB) for the express purpose of making a loan to the Northampton Town Football Club (NTFC) for the development of its stadium facilities, under a loan agreement signed 19 September 2013. This is the first tranche of a £7.5m planned loan to NTFC, all of which is to be funded by PWLB borrowing. Drawdowns of the loan are linked to set conditions being met and the Council is likely to drawdown a further £3m this financial year.

3.2.16 Further borrowing from the PWLB to fund loans to local third party organisations is also likely to take place in the near future. These include loans to Northampton Saints Rugby Club for stadia expansion, and to the University of Northampton (UoN) for the creation of a waterside campus. The UoN project is supported by the South East Midlands Local Enterprise Partnership (SEMLEP), and an application has been put forward to PWLB to secure the LEP project rate allocation for this project. Having regard to the profile of this borrowing it expected that the Council's Affordable Borrowing Limit and prudential indicators for borrowing will need to be increased from 2014-15, and this will be incorporated into the Council's Treasury Strategy for next year. The limits for 2013-14 are considered adequate for the Council's borrowing needs.

3.2.17 **Appendix E** shows the Council's long-term debt maturity profile of external debt at cash value as at 30 September 2013. A number of GF and HRA loans are due for repayment during the next five years, commencing with two GF LOBO loans totalling £15.6m maturing in 2014-15. Options for the repayment and replacement (if appropriate) of these loans are under active consideration, with advice being taken from the Council's external treasury management advisors, CAS Treasury Solutions. The Council will keep its options open until nearer the maturity dates.

3.2.18 **Appendix F** shows outstanding balances and applicable rates for short-term borrowing. The total outstanding at 30 September 2013 was £274k.

3.2.19 The Council has long-standing agreements with two local organisations, Billing Parish Council and Northampton Volunteering Centre, for the short-term deposit of funds with the Council. Accounting regulations require that these be treated in the accounts as short-term borrowing. The interest rate applicable on these accounts is set quarterly using the Council's average investment rate for the previous quarter, less 0.5% to cover administrative costs. The range of balances in individual accounts during the period April to September 2013 was between £65k and £189k, at interest rates between 0.63% (in quarter 1) and 0.51% (in quarter 2).

3.2.20 For consistency with accounting requirements:

- The principal element of the HCA annuity repayment due within 12 months (£22k) is included as short term borrowing

- Current commitments on finance leases – i.e. amounts due within the current financial year – are not included in the short term borrowing balances shown.

Variations (if any) from or to agreed policies and practices

3.2.21 Compliance with agreed policies and practices has been monitored during the year to date. There have been no reported breaches in the first six months of this year.

Interim performance report

3.2.22 Investment performance to 30 September 2013 is attached at **Appendix G.**

3.2.23 The monthly rate of return on investments has dropped steadily as the year has progressed, from a high of 1.10% in April to 0.80% in September, averaging 0.94% over the period.

3.2.24 The variance between the Council's monthly rate of return on investments and the average 7-day Libid rate (at the time of investment) is used as a measure of treasury performance, where a positive variance reflects an enhanced level of performance. As average 7 day Libid has remained fairly constant over the period, the variance to the 7-day Libid rate has also dropped steadily as the year has progressed, from a high of 0.73% in April to 0.44% in September, averaging 0.57% over the period. The monthly target is 0.50%.

3.2.25 The drop in performance arises from external market changes impacting negatively on available interest rates. Primarily, increased money supply as a result of economic initiatives such as quantitative easing (QE) and the government's funding for lending scheme have reduced the need for banks to attract cash from investors. This has been particularly evident in the deterioration in enhanced interest rates that are sometimes offered to local authorities. As an illustration, a 364 day investment with one of the part nationalised banks on 1 October 2012 attracted a rate of 2.70%, with the comparable rate at 30 September this year being 0.98%.

Regular monitoring

3.2.26 An investment register is maintained, and updated on a daily basis, showing current investments and deposit account balances with counterparties used, investment durations and interest rates achieved.

3.2.27 Monthly reconciliations are completed for outstanding investment principal, interest received, outstanding borrowing principal and interest paid to ensure all transactions have been made and recorded accurately.

3.2.28 Prudential and treasury indicators are monitored on a regular basis. Any variances or breaches of the indicators are reported to Cabinet and Council on a timely basis. **Appendix H** contains treasury management indicator monitoring information at 30 September 2013. **Appendix I** contains prudential indicator monitoring information at 30 September 2013. Where appropriate figures include borrowings arising from finance leases. There have been no breaches of any indicators during the first half of the financial year.

3.2.29 The debt financing and debt management budgets have been monitored monthly since the start of the year, with any significant variances reported as part of the corporate financial performance reports. The debt financing budget forecast as at 30 September 2013 is attached at **Appendix J.**

3.2.30 The General Fund debt financing budget at the end of September 2013 is forecast at £233k over budget. This is mainly due to a significant fall in available investment interest rates in recent months, as outlined in paragraph 3.2.25 above. £208k of the shortfall can be met from the debt financing earmarked reserve, which was specifically set up to deal with the budgetary risks of fluctuations in interest rates. The remaining £25k overspend relates to MRP, where charges arising from the financing of the capital programme in 2012-13 are higher than budgeted. The budget will continue to be closely monitored over the coming months.

3.2.31 The 2014-15 debt financing budget will be put together with the expectation that the current historically low interest rate environment will continue into the near to medium term, such that any forecast deficiencies can be managed within the budget envelope, but supported by the remaining debt financing earmarked reserve if interest rates deteriorate still further.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The Council is required to adopt the latest CIPFA Treasury Management Code of Practice, and to set and agree the following policy and strategy documents:

a) Treasury Management Policy Statement

b) Treasury Management Practices (TMPs) and TMP Schedules

c) An annual Treasury Strategy incorporating:

(i) The Capital Financing and Borrowing Strategy for the year including:

- The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.

- The Affordable Borrowing Limit for the year as required by the Local Government Act 2003.

(ii) The Investment Strategy for the year as required by the CLG Guidance on Local Government Investments issued in 2010.

d) A mid-year review report and an annual review report of the previous year.

Items (a) to (c) are reported to Cabinet and Council as part of the budget setting process. The Council's Treasury Strategy for 2013-14 was approved by Council at its meeting on 25 February 2013.

4.1.2 The CIPFA Treasury Management Code of Practice requires the Council to place nominate a body (such as an audit or scrutiny committee) responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. The Audit Committee has been nominated for this role, which includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and for making recommendations to Council.

4.2 Resources and Risk

4.2.1 The resources required for the Council's debt management and debt financing budgets are agreed annually through the Council's budget setting process. The debt financing budget position as at 30 September 2013 is shown at paragraph 3.2.30 and **Appendix J**.

4.2.2 The risk management of the treasury function is an integral part of day-to-day treasury activities. It is also specifically covered in the Council's Treasury Management Practices (TMPs), which are reviewed annually.

4.3 Legal

4.3.1 The Council is obliged to carry out its treasury management activities in line with statutory requirements and associated regulations and professional guidance. The relevant legislative and regulatory documents are referred to within the report and listed in the background papers.

4.4 Equality

4.4.1 An Equalities Impact Assessment (EIA) has been carried out on the Council's Treasury Management Strategy for 2013-14, and the associated Treasury Management Practices (TMPs) and Schedules to the TMPs.

4.4.2 The EIA assessment is that a full impact assessment is not necessary, as no direct or indirect relevance to equality and diversity duties has been identified.

4.5 Consultees (Internal and External)

4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury management advisor, CAS Treasury Solutions, and with the Cabinet Member for Finance.

4.5.2 The Audit Committee has been nominated by Council as the body responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. This role includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and the making of recommendations to Council. Audit

Committee reviewed the draft treasury management mid-year report and Appendixes at their meeting on 4 November 2013.

4.6 How the Proposals deliver Priority Outcomes

4.2.3 Management of performance in relation to treasury management activities supports the Council's priority of making every pound go further.

4.7 Other Implications

4.7.1 No other implications have been identified

5. Background Papers

None

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