

EXETER CITY COUNCIL

SCRUTINY COMMITTEE – RESOURCES 21 NOVEMBER 2012

EXECUTIVE 4 DECEMBER 2012

TREASURY MANAGEMENT – 2012/13 – HALF YEAR UPDATE

1. PURPOSE OF REPORT

- 1.1 To report on the current performance for the 2012/13 financial year and the position regarding investments and borrowings at 30 September 2012.

2. TREASURY MANAGEMENT STRATEGY

- 2.1 The Council approved the 2012/13 treasury management strategy at its meeting on 21 February 2012. The Council's stated investment strategy was to continue to hold only small surplus funds and to use the Government's Debt Management Office, Local Authorities and to pursue the opening of a Money Market Fund. The Council's stated borrowing strategy was to maintain short-term borrowing as long as rates remained low. The Council is currently borrowing over 1 year periods.
- 2.2 The Assistant Director Finance is pleased to report that all treasury management activity undertaken during the period complied with the approved strategy, the *CIPFA Code of Practice*, and the relevant legislative provisions.

3. ECONOMIC REVIEW

- 3.1 The first half of the financial year saw continuing volatility across the world as the Eurozone crisis and slowing demand continued to take effect. The UK's recession continued, primarily down to the additional Bank Holiday, but also reduced demand for exports from the Eurozone had a greater impact.
- 3.2 Many Western developed nations, including the UK, continue to implement policies to reduce public budget deficits, which curb domestic demand. On a positive note inflation has come down towards target over the last few months, although recent announcements of energy price rises may have an impact on the future direction of inflation.
- 3.3 The Bank of England, however, continues to be more concerned about the economic recovery, and has maintained Bank Rate at 0.5%, and embarked on further rounds of quantitative easing, bringing its asset purchases up to £375 billion by the end of November.

4. Interest Rate Prospects

- 4.1 The August Inflation Report showed that the Bank expects little economic growth this year and a gradual recovery in 2013. The weakness in demand is projected to place downward pressure on inflation, maintaining it around target for the next few years. The recent downward trend in the CPI inflation rate allied with the global downturn has pushed market expectations for a rise in interest rates out to at least 2014. Although previously discounted by the Monetary Policy Committee (MPC), there is now also the marginal possibility of a cut in Bank Rate to 0.25%. Further asset purchases also seem likely later this year. The latest central forecast from the Council's treasury management advisers is shown below. The risks to the forecast remain heavily to the downside, (i.e. it could take longer for rates to start to rise) arising largely from the impact of the Eurozone sovereign debt crisis on UK business and household confidence.

Period	Bank Rate	3 month LIBOR	12 month LIBOR	25-year PWLB rate
Q3 2012	0.50	0.65	1.40	4.10
Q4 2012	0.50	0.65	1.20	4.15
Q1 2013	0.50	0.65	1.30	4.20
Q2 2013	0.50	0.70	1.40	4.25
Q3 2013	0.50	0.80	1.45	4.35
Q4 2013	0.75	0.95	1.50	4.50
H1 2014	1.00	1.20	1.80	4.85
H2 2014	1.50	1.70	2.30	5.10
H1 2015	2.00	2.20	2.80	5.25
H2 2015	2.50	2.75	3.30	5.50

5. NET INTEREST POSITION

- 5.1 The General Fund shows an estimated net reduction in interest payable compared to the budget, the position is:

	Estimate	Sept 12	Estimated Outturn	Variation
	£	£	£	£
Interest paid	125,000	14,930	60,000	(65,000)
Interest earned				
Temporary investment interest	(36,000)	(10,842)	(20,000)	16,000
Other interest earned	(1,750)	(330)	(660)	1,090
Less				
Interest to HRA	52,500	15,000	30,000	(22,500)
Interest to s106 agreements	8,000	2,938	4,620	(3,380)
Interest to Trust Funds	2,250	630	1,260	(990)
Lord Mayors Charity	0	250	500	500
GF interest (received) / paid out	<u>25,000</u>	<u>7,646</u>	<u>15,720</u>	<u>(9,280)</u>
Net interest	<u>150,000</u>	<u>22,576</u>	<u>75,720</u>	<u>(74,280)</u>

- 5.2 The other interest earned relates principally to car loan repayments.
- 5.3 The improvement against budget has been caused by a number of factors. Please see section 6 for a detailed explanation.

6. INVESTMENT INTEREST

- 6.1 The Council is utilising the Government's Debt Management Office account in line with the treasury management strategy whenever there is surplus cash for investment. This pays an interest rate of 0.25%, which means much lower returns. However, it also means much lower borrowing costs for the Council resulting in a better overall position for the General Fund.
- 6.2 The HRA interest is calculated according to statute, and has changed to reflect the lower returns. Whilst this is disappointing for the HRA, Trust Funds and section 106 agreements, chasing higher rates of return would place all the risk on the General Fund, whilst the additional interest would be enjoyed by the other Funds.
- 6.3 In respect of the Icelandic investments, further repayments have been made by Landsbanki meaning that £1.506 million has now been received back by the Council. Further repayments will be made as and when assets are sold. In respect of Glitnir, no further information has been forthcoming regarding the £380,000 held in escrow on our behalf in Iceland.

7. BORROWINGS

- 7.1 The Council has reduced its temporary borrowing over the first six months of the year and now has only £5 million of borrowing down from £8 million at the start of the year. It is anticipated that the £5 million borrowing will be renewed and that a small amount of further borrowing may be required over the next six months, in order to maintain a positive cashflow. The borrowing will be taken over 364 days as interest rates remain very low.
- 7.2 Long-term borrowing of £56.884m has been taken over 50 years to cover the payment required to introduce self-financing in the HRA. This attracts annual interest of £1.980 million, payable by the HRA.

8. TREASURY MANAGEMENT ADVISERS

- 8.1 For several years the Council has used Sterling Consultancy Services as our Treasury Management advisers. Sterling Consultancy Services have been purchased by Arlingclose, an independent treasury management advisory company. The staff have transferred and the contract terms and conditions remain the same. The Council will monitor the transition to ensure that the level of service remains of a high standard. The Council only has to give three months' notice to end the contract if it was to prove of a lower standard.

9. FUTURE POSITION

- 9.1 As interest rates remain very low the Council will continue to use short term borrowing to manage its cash flow.
- 9.2 Short term investment opportunities remain limited and the Council is therefore minimising the amount of cash available to invest and continuing to keep its borrowing costs low. This has an ongoing impact on returns but maximises the security of our cash.

10. RECOMMENDATION

10.1 That the Treasury Management report for the first six months of 2012/13 be noted.

ASSISTANT DIRECTOR FINANCE

STRATEGIC DIRECTOR

Local Government (Access to Information) Act 1985 (as amended)

Background papers used in compiling the report:

None