Committee:	**Cabinet**	**Agenda Item**
Date:	**13 September 2012**	**9**
Title:	**2011/12 Treasury Management Outturn Report**	
Portfolio Holder:	**Councillor Robert Chambers**	Key decision: **No**

Summary

1. Treasury Management is the activity of the Council's finance function which manages cash flows, bank accounts, deposits, investments and borrowing. The objective is to manage risk effectively in order to ensure the security of funds, sufficient liquidity to enable commitments to be met, and to generate income/minimise cost.

2. It is a requirement of the Council's Constitution that the Cabinet receives an annual statement of the key treasury management activity and outcomes during the year.

3. In summary, during 2011/12:

    a) The Council was obliged to take out loans totalling £88.4 million in order to make the HRA self financing payment. This was achieved in accordance with the borrowing strategy approved by the Council.

    b) No other short term or long term borrowing was needed to meet the Council's commitments and no cash flow difficulties were experienced.

    c) The litigation in Iceland regarding the Landsbanki insolvency was concluded in favour of UK councils; £0.683m was repaid during the year, leaving £1.517m outstanding as at 31 March. (A subsequent £0.286m was repaid in May 2012).

    d) The Council continued to operate a cautious approach to the use of banking counterparties. Credit ratings of some banks reduced during the year, necessitating a greater reliance on the Government Deposit Account. All deposits and investments made were in compliance with the Council's approved treasury management strategy.

Recommendations

4. The Cabinet is recommended to approve the 2011/12 treasury management outturn as set out in this report.

Financial Implications

5. None.

Background Papers

6. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

- 2011/12 Treasury Management Strategy – Full Council 24 February 2011
- Treasury Management Strategy mid year review – Cabinet 8 December 2011
- CIPFA Treasury Management Code of Practice and guidance
- Arlingclose updates and guidance

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Background

7. Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

8. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("The Code"), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy on the likely financing and investment activity. This is approved by the Council as part of the annual budget setting process. Monitoring reports are submitted to the Cabinet as part of regular budget monitoring reports. An outturn report is required to be approved by the Cabinet before 30 September.

9. The Council is supported in its treasury management activity by the independent financial advisers Arlingclose Limited. During the year the Arlingclose contract was extended to 31 December 2015.

10. All responsibility for decision making rests with the Council. Under the Council’s constitution the Assistant Chief Executive – Finance is authorised to make investment and borrowing decisions in line with the policy approved by the Council.

Treasury Position

11. The Council’s Treasury Position for the year is summarised in the table below, and explained in the following sections of the report.

Balance 1 April 2011 £m		Balance 1 April 2012 £m
-	Long Term Borrowing	(88.407)
-	Short Term Borrowing	-
-	Total Borrowing	(88.407)
(6.464)	Other Long Term Liabilities (PFI Contract)	(5.482)
(6.464)	**Total External Debt**	**(93.889)**
4.013	Funds on call	5.007
2.022	Short Term investments	4.037
1.740	Long Term investments	1.311
7.775	**Total Investments**	**10.355**
1.311	**Net Treasury Position**	**(83.534)**
(6.723)	Capital Financing Requirement (notional indicator of underlying need to borrow)	(94.929)

Borrowing

12. The Council's strategy for 2011/12 was that there was no need to take out external borrowing to finance capital expenditure. This was achieved. The table below shows how capital expenditure was financed.

2010/11 £000		2011/12 £m
755	Government Grants	312
1,698	Capital Receipts	127
1,955	HRA Major Repairs Funding	2,011
191	Section 106 funds	608
562	Revenue Contributions	1,064
0	Internal Borrowing	267
5,161	**TOTAL**	**4,389**

13. The Localism Act enabled the reform of council housing finance and the abolition of the housing subsidy system. This required the Council to make a one off payment of £88.407m to the Government on 28 March. This was funded by loans taken out from the Public Works Loans Board, in accordance with a borrowing strategy approved by the Council on 23 February 2012. The loans taken out were as follows:

Amount	Loan Type	Term	Interest rate	Fixed or Variable
2.000	Maturity	6 years	0.62%	Variable
2.000	Maturity	7 years	0.62%	Variable
2.000	Maturity	8 years	0.62%	Variable
2.000	Maturity	9 years	0.62%	Variable
2.000	Maturity	10 years	0.62%	Variable
2.000	Maturity	11 years	2.56%	Fixed
3.000	Maturity	12 years	2.70%	Fixed
3.000	Maturity	13 years	2.82%	Fixed
3.000	Maturity	14 years	2.92%	Fixed
3.000	Maturity	15 years	3.01%	Fixed
3.000	Maturity	16 years	3.08%	Fixed
3.000	Maturity	17 years	3.15%	Fixed
4.000	Maturity	18 years	3.21%	Fixed
4.000	Maturity	19 years	3.26%	Fixed
4.000	Maturity	20 years	3.30%	Fixed
4.000	Maturity	21 years	3.34%	Fixed
4.000	Maturity	22 years	3.37%	Fixed
4.000	Maturity	23 years	3.40%	Fixed
4.000	Maturity	24 years	3.42%	Fixed
5.000	Maturity	25 years	3.44%	Fixed
5.000	Maturity	26 years	3.46%	Fixed
5.000	Maturity	27 years	3.47%	Fixed
5.000	Maturity	28 years	3.48%	Fixed
5.000	Maturity	29 years	3.49%	Fixed
5.407	Maturity	30 years	3.50%	Fixed
88.407	**Total**		**2.98%**	

14. No short term borrowing was required in order to meet cash flow commitments.

15. The only other debt during the year was the Council's ongoing long term liability relating to the PFI Contract and Finance Leases, which under accounting rules is recognised as a debt on the Council's balance sheet.

Investments

16. The approved investment strategy for 2011/12 is summarised as follows:

    - To prioritise security and liquidity of the investment over yield
    - To place funds with UK Banks and Building Societies that have a minimum credit rating of A+, or to place funds with the UK Government or other UK local authorities
    - To operate a £3 million limit per banking counterparty
    - To operate a maximum deposit term of 1 year.

17. The Council began the year with only the following banks meeting the Council's policy criteria: Barclays, Bank of Scotland, Royal Bank of Scotland, HSBC, Clydesdale, Standard Chartered, Nat West, Lloyds TSB, Santander UK and Nationwide Building Society.

18. During the year, several banks had their credit ratings revised downwards, such that they no longer fulfilled the Council's policy criteria. By December 2011, only Barclays, Santander UK, HSBC and Standard Chartered met the minimum level. HSBC and Standard Chartered's minimum deposit requirements exceed the Council's policy limit.

19. Based upon Arlingclose advice, in December 2011 the Cabinet agreed to revise the minimum credit rating in the policy to A-, which enabled continued use of the major UK banks. The rationale is that the banks in question are systemically important to the UK economy (and therefore likely to receive Government support if they get into difficulty). The Cabinet also decided to adopt a maximum deposit term of six months.

20. All deposits placed during the year complied with the Council's policy, as amended. All deposits expected to be repaid during the year were received without difficulty. The table below summarises the investment activity during the year.

	Balance at 1 April 2011	Investments made	Investments repaid	Balance at 31 March 2012
Money market lending	2.0	8.0	(7.0)	3.0
Government deposit a/c.	-	89.4	(88.4)	1.0
Barclays Deposit Account	1.5	2.6	(3.1)	1.0
Royal Bank of Scotland	2.5	2.5	(3.0)	2.0
Santander UK	-	5.5	(3.5)	2.0
Bank of Scotland	-	6.3	(6.3)	-
Longer term investments	1.8	-	(0.5)	1.3
TOTAL	**7.8**	**114.3**	**(111.8)**	**10.3**

21. Counterparty credit quality was assessed and monitored with reference to credit ratings published by the major agencies Fitch, S&P and Moody's. Counterparty credit quality has been maintained as demonstrated by the credit score analysis in the table below. An average score of around 3.5 is midway between AA and AA- Long Term Credit ratings. However, average returns diminished during the year, consistent with a reduction in the average maturity.

Date	Number of deposits	Value Weighted Average Credit Risk Score	Time Weighted Average Credit Risk Score	Average rate of investment	Average number of days to maturity
31.3.2011	13	3.49	3.62	1.32%	118
30.6.2011	16	3.52	3.66	1.35%	127
30.9.2011	15	3.45	3.60	1.34%	112
31.12.2012	15	3.44	4.02	1.07%	86
31.3.2012	13	3.59	3.77	1.15%	105

Landsbanki

22. Landsbanki Islands HF was an Icelandic bank that became insolvent in October 2008, a few days before the Council's deposit of £2.2 million was due to be repaid. Following steps taken by the Icelandic Government, the bank's assets and liabilities were transferred to a new bank (New Landsbanki) with the management of the affairs of Old Landsbanki being placed under the stewardship of a resolution committee.

23. The resolution committee determined that UK local authorities' deposits were priority claims, a ruling that was confirmed by the Icelandic Court in April 2011 and upheld following appeal by the non-priority creditors.

24. The first repayment was made to priority creditors in February 2012 and was made in a combination of Sterling, US Dollars, Euros and Icelandic Krona. Excluding the Krona element, the amount received by the Council, after conversion to Sterling, was £0.683 million. The Krona element is held in an escrow account in Iceland due to legal restrictions on the movement of Icelandic currency. The sterling value of this sum as at 31 March 2012 is £16,051.

25. On the basis of recovery estimates published by the resolution committee, including default interest and compensation, CIPFA has issued accounting guidance to the effect that 100% of priority claims will be paid by December 2019. The Statement of Accounts has been prepared on this basis, with discounting adjustments to reflect the accounting convention that money in the future is worth less than money now.

26. In May 2012 a further repayment of £0.286m was received; this sum has not been reflected in the accounts or the figures in this report, as it was received after the balance sheet date.

27. Uncertainties remain that could affect the amount and timing of repayments:

    - The impact of exchange rate fluctuations on repayments made in US Dollars, Euros and Icelandic Krona
    - The resolution of legal difficulties relating to the movement of Icelandic currency
    - Lack of firm information about the timing of future payments; if the actual timing differs from that estimated within the CIPFA guidance, additional adjustments to the accounting loss may be required in future years' accounts.

28. The Council maintains an earmarked General Fund reserve of £121,000 ("Landsbanki Contingency") to enable any adverse accounting losses to be financed without adversely affecting budgets for council services.

Prudential Indicators

29. The Council is required to calculate and publish a set of statutory prudential indicators. These are technical measures of the Council's indebtedness and exposure to risk, and are intended to ensure that treasury management is prudent, sustainable and affordable.

30. The prudential indicators are set out in the appendix to this report. There are no concerns or issues to highlight for Members' attention.

2011/12 Treasury Management Outturn Report

Cabinet 13 September 2012, item 9

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Loss of council funds through failure of banking counterparty	1 (minimal risk due to nature of institutions used)	4 (significant sums are placed on deposit)	Treasury Management Strategy and regular monitoring Arlingclose advice

1 = Little or no risk or impact
2 = Some risk or impact – action may be necessary.
3 = Significant risk or impact – action required
4 = Near certainty of risk occurring, catastrophic effect or failure of project.

APPENDIX A

PRUDENTIAL INDICATORS

INVESTMENTS

	2011/12 Estimate	2011/12 outturn
Upper limit for principal sums invested for over 364 days	£2.5m	£1.3m
Upper limit for fixed interest rate exposure	£78.7m	£78.4m
Upper limit for variable interest rate exposure	£10m	£10m

BORROWING LIMITS

	2011/12 Estimate*	2011/12 outturn
Authorised Limit (maximum level of external borrowing)	£103.7m	£93.9m
Operational Boundary (risk of Authorised Limit breach)	£99.7m	£93.9m

*as amended by Cabinet in December 2011 to reflect HRA borrowing requirement

DEBT PORTFOLIO - MATURITY

Maturity structure of fixed rate borrowing	2011/12 Estimate (as per HRA borrowing strategy)	2011/12 outturn (as per actual HRA loans)
Under 12 months	0%	0%
12-24 months	0%	0%
24 months – 5 years	0%	0%
5+ -10 years	0%	0%
10+ - 20 years	41%	41%
20+ - 30 years	59%	59%
30+ years	0%	0%

CAPITAL FINANCING COSTS

	2011/12 Estimate	2011/12 outturn
Incremental impact of capital investment financed from Internal Borrowing – General Fund	£2,000	£1,946
Incremental impact of capital investment financed from Internal Borrowing – General Fund	Nil	Nil
Ratio of financing costs to non-HRA net revenue stream	9.18%	8.0%
Ratio of financing costs to HRA net revenue stream	-0.03%	-0.08%
Minimum Revenue Provision charged to the accounts	£1.789m	£0.652m

BALANCED BUDGET REQUIREMENT

The Council complied with the statutory requirement to set and remain within a balanced budget.