



East Devon District Council
Annual Treasury Management Review 2013/14

1. Introduction

- 1.1 This report provides details of the outturn provision for treasury management activities for the period 1st April 2013 to 31st March 2014.
- 1.2 The average 7-day rate for this period is the London Interbank Bid (LIBID) rate. This rate was 0.35% for the period and is used as a benchmark for comparison purposes.

2. Overview

- 2.1 The 2013/14 budget estimated a net return on all General Fund investment & borrowing activities of £238,280. The actual return for 2013/14 is £218,778.

General Fund (GF)	Actual 2012/13 £000	Budget 2013/14 £000	Actual 2013/14 £000	Variance 2013/14 £000
Internal Investments				
Interest on Market Investments	(55)	(47)	(38)	9
Other Investment interest*	11	34	26	(8)
Return on Internal Investments	(44)	(13)	(12)	1
Externally Managed Funds				
Interest Received net of fees	(217)	(298)	(281)	17
Fair Value (Gains)/Losses**	(79)	0	0	0
Return on External Investments	(296)	(298)	(281)	17
Total Return on Investments				
	(340)	(311)	(293)	18
Borrowing				
Temporary Borrowing	0	1	1	0
Long Term borrowing – PWLB***	72	72	73	1
Total Payable on Borrowings	72	73	74	1
Net Return on Treasury Activities				
	(268)	(238)	(219)	19

* Net of transfer of interest to Housing Revenue Account (HRA)

**This is the gain or loss in value from selling an investment before maturity

*** The £1,000 variance will be recovered from Beer Community Land Trust

- 2.2 The 2013/14 budget estimated a net charge on Housing Revenue Account (HRA) for investment & borrowing activities of £2,532,980. The actual charge for 2013/14 is £2,542,241.

Housing Revenue Account (HRA)	Actual for 2012/13 £'000	Budget for 2013/14 £'000	Actual for 2013/14 £'000	Variance 2013/14 £'000
Interest Receivable				
Investment interest	(21)	(36)	(27)	9
Return on Investments	(21)	(36)	(27)	9
Long Term Debt				
PWLB	39	39	39	0
PWLB Self Financing Loans	2,530	2,530	2,530	0
Payable on Borrowings	3,569	2,569	2,569	0
Net Return on Treasury Activities				
	2,548	2,533	2,542	9

- 2.3 Below is a table showing the Councils gross rate of return for the main treasury items expressed as a percentage.

Gross Rate of Return	2012/13 %	2013/14 %	7 Day LIBID %	Difference %
External Investment Funds	0.82	1.05	0.36	0.69
Total Internal	0.53	0.45	0.36	0.09
Market Investments	0.48	0.38	0.36	0.02
Bank of Scotland	0.75	0.71	0.36	0.35
Money Market Funds	0.48	0.44	0.36	0.08

2.4 Economy & Interest Rate Review

Sector our treasury advisors have provided the following review of the economy & interest rates in 2013/14:

The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year.

While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 fears around emerging markets, various vulnerabilities in the Chinese economy, the increasing danger for the Eurozone to drop into a deflationary spiral, and the situation in the Ukraine, caused rates to dip down, reflecting a flight to quality into UK gilts.

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.

The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do "whatever it takes" to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

3. External Investments

3.1 During 2013/14 the Council earned £280,543 (net of management fees) on its external investment fund, resulting in a gross return on investments of 1.05%, which was 0.69% higher than the 7 day LIBID rate.

3.2 The return per fund is as follows:

	Gross Return %	Management Fee £	Net Return %
Payden & Rygel	1.08%	28,922	0.89%
RLAM	1.02%	15,389	0.92%
Total	1.05%	44,311	0.91%

3.3 Our external funds of £30.9 million are split between Payden & Rygel and Royal London Asset Management (RLAM) with each managing 50%

The balances in the funds as at the 31st March 2014 are as follows:

	Historic Cost (£)	Market Value (£)
Payden & Rygel	15,459,359	15,402,250
RLAM	15,459,359	15,457,841
Total	30,918,718	30,860,091

The Market Value is the amount we would have received for our investments if we had sold them on 31st March 2014. This is based on the valuation of the assets held by each fund.

These assets as with other financial assets can and do vary in value on a daily basis. This is part of the normal market process and a loss of less than 0.02% does not give cause for concern.

4. Internal Investments

- 4.1 A total of 124 investments were made in 2013/14, ranging from £0.05m to £3m. During this time we exceeded our agreed counterparty limit with the Bank of Scotland on one occasion, for no longer than a week, as agreed with the Portfolio Holder – Finance and the Section 151 Officer.
- 4.2 These investments generated interest totalling £38,420. The repayment terms varied from call (instantly repayable), to fixed periods of up to 59 days. The interest rate on these investments averaged 0.45%, which is 0.095% above the 7 day LIBID rate.
- 4.3 From market investments, in fixed term deposits with building societies on our counterparty list, we achieved an average return of 0.38%, from deposits with durations from 7-59 days. This is 0.024% above the 7 Day LIBID rate.
- 4.4 From our Money Market Fund (MMF) the council has achieved an average return of 0.44% exceeding the performance of market investments by 0.06% and 0.083% above the 7 Day LIBID rate.
- 4.5 From deposits in our Bank of Scotland account we have achieved a return of 0.71%. This is down from 0.75% in 2012/13 as the deposit rate was cut to 0.50% in December 2013 making it equal to the Bank of England base rate.

5. Borrowing

5.1 Temporary Borrowing

Due to the timing of payments and receipts the council did not have to borrow for cash flow purposes, only needing to make use of its bank overdraft facilities.

5.2 Long Term Borrowing

5.2.1 General Fund

The council took out a loan for £305,000 on a maturity basis during 2013/14. This loan was for financing a loan to Beer Community Land trust, in support of their affordable housing development.

Also still outstanding is £441,258 of the Refuse & Recycling capital loan taken out in

This leaves the General Fund with two loans with a total value outstanding of £746,258 at 31st March.

5.2.2 Housing Revenue Account

No principle repayments were made on the HRA self financing maturity loans, so the balance remains at £84.376m. The first loan is repayable in March 2015.

The HRA also has one annuity loan still outstanding at £630,587 for affordable housing.

5.2.3 Current Plans

There are plans for the Council to borrow £3.975m to fund its capital programme in 2014/15. This is made up as follows:

- £ 755,000 Balance of Beer Community Land Trust Loan Facility
- £ 770,000 Seaton Workshops
- £1,000,000 Exeter Science Park
- £1,450,000 LED

The need to borrow for these projects will be kept under review during the year.