Forest Heath District Council

(This report is a key decision. This report has been subject to appropriate notice of publication under the Council's Access to Information Rules)

Report of the Cabinet Member for Resources, Governance and Performance

CABINET

6 NOVEMBER 2012

CAB12/038

TREASURY MANAGEMENT MONITORING REPORT 2012/2013 (Key Decision Reference: NOV12/08)

1. Summary and reasons for recommendation(s)

1.1 This report provides Members with a review of the Treasury Management activities for the period April – September 2012.

2. Recommendation(s)

2.1 The Cabinet are requested to:

2.2 The 2012/2013 Treasury Monitoring Report be noted.

2.3 That the 2012/2013 Treasury Monitoring Report be referred to Council for consideration.

Contact details	Portfolio holder	Lead officer
Name	Councillor Stephen Edwards	Rachael Mann
Title	Portfolio Holder – Resources, Governance and Performance	Head of Resources & Performance
Telephone	01638 660518	01638 719245
E-mail	stephen.edwards@forest-heath.gov.uk	rachael.mann@forest-heath.gov.uk

3. How will the recommendations help us meet our strategic priorities?

3.1 In order for the Council to be able to meet its strategic priorities it is essential that sufficient and appropriate financial resources are available. Optimising returns from investments, without exposing ourselves to an unacceptably high level of risk, increases those financial resources.

4. Key issues

4.1 Appendix 1 to this Report provides a review of the Treasury Services for the period 1 April 2012 to 30 September 2012.

4.2 The following Appendices supplement Appendix 1:

Appendix 2 Comparison of investments to 3 Year - 7 Day Average Rate
Appendix 3 List of investments held as at 30 September 2012

4.3 No revisions to the Treasury Management Code of Practice or Strategy are being requested at this time.

4.4 During the period 1 April 2012 to 30 September 2012 there were no breaches from the Code of Practice. However due to an administrative oversight, the Council utilised its overdraft facility for 2 days in April

Market and Treasury Management Activities – 2012/13

4.5 Given the continued volatility in the financial markets, the Council, like many others, continues to find itself in one of the most challenging times for Treasury Management activities. The Council continues to hold its general policy objective, which is to invest surplus funds prudently, with security of our investments as our primary objective.

4.6 Once again the markets focus for the past quarter has been on Europe and in particular Spain and Italy and the consequential future of the euro itself. Uncertainty remained with their benchmark bond yields reflecting the volatility of sentiment.

4.7 Ratings agencies remained on "full alert" with all three main companies flagging downgrades. Moodys was by far the most active with lower "outlook" levels for not only the EU as a whole but also, rather worryingly, for the European Financial Stability Facility. This followed their downgrade to Italy by two notches to BAA2. Even HSBC was not immune, with Standard and Poors putting their "AAA" status onto negative outlook from stable.

4.8 The world economy is facing headwinds with not only Europe stagnating, but China slowing and the U.S. losing momentum.

4.9 The current level of inflation at 2.5% is unlikely to hit the governments target and could easily bounce back to over 3%, however, there is every likelihood that Bank rate will stay low for some considerable time irrespective of this. Although the trend has been for longer term rates to fall, the optimum trade has been to place funds longer term and this has been done subject to the Council's parameters and maturity profile.

4.10 Subject to the maturity profile of the fund. The past 6 months has seen two re-fixings of the variable rate deposit of £3million with Lloyds TSB bank for three months at a time at libor plus 50 basis points, most recently producing a figure of 1.2265% until 5th November 2012. On the 17th May 2012, £3 million matured with the Progressive building society which was re-deposited in 2 tranches. Firstly, £2 million was placed to Lloyds TSB bank for 5 years at 3.65% and the balance of £1 million to Cambridge building society until March 2013 at 2.00%.

4.11 We have recently been informed that as of the 8th October 2012 Royal Bank of Scotland (RBS) have decided to exercise their break option on a 5 year deal we held with them as of 8th April 2010. This will lose the Council the 4.15% interest rate for the remaining investment period. CDCM have already secured replacement deals of £2.5 million with the Co-operative bank at 2.875% till 8th January 2014, £1.5 million with Nottingham building society at 3.15% till 8th October 2015 and £1 million with Cambridge building society at 1.01% till 15th March 2012. The next maturity is on 19th November 2012 and after that, monies are due in February and March 2013 which would be available for repayment to the Council if required. Thereafter, the next maturity is in June 2013.

5. Other options considered

5.1 Not applicable.

6. Community impact

6.1 **Crime and disorder impact** *(including Section 17 of the Crime and Disorder Act 1998)*

6.1.1 Not applicable.

6.2 **Diversity and equality impact** *(including the findings of the Equality Impact Assessment)*

6.2.1 Not applicable.

6.3 **Sustainability impact** *(including completing a Sustainability Impact Assessment)*

6.3.1 Not applicable.

6.4 **Other impact** *(any other impacts affecting this report)*

6.4.1 Not applicable.

7. Consultation *(what consultation has been undertaken, and what were the outcomes?)*

7.1 Not applicable.

8. Financial and resource implications *(including asset management implications)*

8.1 Investment income for the period 1st April to 30th September 2012 is £67k ahead of the original budget for the same period. This is due to the Council being able to hold a larger amount in investments during the early part of the financial year than originally anticipated. However, It is expected that the year end position with regard to investment income, will only be £39k higher than originally budgeted due to lost interest receipts from the previously mentioned break in the CDCM deal with RBS.

8.2 CDCM have advised that the rates the Council is likely to achieve on its external investments for 2012/2013 onwards are as follows:

2012/13 Projected rate 3.15%
2013/14 Projected rate 3.50%
2014/15 Projected rate 3.75%
2015/16 Projected rate 4.00%

Performance Management Implications

8.3 The overall rate of return on all investment categories for the period was 2.904% which is 2.649% above the benchmark 7-day average rate of 0.260% and 2.572% above the 3 year – 7 day average rate benchmark of 0.3364%. The target is to achieve an average rate of return that is 0.20% above the 7-day average rate benchmark.

9. Risk/opportunity assessment *(potential hazards or opportunities affecting corporate, service or project objectives)*

9.1 Risk management is dealt with in section 5 of the Forest Heath District Council Treasury Management Code of Practice. The Revised Code of Practice for 2012/13 was approved at Council on the 1 March 2012, and it was recommended and approved at that meeting that the Code of Practice would come into immediate effect

10. Legal and policy implications

10.1 There are no legal, policy compliance/power implications as a result of this report.

10.2 This report is inline with the Treasury Management Practice 6 (TMP6) of the Treasury Management Code of Practice, which requires that a current year review of the Treasury Services, against adopted annual strategy, be reported to Council by 30 November each financial year.

11. Ward(s) affected

11.1 Not applicable.

12. Background papers

12.1 None

13. Documents attached

13.1 Appendix 1 – Treasury Management Monitoring Report
Appendix 2 – Comparison of Rates from April to September 2012
Appendix 3 – List of Investments Held as at 30 September 2012.