

<b>REPORT TO</b>	<b>DATE OF MEETING</b>
Cabinet	8 January 2014

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<b>SUBJECT</b>	<b>PORTFOLIO</b>	<b>AUTHOR</b>	<b>ITEM</b>
Treasury Management Activity Mid-year review 2013/14	Finance & Resources	M L Jackson	4

## 1. SUMMARY AND LINK TO CORPORATE PRIORITIES

To review the Treasury and Investment Strategies approved by the Council on 6 March 2013, and to report on performance in the first half of the year and compliance with prudential indicators. No changes in the Strategies are proposed.

## 2. RECOMMENDATIONS

Governance Committee is asked to note the report.

## 3. DETAILS AND REASONING

The Code of Practice for Treasury Management specifies that Councils should review their Treasury Strategy and activity half yearly. This report meets that requirement.

## 4. INTEREST RATE FORECAST

The following table shows the interest rate forecast of the Council's Treasury Advisor, Capita Asset Services – Treasury Solutions, formerly known as Sector Treasury Services.

Interest Rate Forecast	Dec 2013 %	Mar 2014 %	Jun 2014 %	Sep 2014 %	Dec 2014 %	Mar 2015 %	Jun 2015 %	Sep 2015 %
Bank rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
5 yr PWLB	2.50	2.50	2.60	2.70	2.70	2.80	2.80	2.90
10 yr PWLB	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10
25 yr PWLB	4.40	4.40	4.40	4.50	4.50	4.60	4.70	4.80
50 yr PWLB	4.40	4.40	4.40	4.50	4.60	4.70	4.80	4.90

Comparison with the forecast of six months ago, when the Treasury Strategy was drafted, shows that there is still no increase in base rate expected up to the end of 2014/15. The Bank of England has stated during November 2013 that it will be in no hurry to raise interest rates during 2014 despite indications of economic recovery over the past three months. The Bank's Governor thinks that an early end to low rates would threaten business and consumer confidence. There is no guarantee that the Monetary Policy Committee (MPC) would raise rates even when national unemployment fell to 7%. The Bank's forecast is that this rate could be reached in the final three months of 2014, so the MPC would discuss raising interest rates from the historic low of 0.50%. However, the reduction in unemployment is not an automatic trigger for an interest rate increase, and other relevant factors would be considered by the MPC.

Interest rates for borrowing from the Public Works Loan Board (PWLB) have increased for all periods in each quarter's forecast. As indicated below, the Council has no plans to incur borrowing

in the current financial year and the next two, so the increase in borrowing rates should have no impact on the revenue budget.

## 5. REVIEW OF THE TREASURY STRATEGY

The Treasury Management and Investment Strategies for 2013/14 were approved by Council on 6 March 2013. They defined the Council's investment priorities as the security of capital sums invested and the maintenance of liquidity. Consistent with these priorities the optimum return (yield) on investments would be sought.

No changes in strategy are proposed. This means that counterparties will continue to be restricted to British financial institutions and that the "Sector" (Capita Asset Services) scoring system will continue to be used in assessing credit worthiness. This uses credit ratings, adjusted for any "rating watches" and market sentiment as indicated by the "price" of credit default risk. The limits on investments, both of duration and amount, will also be unchanged. Currently all institutions other than those which are part-nationalised are restricted to a maximum term of 3 months.

A complete list of the institutions with whom the Council deals is attached as Appendix B. This schedule incorporates the changes reported on 26 June 2013, being specific reference to Barclays and HSBC banks, and the limits that apply to them.

## 6. TREASURY ACTIVITY

Investment activity in the half year is summarised in the following table:

	<b>Average Daily investment.</b>	<b>Earnings to 31/10/2013</b>	<b>Average Rate</b>
	<b>£'000</b>	<b>£</b>	<b>%</b>
Debt Management Office	0	0	0.00
Other fixed term deposits	6,734	64,218	1.63
Call accounts	8,388	23,355	0.48
Money Market Funds	1,419	3,127	0.38
Sub Total	16,541	90,700	0.94
Iceland deposit		59,801	6.65
		150,501	

A full list of investments currently held is shown at Appendix A.

The interest earning benchmark is the average LIBID 7 day rate. This was 0.36% for the period reported, compared to the rate achieved of 0.94%. The rate achieved to the end of October has reduced compared to the average rate to the end of August, which was 1.12%. This reflects the general reduction in interest rates in recent months, which seems likely to continue for the remainder of the year.

The following table compares the budgets for interest receivable against the latest projection. There is no reason to suppose that there will be a significant variation from the budget.

	<b>Budget for year</b>	<b>Actual to 31/10/2013</b>	<b>Forecast for year</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Interest earned	200	150	200

## **7. ICELANDIC LOANS**

Repayment of the Landsbanki deposit has continued during 2013/14, even though further payment was expected to be delayed pending a court hearing in Iceland. Following the judgement of the Supreme Court of Iceland, in respect of the dispute in the winding up-proceedings of LBI, the Icelandic króna (ISK) value of the repayments was recalculated by the Winding-Up Board (WUB) during October 2013.

LBI's creditors have received repayments in foreign currencies, the value of which had been converted by the WUB into ISK using the official exchange rate quoted on 22 April 2009. The Supreme Court overturned the WUB's decision and concluded that the calculation of the value of the Partial Payments should be determined at the official quoted selling rate of the Central Bank of Iceland on the respective date of each Partial Payment and not the rate on 22 April 2009. The significance of the judgment for LBI's winding-up proceedings is solely that those Partial Payments which had already been made when the judgment was pronounced must be recalculated in accordance with the correct rate.

The recalculated Partial Payments received by the Council to date are 53.69% of the claim, though exchange rate losses have reduced the sterling value to 52.19% of the claim. The WUB advises that "further Partial Payments are to be expected in the coming years, as assets are recovered and liquidated in the winding-up proceedings".

The Council would still expect to recover in full the amount claimed (£3.365m), subject to any exchange rate losses. However, there is a possibility that repayment could take longer than expected. It could take up to 2021 or 2022 for the ISK value of the claim to be recovered, rather than 2018. The extended repayment period would increase the likelihood of further losses when payments are converted to sterling, and continuing legal and administration costs would be required.

Regarding the Heritable deposits, a further repayment was made in August and the total recovery to date is now 94%. Recovery now exceeds the estimated recovery of 88% reported in June 2013. £1,894,113 has been repaid in total, leaving £120,529 of the claim outstanding. The Council is still pursuing this balance.

## **8. BORROWING**

The Treasury Strategy indicated that no borrowing was necessary in the current financial year and the next two years. This remains the case and no borrowing is planned.

## **9. PRUDENTIAL INDICATORS**

It is a statutory requirement for the Council to determine and keep under review the "Affordable Borrowing Limits" which were reported in the approved Treasury Management Statement.

The following table shows the approved limits and the current position:

<b>Prudential Indicator</b>	<b>March 2013 Indicator £'000</b>	<b>Actual £'000</b>
Capital Financing Requirement (CFR) March 2013	6,635	6,284
Gross borrowing	0	0
Investments (note 1) actual as at 31/10/13	(10,314)	(16,642)
Net borrowing/(investments) actual at 31/10/13	(10,314)	(16,642)
Authorised limit for external debt (note 2)	3,800	1,448
Operational boundary for external debt (note 2)	1,800	1,448
Limit of fixed interest rates (based on net debt)	1,800	1,448
Limit of variable interest rates (based on net debt)	100% on inv cash	100%
Principal sums invested for periods exceeding 364 days	0	0
Maturity structure of borrowing limits		
Under 12 months	N/A	N/A
12 months to 2 years	N/A	N/A
2 years to 5 years	N/A	N/A
5 years to 10 years	N/A	N/A
10 years and above	N/A	N/A

Note 1 - The prudential indicators assumed investments of £10.3m at March 2013 falling to £8.5m at March 2014. The actual value at March 2013 was £12.4m and is currently £16.642m (excluding Icelandic loans). This is expected to fall significantly by year-end.

Note 2 – The figure of £1.448m is not borrowings, but amounts owing under finance lease arrangements. The actual shown is as at March 2013.

## 10. WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

<b>FINANCIAL</b>	The financial implications are outlined within the report.		
<b>LEGAL</b>	Compliance with various Regulations and statutory Codes of Practice		
<b>RISK</b>	The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.		
<b>THE IMPACT ON EQUALITY</b>			
<b>OTHER (see below)</b>			
<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

## **BACKGROUND DOCUMENTS**

Financial Strategy/Budget and Council Tax 2013/14  
Treasury Management in the Public Services: Code of Practice  
CIPFA Prudential Code for Capital Finance in Local Authorities