AGENDA ITEM NO. 9(2)

POLICY AND RESOURCES SCRUTINY COMMITTEE - 5TH AUGUST 2014

SUBJECT: TREASURY MANAGEMENT & CAPITAL FINANCING PRUDENTIAL INDICATORS OUTTURN REPORT FOR 2013-14

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND S151 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 2013/14.

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 2013/14 were approved by Council on 27th February 2013.

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 2013/14 and the level of the Bank of England's quantitative easing programme remained at £375bn as at 31 March 2014.

4.1.2 Treasury Management Advice

During 2013/14 the Council undertook a procurement exercise to appoint a single Advisor following the expiration of the treasury management advisors contract on 31 March 2014. Since 2010 the Council had appointed two advisors (Arlingclose Ltd and Sector Treasury Services Ltd), however, as part of the budget savings proposal for 2014/15, Members had agreed to revert to a single Advisor. The outcome of the tendering process concluded in the appointment of Arlingclose Ltd as the Council's preferred treasury management advisor. The new contract commenced on the 1st April 2014.

4.2 Borrowing

4.2.1 The only loan raised during 2013/14 was £300k secured from the Welsh Rugby Union (WRU) in June 2013. 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 continues to remain favourable when compared to a ten-year annuity loan with the PWLB.

4.2.2 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.

4.2.3 Borrowing rates continue to remain volatile and have generally been higher than originally forecasted at the time the 2013/2014 Strategy was set, but lower than the budget rate. The 2013/14 average rate on a 25 year PWLB loan was 4.43% (budget rate 5%).

4.2.4 During the period covered by this report, PWLB loans to the value of £5.2m were repaid on maturity. Such loans had an average interest rate of 8.75%.

4.2.5 As at 31st March 2014 the value of the Council's debt portfolio was £182.2m and comprised of £40m LOBO loans, £141.9m of PWLB loans and a £300k WRU loan.

4.3 Rescheduling

4.3.1 No loans were rescheduled during 2013/14.

4.4 Investments

4.4.1 Short-term Investments – up to 364 Days - Throughout the year the in-house team managed investments averaging £85.7m. The return on these investments, which ranged from overnight deposits to a maximum duration of three months, was 0.27% compared with the target of 0.25%. Deposits were made with the Debt Management Account Deposit Facility (DMADF) and Local Authorities only (the rate of interest received from the DMADF averaging 0.25% over the year). The returns reflect the Council's current risk sentiment as well as current interest rates. The amount of interest earned on these investments (excluding interest from Icelandic banks) was £248k compared with the budget estimate of £163k.

4.4.2 The value of short-term deposits as at 31st March 2014 was £74.8m and comprised of £53.8m deposited with Local Authorities, £20.4m deposited in the DMADF and £630k deposited with Call accounts.

4.4.3 The unusually high call account balance as at 31st March 2014 relates to the transfer of various balances held on behalf of Social Services, CCBC Schools, Electoral Services and Petty Cash Establishments. With the exception of Electoral Services, these balances were transferred during December following the adoption of the mitigated risk strategy arising from the potential insolvency of the Co-Operative Bank, in accordance with the exempt report agreed by Cabinet on 4th June 2013.

4.4.4 Long-term Investments- The Council held no long-term investments during the reported period.

4.5 Icelandic Banks

4.5.1 The Authority had deposits in Heritable and Landsbanki totalling £15m at the time of the collapse of the Icelandic Banks.

4.5.2 **Heritable Bank** - The amount recovered at 31st March 2014 was £9.5m against an outstanding claim of £10.1m. The latest dividend was received in August 2013. Only £604k of the claim remains outstanding and the estimated date of recovery is currently unknown. The latest CIPFA LAAP bulletin does not disclose future recovery rates, which would support the uncertainty of future dividends. On this basis the balance sheet is no longer carrying the outstanding balance of £604k and is therefore included within the final impairment charge.

4.5.3 **Landsbanki**– Following an auction process on the 30th January 2014 the Authority sold its outstanding claim against Landsbanki. The original investment was £5m and the total cash recovered including the auction proceeds is £4.6m (which includes partial recovery of the original investment and interest due). Members should note that this now concludes the recovery action against Landsbanki. In light of the sale of the outstanding claim the impairment provision has been reviewed resulting in a transfer to General Fund balances of £1.9m. The figure is higher than first reported due to the accrued interest that has been built up over time in accordance with accounting regulations.

4.6 A table summarising the full Treasury Management portfolio of loans and investments outstanding as at 31st March 2014 (excluding sums outstanding relating to Icelandic deposits) is shown in ***Appendix 1.***

4.7 Prudential Indicators

4.7.1 Capital Financing Requirement

4.7.1.1 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.

4.7.1.2 ***Appendix 3*** shows the value of the Capital Financing Requirement as at 31 March 2014 based on the unaudited Balance Sheet position. This is calculated to be £272.2m.

4.7.2 Prudential Indicators – "Prudence"

4.7.2.1 The Prudential Indicators for Treasury Management have, in the main, remained unchanged from those detailed in the Annual Strategy 2013/14 report presented to Council on 27th February 2013, 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.

4.7.3 Prudential Indicators – "Affordability"

4.7.3.1 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***.

4.7.3.2 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 as a result of deferred borrowing for the capital programme.

4.7.3.3 Financing Costs to Net Revenue Stream- 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.

4.7.3.4 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 from internal reserves.

4.7.4 Capital Expenditure and Funding

4.7.4.1 Capital Expenditure is reported in ***Appendix 4***, for information purposes. This shows the unaudited position as at 31st March 2014.

4.8 Update on the Local Government Bond Agency Equity Investment

4.8.1 The 4th March 2014 Policy & Resources report detailed the Local Government Association's (LGA) proposal to create a local government bond agency as an alternative source of long-term borrowing and a viable rival to the Public Works Loan Board (PWLB). The LGA have now released further details with regards to the level of capital and equity investment required. The following new details have emerged:-

- Start up equity between £8m to £10m from local authorities.
- Participants will be obliged to provide a joint and several guarantee to bondholders to as a means to cover losses arising from borrowers defaulting.
- Only English Authorities (excluding the Greater London Authorities {GLA}) will be able to participate under the General Powers of Competence as set out in the Localism Act 2011.
- Authorities in Wales, Scotland and the GLA do not have the powers to guarantee the loan obligations of other authorities and therefore will not be able to participate.
- 3% to 5% of the loan raised will be held back by the LGBA to add to its capital base, and in return the authority would be issued a subordinated debt instrument by the Agency that would earn a rate of interest. Interest earned would net off against interest due.
- Currently the PWLB offers loans at Gilts plus 0.80%. It is estimated that the LGBA will initially offer loans at Gilts plus 0.85% (may be higher subject to fees) in the earlier years, reverting to Gilts plus 0.60% in later years once the LGBA is established.

4.8.2 Based on the lack of General Powers of Competence available to Welsh local authorities, CCBC will not be able to participate in the scheme as a means to raising new debt finance.

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.

Author: N. Akhtar – Group Accountant (Financial Advice and Support)
Email: akhtan@caerphilly.gov.uk Tel: 01443 863313
Consultees: Corporate Services Senior Management Team
Cllr B. Jones, Deputy Leader & Cabinet Member for Corporate Services
N. Scammell, Acting Director of Corporate Services & S151 Officer
S. Harris- Acting Head of Corporate Finance
A. Southcombe – Finance Manager, Corporate Services

Background Papers: Appendix 4 - Capital Expenditure and Funding
- 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 Portfolio
Appendix 2 - Prudential Indicators - Treasury Management Outturn 2013-14
Appendix 3 - Prudential Indicators - Capital Finance Outturn 2013-14
Appendix 4 - Capital Expenditure and Funding