AGENDA ITEM NO. 7(5)

POLICY AND RESOURCES SCRUTINY COMMITTEE - 24TH JULY 2013

SUBJECT: TREASURY MANAGEMENT & CAPITAL FINANCING PRUDENTIAL INDICATORS OUTTURN REPORT FOR 2012-13

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151

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 2012/13.

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 2012/13 were approved by Council on 23rd February 2012.

3. LINKS TO STRATEGY

3.1 This report 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 the Bank Rate in March 2009 to 0.50% as part of the Government's strategy to stimulate the economy. The Bank Rate has remained at 0.50% throughout 2012/13 and the level of the Bank of England's quantitative easing programme was £375bn at 31 March 2013.

4.1.2 Treasury Management Advice

Members are reminded that the Council receives treasury management advice from two consultancy firms (Arlingclose Ltd and Sector Treasury Services Ltd). The Council exercised its option to extend the current contract for the period 2013/14. Both Advisor contracts are in their final year of operation and a tendering process will begin later in 2013.

4.1.3 Borrowing

The Annual Strategy for 2012/13 set out the following: -

- Rescheduling opportunities should continue to be evaluated.
- A borrowing requirement of £13.9m in the form of either market or Public Works Loan Board (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 2012/13.

A temporary loan for £1.19m was entered into on the 28th September 2012, at a rate of 0.32%, to cover a cashflow position. The loan was held for three days and repaid upon maturity (1st October 2012).

4.1.5 Rescheduling

The Council has engaged both Sector Treasury Services Ltd and Arlingclose Ltd 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 i.e. the premature repayment/replacement of existing loans to achieve revenue savings and/or the reduction of the Council's average rate of borrowing.

In 2012/13 there were no occasions when opportunities arose to reschedule PWLB loans.

4.1.6 Investments

The Annual Strategy for 2012/13 set out the following: -

- 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 £85.29m. The return on these investments, which ranged from short-fixed to a maximum of three months, was 0.27% compared with the target of 0.30%. The lower return was due to the fact that deposits were made only with the Debt Management Account Deposit Facility (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 £213k compared with the budget estimate of £168k. 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

Heritable Bank - the amount recovered at 31st March 2013 was £7.803m against an outstanding claim of £10.097m. The last dividend was received in January 2013 and a further two dividends are anticipated in 2013/14 though this has not been confirmed by the Administrator.

The latest information that was disclosed in the 2012/13 Draft Statement of Accounts used a recovery rate within a range of 86% and 90% of the claim. Impairment has therefore been calculated on an 88% basis recovery in Heritable Bank, with the last dividend expected in January 2014.

Landsbanki - the amount recovered at 31st March 2013 was £2.394m against an outstanding claim of £5.07m. The last dividend was received in October 2012, which was earlier than expected. 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 2012/13 Draft Statement of Accounts in accordance with the latest Local Authority Accounting Panel (LAAP) Bulletin. The last dividend is expected in December 2019. Members are reminded that £36k has been paid out by Landsbanki and is currently held in Iceland in Icelandic Kroner within an 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. Discussions are ongoing between the Local Government Association (LGA), the Council's legal advisors and the Central Bank of Iceland to resolve this matter. The Escrow account is subject to foreign exchange gains and losses and as at 31st March 2013 the balance on the account (including accrued interest) was £39.9k

As per the 2012/13 Draft Statement of Accounts, the impairment charge has increased by £375k (compared to 2011/12 valuation) and as at 31st March 2013 impairment on Icelandic deposits was valued at £3.80m. The increase is due to the re-profiling of future dividends for Heritable and Landsbanki.

4.1.10 A table summarising the full Treasury Management portfolio of loans and investments outstanding at 31st march 2013 (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 31st March 2013 based on the unaudited Balance Sheet position. This is calculated to be £284.2m

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 2012/13 report presented to Council in February 2012, although, the Operational Boundary limits for External Debt has been reduced to reflect the repayment of debt maturing and furthermore adjusted for the non take-up of new borrowings. 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***.

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.

Housing Revenue Account (HRA) - The ratio is lower mainly as a result of reduced interest charges relating to the apportionment between General Fund and the HRA.

Incremental Effect of Capital Investment

The General Fund shows a decrease in this measure as a result of the method of funding the capital programme from internal resources rather than externally funding expenditure. The HRA shows 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 31st March 2013.

4.3 Local Issues

4.3.1 Ystrad Mynach Sports Development Loan

A loan of £300k has been secured from the Welsh Rugby Union (WRU) and is subject to agreeing contractual terms for the use of facilities by the WRU. The loan will be 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 is favourable when compared to a ten-year annuity loan with the PWLB (2.21% as at 17th June 2013).

5. EQUALITIES IMPLICATIONS

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

6. FINANCIAL IMPLICATIONS

6.1 As presented throughout the report.

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 To ensure compliance with the CIPFA "Code of Practice for Treasury Management in the Public Services".

10. STATUTORY POWER

10.1 Local Government Act 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