Subject:	**TREASURY MANAGEMENT YEAR END REPORT**
Meeting and Date:	**Governance Committee – 20 June 2013** **Cabinet – 8 July 2013**
Report of:	**Mike Davis, Director of Finance, Housing & Community**
Portfolio Holder:	**Councillor M D Conolly, Corporate Resources and Performance**
Decision Type:	**Non-Key Decision**
Purpose of the report:	To provide details of the Council's treasury management for the year ended 31st March 2013.
Recommendation:	That the report is received

1. **Summary**

The Council's in-house investments (approximately £6.5m or 34% of year end investments) outperformed their benchmark[1] and achieved an average return of 1.26% for the year. The investments with the investment managers, Investec (approximately £12.9m or 66% of year end investments) also outperformed the benchmark[1] and achieved an average of 1.01% for the year.

The total interest received for the year was approximately £350k. This is higher than the original budget of £287k, which is almost entirely due to in-house investments (a mix of some special rate deals obtained and additional cash flow funds held in call accounts/money market funds). Investments with the investment managers marginally exceeded their 1.00% target.

The Council has remained within its Treasury Management and Prudential Code guidelines during the period.

2. **Introduction and Background**

CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009: it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

In order to comply with the CIPFA code referred to above, but minimise the resource requirements in producing this report, a brief summary is provided below, and Appendix 1 contains a full report for quarter 4 from the Council's Treasury Management Advisers, Sector.

Council adopted the 2012/13 Treasury Management Strategy on 7th March 2012 as part of the 2012/13 Budget and Medium Term Financial Plan.

3. **Annual investment strategy**

[1] The "benchmark" is the interest rate against which performance is assessed. DDC use the London Inter-Bank Bid Rate or LIBID, as its benchmark.

The investment portfolio as at the end of March is attached at Appendix 2. Since the end of year, in-house investments with Lloyds totalling £2m have matured and are currently held in a call account, returning 0.75%. In addition, a number of externally managed investments have matured or been sold since the end of the year. An update is attached at Appendix 4.

During the quarter, Sector overturned their recommendation to keep investments short term (i.e. with a maximum duration of 3 months). The limits that apply to all entities on the suggested Sector Credit List revert to those outlined in the Treasury Management Strategy included in the Medium Term Financial Plan.

4. Economic background – need update from Sector

The report attached (Appendix 1) contains information up to the end of March 2013; since then we have received the following update from Sector:

UK GDP

Britain's economy grew 0.3% in the first quarter of 2013 as originally estimated, but consumer spending rose at its weakest pace since the third quarter of 2011. The quarterly figure confirms the initial forecast and will reassure the government, which has been fending off calls to place a greater emphasis on economic growth in its three-year-old drive to erase Britain's budget deficit. This year, Britain's economy has shown signs of a slow recovery but still remains weak. On 22nd May the International Monetary Fund said Britain should spend more now to fund investment and speed up its recovery.

UK PMI Services & Manufacturing

Britain's service sector grew much faster than expected in May with new business increasing at its fastest rate in over three years, showing that the economy is picking up speed. The Purchasing Managers' Index (PMI) for services rose to 54.9 in May from 52.9 in April. That was the strongest reading since March 2012 and easily beat the top forecast of 53.6, of 30 economists. The figure was helped by better weather and was boosted by a rise in new orders which hit their highest level since February 2010. The strong service sector reading will bring relief to Finance Minister George Osborne, who has faced criticism at home and from the International Monetary Fund for his austerity programme. It also reinforces expectations that the Bank of England will refrain from further bond buying to stimulate the economy.

A strong rise in new orders helped Britain's manufacturing sector grow at its fastest pace in over a year last month. The sector's expansion for a second month running will boost optimism that Britain's recovery is becoming more broad based and less reliant on the services sector. The Markit/CIPS Purchasing Managers' Index rose to 51.3 in May from an upwardly revised 50.2 in April, more than a full point higher than the consensus forecast. April's reading was originally below the 50-mark that divides growth from contraction.

UK Inflation

British consumer price inflation fell last month for the first time since September, giving incoming Bank of England governor Mark Carney more leeway to support the economy should the recovery weaken. Inflation eased to 2.4 percent in April from 2.8 percent in March, official data showed on 21st May, a better reading that the 2.6 percent rate economists had forecast. The main downward thrust came from petrol and diesel, which accounted for almost half the drop in the annual rate. Inflation has been above the Bank of England's 2 percent target since the end of 2009 but the recent weakness in commodity prices has made policymakers more confident it will ease over the next two years.

5. **Interest Rates**

Sector undertook a review of its interest rate forecasts following the issue of the latest Bank of England Inflation Report in February 2013. Sector has left unchanged its forecast for the first increase in Bank Rate to be in March 2015.

6. **New Borrowing**

The Council's borrowing portfolio is attached at Appendix 3. No new borrowing was undertaken during the quarter.

7. **Debt Rescheduling**

At this time it is not of benefit to the Council to consider rescheduling of its long-term debt, as advised by Sector.

8. **Compliance with Treasury and Prudential Limits**

The Council has operated within the treasury limits and Prudential Indicators and in compliance with the Council's Treasury Management Practices.

9. **Iceland Update**

The Icelandic Supreme Court found in favour of UK local authorities and other UK wholesale depositors last year. This judgement means that UK local authorities' claims have been recognised as deposits with priority status over other creditors' claims and that they will be paid first when it comes to getting their money back.

The winding up board published details of LBI's (formerly Landsbanki) financial position as at 31st December 2012. This showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of the priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits. However, the value recovered will fluctuate due to currency valuations as the sums are being paid in sterling, US dollars, Euros and Icelandic Kroner. To date we have received £499,515, leaving a balance of £500,485, as shown in Appendix 2, which is approximately 50% of the original investment.

The current position on estimated future payouts is as shown in the table below

December 2013	7.5%	December 2017	7.5%
December 2014	7.5%	December 2018	7.5%
December 2015	7.5%	December 2019	5.35%
December 2016	7.5%		

10. **Corporate Implications**

10.1 Comment from the Section 151 Officer: Finance have no further comments to add. (S.G.)

10.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

10.3 Comment from the Equalities Officer: This report does not specifically highlight any equalities implications however, in discharging their responsibilities members are required to comply with the public sector equality duty as set out in section 149 of the Equality Act 2010 http://www.legislation.gov.uk/ukpga/2010/15

11. Appendices

Appendix 1 – Sector treasury management report for quarter four
Appendix 2 – Investment portfolio as at 31st March 2013
Appendix 3 – Borrowing portfolio as at 31st March 2013
Appendix 4 – Investment portfolio as at 30 April 2013 (Investec) and 31st May 2013 (In-House)

12. Background Papers

Medium Term Financial Plan 2012/13 – 2014/15

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