AGENDA ITEM NO. 6(4)

POLICY AND RESOURCES SCRUTINY COMMITTEE - 2ND OCTOBER 2012

SUBJECT: TREASURY MANAGEMENT AND CAPITAL FINANCING PRUDENTIAL INDICATORS OUTTURN REPORT FOR 2011/12

REPORT BY: DEPUTY CHIEF EXECUTIVE

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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 2011/12.

2. SUMMARY

2.1 The revised Code of Practice on Treasury Management in the Public Services, 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). The Council subsequently approved the detailed TMPs on 23rd November 2010. 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 2011/12 were approved by Council on 24th February 2011.

3. LINKS TO STRATEGY

3.1 The report has links to the four basic strategic themes of the Council, taking into account cross-cutting issues where relevant. It has specific links to the effective and efficient application and use of resources.

4. THE REPORT

4.1 Treasury Management

4.1.1 <u>Background – Interest Rates</u>

The Monetary Policy Committee (MPC) decreased Bank Rate in March 2009 to 0.50% as part of the Governments strategy to stimulate the economy. The Councils treasury management advisors had initially forecasted the Bank rate to increase during the year, but later revised their forecast down as economic recovery continued to remain fragile due to the risk of a double dip recession. Bank Rate has remained at 0.50% throughout 2011/12 but with an increase in quantitative easing in order to support economic recovery.

4.1.2 Treasury Management Advice

Members are reminded that following the tender presentations in March 2010, two consultants were appointed to provide treasury management advice for the contractual period 2010/11 to 2011/12, with the option to extend for a further two years.

The Council exercised its option to extend the contract for the period 2012/13.

4.1.3 Borrowing

The Annual Strategy for 2011/12 set out that:-

- rescheduling opportunities should continue to be evaluated
- A borrowing requirement of £8.7m in the form of either market or PWLB loans.
- The use of internal borrowing to fund the capital programme in light of the difference between long-term borrowing rates and short-term investment rates.

4.1.4 New Borrowing

As indicated in the previous paragraph, the difference between long-term borrowing rates and short-term investment rates resulted in the fact that it was more advantageous to use internal funding for the capital programme in lieu of borrowing, this strategy also reduced risk in respect of the size of the investment portfolio. Consequently, no new long-term borrowing was undertaken in 2011/12.

A temporary loan for £6m was taken in September 2011, at a rate of 0.40%, to cover a cashflow position. The loan was held for three days and repaid upon maturity.

4.1.5 Rescheduling

The Council has engaged both Sector Treasury Services and Arlingclose to provide specialist advice with regard to Treasury Management activities. One of the areas where the expertise of external Treasury Consultants is of particular benefit is the identification of rescheduling opportunities – the premature repayment/replacement of existing loans to achieve revenue savings and/or the reduction of the Council's average rate of borrowing.

In 2011/12 there were no occasions when opportunities arose to reschedule PWLB loans.

4.1.6 Investments

The Annual Strategy for 2011/12 set out that:-

- the in-house team would manage all short-term investments in accordance with the Treasury Policy
- short-term investments should achieve, or better, a target rate of **0.30%**
- The use of the Debt Management Account Deposit Facility (the U.K. government), other local authorities, AAA rated money market funds and highly credit rated banks (including bank call accounts).

4.1.7 Short-term Investments – up to 364 Days

Throughout the year the in-house team managed investments averaging £75.41m. The return on these investments, which ranged from short-fixed to a maximum of three months, was 0.32% compared with the target of 0.30%. The poor return was due to the fact that deposits were made only with the DMADF and local authorities – the rates of interest received from the

DMADF averaging 0.25% over the year. The amount of interest earned on these investments (excluding interest due but not received from Icelandic banks) was £242k compared with the budget estimate of £195k. The interest earned, considering the reduction in the rate of interest achieved, is due to the timing of payments resulting in higher balances being available throughout the year.

4.1.8 Long-term Investments

The Council currently has no long-term investments due to the continued uncertainty in the financial markets.

4.1.9 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 the ongoing administration and recovery procedures. Based on the information available in September 2009, the authority considered that an impairment should be recognised in the 2008/09 accounts.

The Council continued to receive regular dividends from the administrators of Heritable bank. As at 31 March 2012 the total received was £6.858m. A further dividend of £383k was received in April 2012, bringing the total received to date to £7.241m (72% of the outstanding claim). It is anticipated that 88% of the Heritable deposit will be recovered. This is recorded in the Authority's Statement of Accounts.

In December 2011, the Supreme Court of Iceland awarded UK local authorities priority creditor status with respect to outstanding claims with Landsbanki. The first dividend was received in February 2012. As at 31 March 2012 the total received was £1.478m. A subsequent dividend was received in May 2012, bringing the total received to date to £2.098m. It is anticipated that 100% of the Landsbanki deposit will be recovered. This is recorded in the Authority's Statement of Accounts.

4.1.10 A table summarising the full Treasury Management portfolio of loans and investments (excluding sums outstanding relating to Icelandic deposits) is shown in ***Appendix 1.***

4.2 Prudential Indicators

4.2.1 Capital Financing Requirement

The capital financing requirement 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 2*** are set at a level in excess of the capital financing requirement.

During the year, the authority operated within the approved limits.

Appendix 3 shows the value of the Capital Financing Requirement as at 31 March 2012, based on the unaudited Balance Sheet position, is calculated to be £287.81m.

4.2.2 Prudential Indicators – "Prudence"

The Prudential Indicators for Treasury Management have, in the main, remained unchanged from those detailed in the Annual Strategy 2011/12 report presented to Council in February 2011, although, both the Authorised and Operational Boundary limits for External Debt have been reduced to reflect the reduction in PWLB debt due to premature repayments in previous years. Prudential indicators are shown in ***Appendix 2***. The authority is currently operating within 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 3*** attached.

Financing Costs to Net Revenue Stream.
General Fund - the unaudited out-turn, shows a decrease on the budgeted position. This is mainly attributable to reduced interest costs.

HRA
The ratio is marginally lower mainly as a result of reduced interest charges relating to the apportionment between General Fund and the HRA.

Incremental effect of capital investment
Both General Fund and HRA, show a marginal increase in this measure as a result of the method of funding the capital programme.

4.2.4 Capital Expenditure and Funding

Capital Expenditure is reported in ***Appendix 4***, for information purposes. The table indicates the unaudited position as at 31 March 2012 compared to the previously reported forecast. More detail will be reported in due course.

5. FINANCIAL IMPLICATIONS

5.1 This report deals with financial matters.

6.1 EQUALITIES IMPLICATIONS

6.1 This report is for information only, therefore no Equality Impact Assessment has been undertaken.

7. PERSONNEL IMPLICATIONS

7.1 There are no personnel implications.

8. RECOMMENDATIONS

8.1 Members are asked to note the report.

9. REASONS FOR THE RECOMMENDATIONS

9.1 Compliance with the CIPFA "Code of Practice for Treasury Management in the Public Services".

10. STATUTORY POWER

10.1 Not applicable.

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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	Summary of Treasury Management Portfolio of Loans and Investments
Appendix 2	Identified Authorised Limits
Appendix 3	Value of the Capital Financing Requirement as at 31 March 2012
Appendix 4	Capital Expenditure