

REPORT TO THE EXECUTIVE



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PORTFOLIO	Resources & Performance Management
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**2012 – 2013 Treasury Management
Cycle up to and including 31st December 2012**

PURPOSE

1. To report treasury management activity for the period 01/04/12 to 31/12/12.

RECOMMENDATION

2. That the Executive note the treasury management activities undertaken during the period 1st April 2012 to 31st December 2012.

REASONS FOR RECOMMENDATION

3. To update Members of treasury management activities in accordance with the CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the latest Code of Practice on Treasury Management.

SUMMARY OF KEY POINTS4. **INTRODUCTION**

Treasury Management entails the management of the Council's cash flows, its borrowings and its investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.

The monitoring requirements for treasury were set out in both the Treasury Management Strategy Statement for 2012/2013 and the Prudential and Treasury Indicators for 2012/2013 – 2014/2015, approved by Full Council on the 23rd February 2012.

5. HISTORICAL INTEREST RATE FORECAST

The Council's treasury adviser, Sector, provided Finance staff with the following interest rate forecast on the 20th November 2012. Sector forecast the first increase in bank rate to be in March 2015.

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
5yr PWLB rate	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%
10yr PWLB rate	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%
25yr PWLB rate	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%
50yr PWLB rate	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%

6. THE COUNCIL'S INVESTMENT DEPOSITS

The Council aims to achieve the optimum return on deposits commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep deposits short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated UK financial institutions that are Government backed.

2012/13 Activity:

Investment rates available in the market have continued at historically low levels. The average daily level of funds deposited during the financial year to date, is £12.4m. These funds have been available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

As part of the Banking Contract renewal exercise, a new HSBC Deposit Account was opened in November 2012 paying an interest rate of 0.50%.

This works with the General bank account operating with an Automatic Sweep facility, which is monitored via HSBC. The daily sweep facility maintains a fixed cleared balance of £250,000 credit on our General bank account, and automatically transfers any surplus or deficit monies, to and from the Deposit Account.

Since opening the HSBC Deposit Account, the average daily level of deposits within the account has been £6.1m.

There were 6 investments carried forward from 2011/12 totalling £8.85m, of which £8m were with our Call Accounts or Fixed Term Deposit Accounts, and 850k with HSBC Sterling Line.

There have been a total of 92 new investments made during the period 1st April 2012 to 31st December 2012 totalling £93.1 million. The new investments consisted of the following:

- 84 with HSBC Sterling Line
- 2 with individual counter parties through the brokerage facility
- 1 with a Call Account
- 5 with Money Market Funds

Following the creation of the HSBC Deposit Account in November, there should be little or no short term use of the HSBC Sterling Line, due to the rate being less favourable than the Deposit Account.

The Council has an approved list of counterparties as part of the Treasury Policy Statement [TPS] which governs treasury management activity. This list is a restricted list taking into consideration the credit rating of the institution concerned and there are also limits on the amount which can be invested with any particular institution from a particular sector e.g. building society, bank etc. and also any group of institutions within overall banking group. As part of the daily operations of the treasury management dealings, in consultation with guidance from Sector and the money market brokers, decisions are taken by the Director of Resources and the Head of Finance and Property Management temporarily suspending/revising operations with individual counterparties. The latest Deposit Counterparties list was revised and approved by the Executive in May 2012.

Appendix 1 shows the maximum amount invested with any of the counter parties at any one time during the period 1st April 2012 to 31st December 2012. The maximum limit per counterparty is shown in brackets. None of the limits were breached.

Appendix 2 provides Members with an analysis of the Council's short-term investments during the period 1st April 2012 to 31st December 2012, as well as comparing this to the deposits placed throughout the 2011/12 financial year.

7. **MOVEMENTS IN THE COUNCIL'S EXTERNAL DEBT**

Below is a summary of the Council's external indebtedness, as at 1st April 2012, as at the end of quarter 1, quarter 2 and the position that will be reached as at the end of quarter 3.

	<u>As At</u> <u>01 Apr '12</u> £	<u>Q1</u> <u>As At</u> <u>30 Jun '12</u> £	<u>Q2</u> <u>As At</u> <u>30 Sept '12</u> £	<u>Q3</u> <u>As At</u> <u>31 Dec '12</u> £	<u>Change +/-</u> <u>Apr - Dec</u> £
Public Works Loan Board	21,914,928	21,914,928	19,914,210	19,913,492	(2,001,436)
Temporary Market Loans	37,824	49,824	24,824	39,824	2,000
Total level of Indebtedness	<u>21,952,752</u>	<u>21,964,752</u>	<u>19,939,034</u>	<u>19,953,316</u>	<u>(1,999,436)</u>

Quarter 3 Activity:

PWLB Loans:

On the 31st December 2012, part of the equal instalments of principal loan was repaid as scheduled, totalling £718.

Temporary Market Loans:

Mayor's Charity Fund made an investment of £15,000.

8. COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

It is a statutory duty for the Council to determine and keep under review its affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement.

During the financial year to date the Council's treasury management activities operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

The Prudential and Treasury Indicators are shown in Appendix 3.

9. ICELANDIC BANK DEPOSIT

Background:

An amount of £1m was deposited by the Council in September 2008 in an Icelandic bank, Landsbanki Islands HF. As a consequence of the collapse of the Icelandic banking system, this short-term deposit was not repaid on the due date of 8th October 2008.

Current Position:

It is estimated that 100% of the £1m deposit will ultimately be recovered as the Council's claim enjoys priority status. Total repayments of £431k have been received to date. £300k in February 2012, £123k in May 2012 and £58k in October 2012.

10. INTEREST PAYABLE ON EXTERNAL BORROWING / INTEREST RECEIVABLE

Provision is made in the revenue budget to meet the net interest payable on external borrowing. The figure in the original budget for 2012/2013 was set at £1,031,718.

Under the third round of Revenue monitoring this budget will be revised down to £825,878 as a result of reducing the budget requirement for PWLB interest accrued, reducing External Temporary Loans and increasing the estimated interest receivable on external deposits.

The updated saving of £205,840 has been included in the cycle 3 revenue monitoring report to this meeting of the Executive.

The total interest receivable on temporary investments for the period 1st April 2012 to 31st December 2012 amounted to £97,125 compared with a revised budget for the year of £122,000.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

11. None arising as a direct result of this report.

POLICY IMPLICATIONS

12. Compliance with the revised CIPFA Code of Practice on Treasury Management.

DETAILS OF CONSULTATION

13. None.

BACKGROUND PAPERS

14. None.

FURTHER INFORMATION

PLEASE CONTACT:

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