



**POLICY AND RESOURCES SCRUTINY COMMITTEE –
12TH NOVEMBER 2013**

SUBJECT: TREASURY MANAGEMENT AND CAPITAL FINANCING PRUDENTIAL INDICATORS MONITORING REPORT – 1ST APRIL 2013 TO 30TH SEPTEMBER 2013 – QUARTER 1 AND QUARTER 2

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151 OFFICER

1. PURPOSE OF REPORT

- 1.1 To present Members with details of Treasury Management activities and Capital Financing, together with the related Prudential Indicators for the period 1st April 2013 to 30th September 2013.
- 1.2 To review the Treasury Management Strategy for 2013/2014 as set out in the Annual Investment Strategy and Capital Financing Prudential Indicators Report.

2. SUMMARY

- 2.1 The Code of Practice on Treasury Management in the Public Services 2009, which was adopted by the Council on 12th October 2010, sets out a framework of operating procedures, which is encompassed in the Treasury Management Practices (TMPs). TMP6 (Reporting Requirements and Management Information Arrangements) provides for the submission of monitoring reports to the appropriate Committee on a quarterly basis.
- 2.2 Under the provisions of the Local Government Act 2003, The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [The Capital Regulations], and the CIPFA's "The Prudential Code for Capital Finance in Local Authorities" [the Code], the Authority is obliged to approve and publish a number of indicators relevant to Capital Finance and Treasury Management.
- 2.3 The Authority's Annual Investment Strategy and Capital Financing Prudential Indicators for 2013/2014 were approved by Council on 27th February 2013.

3. LINKS TO STRATEGY

- 3.1 Treasury Management Strategy 2013/2014 as agreed by Council on 27th February 2013.

4. THE REPORT

4.1 Treasury Management

4.1.1 Loans Administered by Caerphilly CBC

Due to the current level of interest rates, the difference between long-term borrowing rates and short-term investment rates has given rise to a cost of carry risk. The current policy of internal borrowing is no longer sustainable, but where prudent the policy of internal borrowing will be utilised. A review of the balance sheet for 2012/2013 shows that the level of internal borrowing was not as high as anticipated. At 31st March 2013 the internal borrowing position was £43m.

The Annual Treasury Management Strategy approved by Council in February 2013 indicated that there would be a need to borrow £11.8m in 2013/2014 to part fund the Capital Programme. £7.8m of this total would be met through supported borrowing approvals (inclusive of £2.8m for the Highways LGBI capital works). The remaining £4m was intended to be raised for the Bargoed Cinema development; however, this has now been deferred until 2014/15. Planned borrowing in 2012/13 for Caerphilly Library did not take place and the Authority will now raise £5.2m of new borrowing to fund this development in 2013/14. A separate budget has also been created to support the borrowing required for the HRA WHQS Programme.

As at the 30th September 2013 the only loan raised was a loan of £300k secured from the Welsh Rugby Union (WRU) during June 2013. This loan is being used to part fund the Ystrad Mynach sports development complex and is repayable over ten years on an annuity basis at a rate of 1%. The rate compares favourably with a ten-year annuity loan with the PWLB (average rate for the period 3.34%).

Borrowing rates continue to remain volatile and have generally been higher than originally forecasted at the time the 2013/2014 Treasury Management Strategy was set, but lower than the budget rate. Economic recovery continues to remain fragile and slow. The ongoing US debt crisis will continue to be a burden to world markets resulting in a demand for safe haven securities such as UK Gilts, and consequently lower PWLB yields.

During the period covered by this report, PWLB loans to the value of £5.1m were repaid on maturity. Such loans had an average interest rate of 8.75%.

The Authority's debt portfolio variable interest rate proportion at 30th September 2013 stood at 10.96%, which is within the Council's determination of 50%. The variable debt relates to two loans with a combined value of £20m.

4.1.2 Rescheduling

The Annual Strategy allows for the utilisation of debt rescheduling to provide for both in year and future year savings and additional revenue resources. No rescheduling opportunities presented themselves during the period covered by this report.

4.1.3 Loans Administered by Newport City Council

These are non-PWLB loans held by the former Gwent County Council and administered by Newport City Council. At the start of the current financial year the amount outstanding relating to Caerphilly CBC was £79k, and £39k was repaid during the period covered by this report. A final repayment will be made in January 2014.

4.1.4 Long-Term Investments

The Council no longer holds any long-term investments.

4.1.5 Short-Term Investments (Deposits) – Up to 364 Days

The value of short-term deposits at 30th September 2013 was £85.23m and is made up of a spread of periods up to a maximum of three months. The average rate for these deposits was 0.26%, which compares favourably with the Debt Management Account Deposit Facility (DMADF) deposit rate of 0.25%, and is above the target rate, as detailed in the Annual Treasury Management Strategy report to Council, of 0.25%. The low returns reflect the Council's current risk sentiment as well as current interest rates. The portfolio as at 30th September 2013 comprised of £46.22m deposited with Local Authorities, £38.57m deposited in the DMADF and £0.44m deposited with Call accounts.

4.1.6 Economic Outlook

Members will be aware from news reports that the global economic recovery continues to remain fragile, with weak growth reported across the developed economies. There has been a shift in monetary policy as the new Governor at the Bank of England (and the Monetary Policy Committee) has linked future interest rate rises to a fall in the unemployment rate (to 7% but subject to a number of conditions existing). Further quantitative easing may follow if the unemployment rate continues to remain above the 7% threshold. Inflation continues to remain above the 2% Bank of England target. The banking sector still remains under pressure as a number of UK clearing banks have weak balance sheets that do not comply with capital adequacy ratios.

Taking this volatility into consideration, the current Treasury Management Strategy remains unchanged, and attitude to risk continues to be one of caution when managing surplus cash. Surplus cash is being deposited with either the DMADF or other Local Authorities, albeit at unfavourable rates when compared to the market.

4.1.7 Icelandic Banks

The Authority had deposits in Heritable and Landsbanki totalling £15m at the time of the collapse of the Icelandic Banks. These sums are subject to ongoing administration and recovery procedures. As at 30th September 2013, £12.14m has been received in respect of Heritable Bank and Landsbanki.

Heritable Bank - The amount recovered at 30th September 2013 is £9.49m against an outstanding claim of £10.097m. The last dividend was received in August 2013. The latest information that was disclosed in the 2012/13 Statement of Accounts used a recovery rate of 88%, but taking into consideration the latest dividend the recovery to date is now 94%. Only £604k of the claim remains outstanding and the estimated date of recovery is currently unknown.

Landsbanki - The amount recovered is £2.65m against an outstanding claim of £5.07m. The last dividend was received in September 2013. The next dividend is anticipated in December 2013, though this has not been confirmed. A recovery rate of 100% was used to calculate a revised impairment charge in the 2012/2013 Statement of Accounts in accordance with the latest LAAP Bulletin. The last dividend is expected in December 2019. Members are reminded that £36k that has been paid out by Landsbanki is currently held in Iceland in Icelandic Kroner within an interest bearing Escrow Account. Due to foreign exchange restrictions placed by the Icelandic Authorities, the Council is unable to repatriate these funds until the exchange controls have been lifted.

A separate report on the outstanding claim with Landsbanki is included under the exempt part of the agenda.

4.1.8 Bank Tender

The Authority has extended the current bank contract with the Co-Operative by twelve months in accordance with the underlying terms and conditions and this will end on the 30th September 2014. A procurement exercise has recently commenced for ongoing banking arrangements using the Welsh Purchasing Consortium (WPC) Framework.

4.1.9 Treasury Management Advisors Contract

The current advisors contract will expire on 31st March 2014. The Authority will undertake a procurement exercise and offer a new contract that will commence on 1st April 2014.

4.2 **Prudential Indicators**

4.2.1 Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Authority does not associate borrowing with particular items or types of expenditure. In practice, the raising and repaying of loans is determined primarily by professional / expert advice, and may not necessarily take place in the relevant year. In order to create an operating environment within which the Treasury Manager can legitimately react to appropriate advice, the various authorised limits as identified in Appendix 1 are set at a level in excess of the CFR. In the financial year to date, the Authority has been operating within the approved limits.

Appendix 2 shows a projected CFR value of £290.28m as at 31st March 2014. The actual CFR as at 31st March 2013 was £284.17m.

4.2.2 Prudential Indicators – “Prudence”

The Prudential Indicators for Treasury Management are shown in Appendix 1 and the Authority is currently operating within the approved limits.

4.2.3 Prudential Indicators – “Affordability”

There is a requirement to analyse and report the capital financing costs, and express those costs as a percentage of the net revenue streams of the Authority. These are identified in Appendix 2 and currently show a projected reduction from the original budget.

4.2.4 Capital Expenditure and Funding

A summary of capital expenditure and funding is attached at Appendix 3 and shows no change against the planned position. The Capital Strategy Group is currently reviewing this and an update will be provided in the next Treasury Management monitoring report.

5. **EQUALITIES IMPLICATIONS**

5.1 This report is for information purposes, so the Council's Equalities Impact Assessment (EqIA) process does not need to be applied.

6. **FINANCIAL IMPLICATIONS**

6.1 As detailed throughout the report.

7. PERSONNEL IMPLICATIONS

7.1 There are no direct personnel implications arising from this report.

8. CONSULTATIONS

8.1 There are no consultation responses that have not been reflected in this report.

9. RECOMMENDATIONS

9.1 Members are asked to note the contents of this report.

10. REASONS FOR THE RECOMMENDATIONS

10.1 Compliance with the CIPFA “Code of Practice for Treasury Management in the Public Services”.

11. STATUTORY POWER

11.1 Local Government Acts 1972 and 2003.

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Background Papers:

- Treasury Management Working Papers – Accountancy Section.
- CIPFA “Code of Practice for Treasury Management in the Public Services”
- The Local Government Act 2003
- Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2004

Appendices:

Appendix 1 Treasury Management Prudential Indicators – Prudence

Appendix 2 Capital Finance Prudential Indicators – Affordability

Appendix 3 Capital Expenditure and Funding