

Accounts, Audit and Risk Committee

Q1 Treasury Management Report

18 September 2013

Report of the Interim Head of Finance and Procurement

PURPOSE OF REPORT

To receive information on treasury management performance and compliance with treasury management policy for 2013/14 for Quarter 1 including an update for position as at 31 August 2013 as required by the Treasury Management Code of Practice.

This report is public

Appendices 1 and 2 to this report are exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the Quarter 1 (Q1) Treasury Report
- (2) Note the contents of the 2012/13 Annual Treasury Report which was presented to Council in July 2013 – Appendix 3

Summary

- 1.1 As part of our investment strategy and governance arrangements this committee considers the investment performance to date and our compliance with counterparties being used.
- 1.2 The Code of Practice on Treasury Management approved by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted in full by the Council in 2004, requires that a Treasury Management Strategy is produced prior to the beginning of the financial year to which it relates. The Treasury Management Strategy is the cornerstone of proper treasury management, and is central to the operation, management reporting and performance assessment. The annual strategy for Cherwell District Council was approved at full Council on 25th February 2013. The Council re-appointed Sector as its Treasury Management advisor in January 2013.
- 1.3 The highest standard of stewardship of public funds remains of the utmost importance to the Council. This document details the Council's management of investments and treasury management activities during the first 3 months of 2013/14.

Background Information

2013/14 Performance

2.1 As at the end of June the Council had £11.8m invested with fund manager Investec. In addition it has around £57.7m managed in-house (including Eco Town funds of £13.5m) which fluctuates during the year. The Council regularly reviews each of these funds in light of the current economic climate, reducing balances in investments planned to fund the Capital Programme and the need to contribute to efficiency savings.

Update on Cherwell's Treasury Performance

2.2 The Treasury Management Strategy for 2013/14, which includes the Annual Investment Strategy, was approved by the Council on 25th February 2013. It sets out the Council's investment priorities as being:

- Security of Capital; Liquidity; and Yield

2.3 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs. However, the Council also seeks out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions. The Council uses Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector (this applies in particular to nationalised and semi nationalised UK banks).

2.4 During the quarter ended 30th June, Sector highlighted: -

- Indicators suggested that the economy accelerated;
- Stronger household spending, both on and off the high street;
- Inflation remained stubbornly above the Monetary Policy Committee (MPC)'s 2% target;
- The MPC remained in a state of limbo ahead of Mark Carney's arrival
- 10-year gilt yields rose above 2.5% and the FTSE 100 fell below 6,100,
- The Federal Reserve discussed tapering the pace of asset purchases under Quantitative Easing 3 (QE3).

2.5 Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes was £69.5m. These funds were 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 and ECO Bicester.

2.6 It is worth noting that the revenue budget for 2013/14 has been prepared utilising only £150,000 of investment income; however, total Investment income within 2013/14 is budgeted as £550,000. The balance of £400,000 will be used to replenish reserves after transferring interest received in respect of Eco Town funds to the Eco Town reserve.

Investment performance for quarter ended 30th June 2013 was:

Fund	Amount at 30th June 2013	Interest Budget	Actual Interest	Variance	Rate of return %
Investec	£11,840,069	£14,375	(£9,194)	(£23,569)	(0.8%)
In House	£57,735,505	£123,258	£178,969	£55,711	1.24%
Total	£69,575,574	£137,633	£169,775	£32,142	

At this point in the year we are currently projecting to be on target. The variance shown above has arisen through the timing of interest received. Although there is currently a negative balance against budget on the funds managed by Investec, this has arisen through the global drop in government bond prices in anticipation of an eventual rise in official interest rates.

UK government bonds were not immune to this and unfortunately the price at 30th June 2013 had fallen from the initial average purchase price; therefore, showing a decline in bond values at quarter end. Given that, since this quarter end position, the new governor of the Bank of England has communicated to the markets that UK rates are on hold for longer, there is an expectation that gilt prices will rise again accordingly.

The negative balance at 30th June 2013 has not yet corrected itself with performance as at the **31st August** as follows.

Fund	Amount at 31st August	Interest Budget	Actual Interest	Variance	Rate of return %
Investec	£11,840,069	£23,958	(£7,499)	(£31,457)	(tbc on 18 Sept)
In House	£61,954,684	£205,431	£277,037	£71,606	1.11%
Total	£73,794,753	£229,389	£269,538	£40,149	

We are however still confident though that the position will be recovered.

For Quarter 1, Appendices 1 and 2 show the counterparties that we have invested with and our compliance monitoring.

Icelandic Investments

There is currently no further update in respect of funds remaining within Iceland. As reported previously, out of the £6.5m original capital investment £5.7m has been returned to the Council. The remaining capital balance of £729,000 along with associated interest relating to the investment is still held within Iceland and is accruing interest on an annual basis.

We continue to work with the LGA and Bevan Brittan on the potential for transfer to the UK.

Implications

Financial:	<p>There are no financial implications arising directly from any outcome of this report.</p> <p>Comments checked by Nicola Jackson, Corporate Finance Manager 01295 221731.</p>
Legal:	<p>Presentation of this report is in line with the CIPFA Code of Practice.</p> <p>Comments checked by Kevin Lane Head of Law & Governance.</p>
Risk Management:	<p>It is essential that this report is considered by AARC as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided.</p> <p>Comments checked by Nicola Jackson, Corporate Finance Manager, 01295 221731.</p>

Wards Affected

All wards are affected.

Document Information

Appendix No	Title
Appendix 1	Treasury Advisor Report Q1 Inhouse – RESTRICTED
Appendix 2	Treasury Advisor Report Q1 Investec – RESTRICTED
Appendix 3	Treasury Annual Report 2012/13
Background Papers	
None	
Report Author	Tim Madden Interim Head of Finance and Procurement
Contact Information	Tim.Madden@Cherwellandsouthnorthants.gov.uk 0300 003 0106