Committee:	**Cabinet**	**Agenda Item**
Date:	**24 October 2013**	8
Title:	**2012/13 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 previous financial year.

3. In summary, during 2012/13:

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

   b) In relation to the Landsbanki investment, the Council received £0.421m during the year, leaving £1.096m outstanding as at 31 March. (A subsequent £0.116m was repaid in September 2013).

   c) 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 2012/13 treasury management outturn as set out in this report.

Financial Implications

5. None.

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

6. 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.”

7. 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.

8. The Council is supported in its treasury management activity by the independent financial advisers Arlingclose Limited.

9. 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

10. 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 2012		**Balance 1 April 2013**
£m		**£m**
(88.407)	Long Term Borrowing	(88.407)
-	Short Term Borrowing	-
(88.407)	Total Borrowing	(88.407)
(5.379)	Other Long Term Liabilities (PFI Contract)	(5.304)
(93.786)	**Total External Debt**	**(93.711)**
5.007	Funds on call	3.199
4.037	Short Term investments	8.232
1.311	Long Term investments	0.931
10.355	**Total Investments**	**12.362**
(83.431)	**Net Treasury Position**	**(81.349)**
(94.798)	Capital Financing Requirement (notional indicator of underlying need to borrow)	(98.232)

Borrowing

11. The Council's strategy for 2012/13 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.

2011/12 £000		**2012/13 £000**
312	Government Grants	294
127	Capital Receipts	-
2,011	HRA Major Repairs Funding	2,894
608	Section 106 funds	856
1,064	Revenue Contributions	1,843
343	Internal Borrowing	3,509
4,465	**TOTAL**	**9,396**

12. 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.2012. 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**	**Remaining Term**	**Interest rate**	**Fixed or Variable**	**Maturity Date**
2.000	Maturity	5 years	0.62%	Variable	28/03/2018
2.000	Maturity	6 years	0.62%	Variable	28/03/2019
2.000	Maturity	7 years	0.62%	Variable	28/03/2020
2.000	Maturity	8 years	0.62%	Variable	28/03/2021
2.000	Maturity	9 years	0.62%	Variable	28/03/2022
2.000	Maturity	10 years	2.56%	Fixed	28/03/2023
3.000	Maturity	11 years	2.70%	Fixed	28/03/2024
3.000	Maturity	12 years	2.82%	Fixed	28/03/2025
3.000	Maturity	13 years	2.92%	Fixed	28/03/2026
3.000	Maturity	14 years	3.01%	Fixed	28/03/2027
3.000	Maturity	15 years	3.08%	Fixed	28/03/2028
3.000	Maturity	16 years	3.15%	Fixed	28//03/2029
4.000	Maturity	17 years	3.21%	Fixed	28/03/2030
4.000	Maturity	18 years	3.26%	Fixed	28/03/2031
4.000	Maturity	19 years	3.30%	Fixed	28/03/2032
4.000	Maturity	20 years	3.34%	Fixed	28/03/2033
4.000	Maturity	21 years	3.37%	Fixed	28/03/2034
4.000	Maturity	22 years	3.40%	Fixed	28/03/2035
4.000	Maturity	23 years	3.42%	Fixed	28/03/2036
5.000	Maturity	24 years	3.44%	Fixed	28/03/2037
5.000	Maturity	25 years	3.46%	Fixed	28/03/2038
5.000	Maturity	26 years	3.47%	Fixed	28/03/2039
5.000	Maturity	27 years	3.48%	Fixed	28/03/2040
5.000	Maturity	28 years	3.49%	Fixed	28/03/2041
5.407	Maturity	29 years	3.50%	Fixed	28/03/2042
88.407	**Total**		**2.98%**		

13. The interest cost in 2012/13 for these loans was £2.625m.

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 2012/13 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 limit of 15% of total investment per banking counterparty or if the total investment is less than £10m, a limit of £2 million per banking counterparty.

- To operate a maximum deposit term of 6 months.

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

18. With effect from 1 May 2012, Santander UK was suspended under local delegated authority due to a perceived risk that problems in the Spanish economy could affect Santander UK's parent bank, the Spanish Santander Group. Santander UK's credit rating remains at a level above the Council's policy minimum, and on the list of banks recommended for use by Arlingclose, so this situation will be kept under review.

19. All deposits placed during the year complied with the Council's policy. 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 2012	**Investments made**	**Investments repaid**	**Balance at 31 March 2013**
Money market lending	3.0	-	(3.0)	-
Fixed Term Deposits	-	12.0	(8.0)	4.0
Government deposit a/c.	1.0	123.3	(120.1)	4.2
Barclays Deposit Account	1.0	25.9	(25.7)	1.2
Royal Bank of Scotland	2.0	5.0	(5.0)	2.0
Santander UK	2.0	9.4	(11.4)	0.0
Longer term investments	1.3	-	(0.4)	0.9
TOTAL	**10.3**	**175.6**	**(173.6)**	**12.3**

20. The interest income on deposits in 2012/13 was £85,000. The Average Rate of Return was 0.51%.

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. The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit. The Council aimed to achieve a score of below 7, to reflect the Council's overriding priority of security of monies invested and the minimum credit rating of threshold A- for investment counterparties.

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
31.3.2012	16	3.52	3.66	0.77%	127
30.6.2012	15	3.72	3.76	0.55%	67
30.9.2012	13	5.08	4.75	0.54%	90
31.12.2012	14	5.09	4.75	0.47%	71
31.3.2013	13	5.09	4.75	0.59%	90

22. Although the risk scores increased during the year, in practice the Council used the same major UK banks, but their credit ratings were reduced, although still at a level at or above the Council's policy minimum score of A-. The reduction in the average rate of investment reflects an increase in the use of the Government Deposit Account.

Landsbanki

23. During 2012/13 the second and third payments were made to priority creditors 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 £0.421 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 2013 is £18,000.

24. 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.

25. In September 2013 a further repayment of £0.116 million 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.

26. 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

- A developing market in the trading of distressed Landsbanki debt and the growing possibility of opportunities to sell the outstanding deposit for a price that represents good value for money.

27. The Council maintains an earmarked General Fund reserve of £165,000 ("Landsbanki Contingency") to enable any adverse accounting losses to be financed without adversely affecting budgets for council services.

Prudential Indicators

28. 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.

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

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
Investment income is not maximised	3 (the Council is risk averse and therefore opportunities to generate more income are limited)	2 (modest budgetary impact in relation to potential income foregone)	Keep Strategy under review. Research secure alternatives and present suggestions to Members.

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

	2012/13 Estimate	2012/13 outturn
Upper limit for principal sums invested for over 364 days	£2m	£0.9m

INTEREST RATE EXPOSURE

	2012/13 Estimate	2012/13 outturn
Upper limit for fixed interest rate exposure	£78.4m	£78.4m
Upper limit for variable interest rate exposure	£10m	£10m

BORROWING LIMITS

	2012/13 Estimate	2012/13 outturn
Authorised Limit (maximum level of external borrowing)	£102m	£93.7m
Operational Boundary (risk of Authorised Limit breach)	£98.8m	£93.7m

DEBT PORTFOLIO - MATURITY

Maturity structure of fixed rate borrowing	2012/13 Estimate (as per HRA borrowing strategy)	2012/13 outturn (as per actual HRA loans)
Under 12 months	0%	0%
12-24 months	0%	0%
24 months – 5 years	0%	2.3%
5+ -10 years	2.6%	11.3%
10+ - 20 years	43.4%	38.5%
20+ - 30 years	54%	47.9%
30+ years	0%	0%

CAPITAL FINANCING COSTS

	2012/13 Estimate	2012/13 outturn
Incremental impact of capital investment financed from Internal Borrowing – General Fund	£8,000	£12,000
Incremental impact of capital investment financed from Internal Borrowing – Housing Revenue Account	Nil	Nil
Ratio of financing costs to non-HRA net revenue stream	19%	12.57%
Ratio of financing costs to HRA net revenue stream	0.94%	1.12%
Minimum Revenue Provision charged to the accounts	£276,000	£235,000

BALANCED BUDGET REQUIREMENT

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