

REPORT TO	DATE OF MEETING
Governance Committee	30 June 2009



SUBJECT	PORTFOLIO	AUTHOR	ITEM
Treasury Outturn 2008/09	Finance & Resources	J Blundell	7(a)

SUMMARY AND LINK TO CORPORATE PRIORITIES

This report summarises the treasury activities of the Council for 2008/09 and sets out the Prudential Indicators for 2008/09, which have been prepared in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix A).

This report should be considered together with the draft Statement of Accounts for 2008/09 and the Treasury Strategy report, both separate items on this agenda.

RECOMMENDATIONS

That the Governance Committee:

1. note and comment as appropriate on the contents of the report and appendices;
2. note the treasury position and prudential indicators for 2008/09 as set out in this report;

DETAILS AND REASONING

Background

A revised Treasury Management Strategy was approved on 5th November 2008. This contained revised limits on both the principal amounts invested and duration, dependant on the financial standing of institutions. Sector and country limits were also applied, in line with best practice.

As members will already be aware, this move to further enhance the security of investments, combined with a significant fall in interest rates during the year has had a detrimental effect on overall interest earned by the Council. Total interest earned to support the Council's net revenue requirement fell from £1.35m in 2007/08 to £1.08m in 2008/09, a reduction in income of 20.3%.

The total investment interest in 2008/09 exceeded the revised estimate by £64,000. This was mainly due to the actual average rate of interest earned on short-term investments being higher than anticipated.

Treasury Position at 31 March 2009

The treasury position at the 31 March 2009 compared with the previous year was:

Note		Principal		
		31 March 2008 £m	31 March 2009 £m	Movement in 2008/09 £m
1	Fixed Interest Rate Debt	3.3	3.3	0
	Total Debt	3.3	3.3	0
2	Short Term fixed Interest Investments	7.4	10.2	2.8*
3	Long term Investments	9.0	3.0	(6.0)
	Total Investments	16.4	13.2	(3.2)

* £3m Landsbanki reclassified as short-term (maturity date 22nd June 2009)

The Council's investment policy is governed by Government Guidance which, in respect of 2008/09, was incorporated into the annual investment strategy approved by the Council on 13th February 2009.

There were seven changes in the Bank of England base rate during 2008/09. Rates fell significantly from 5.25% to 0.50% during this period, as detailed below. This reflects the exceptional instability in the financial markets, particularly in the second two quarters of the year.

Date Changed	Bank Rate
Thu, 05 Mar 2009	.50
Thu, 05 Feb 2009	1.00
Thu, 08 Jan 2009	1.50
Thu, 04 Dec 2008	2.00
Thu, 06 Nov 2008	3.00
Wed, 08 Oct 2008	4.50
Thu, 10 Apr 2008	5.00
Thu, 07 Feb 2008	5.25

Investments in Iceland banks

At the 31st March, the Council had investments of £5m frozen in two Icelandic banks; £2m with Heritable Bank and £3m invested with Landsbanki Islands. Updates on the progress in recovering this money have been reported to Council on a regular basis since October 2008. The latest position is set out within the draft Statement of Accounts also presented to this Committee for approval.

The Heritable Bank was placed into administration on 7 October 2008. The Administrators for the Heritable Bank (Ernst and Young) are anticipating being able to repay a material dividend of around 80% following the run down of the business by the end of 2012, the first interim repayment anticipated for July/August 2009.

In relation to the deposit with Landsbanki, which was due to mature on 22nd June 2009, the banks domestic assets and liabilities have been transferred to "New Landsbanki". The old bank's affairs are being administered under Icelandic law. The latest presentation of its affairs was made to creditors on 20 February 2009. This and other relevant information, indicates that recovery of between 90 and 100% can be achieved. In accordance with published accounting guidance, the Council has taken a mid point position and recognised an impairment based on recovery of 95% by December 2012, as reflected in the 2008/09 draft Statement of Accounts. The claim made includes both principal and interest accrued up to November 14 2008.

Recovery of the money deposited with Landsbanki is subject to the following risks and uncertainties

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts
- The impact of exchange rate fluctuations on asset recovery (by the administrator) and settlement of the authority's claim.
- Settlement of the terms of a bond which will allow old Landsbanki creditors to enjoy rights in new Landsbanki.
- The impact (if any) of the freezing order made by the UK Government over Landsbanki's London branch assets.

Failure to secure preferential creditor status would have a significant effect, reducing the recoverable amount from 95% to possibly 33%. No detailed information is available yet in relation to the recovery of the £3m deposit with Landsbanki which was due to mature on 22nd June 2009.

The Capital Finance Regulations permit authorities to defer the impact of impairment losses on the General Fund until, at the latest, 2010/11. The authority has taken advantage of this resulting in both the impairment charges and the interest credits to 31 March 2009 being transferred to the Financial Instrument Adjustment Account in the Council's balance sheet.

(1) Borrowing requirement 2008/09

No loans were rescheduled or repaid during 2008/09. At 31st March 2009, the Council had four outstanding loans totalling £3,308,000 from the Public Works Loans Board (PWLB):

Date of Advance	Value £	Interest Rate %	Repayment date
29.01.04	1,200,000	4.80	29.01.30
07.07.05	472,000	4.25	29.01.11
23.01.06	436,000	3.70	29.07.46
08.03.07	1,200,000	4.25	29.07.52
TOTAL	3,308,000		

The Treasury Management report on this agenda includes a proposal to repay three of the above loans in order to realise an annual revenue saving of approximately £95,000 and also to minimise counterparty risk.

(2) Short-term investments

Cash flow is managed on a daily basis throughout the year and surplus funds are invested with external counterparties in accordance with the Council's treasury management policy. The average principal invested during 2008/09 was £10.326m at an average interest rate of 4.54% which generated interest of £468,192 against a budget of £411,985. The main reason for this increase of £56,207 was that the average interest rate forecast in the budget was 4.09%. A further £43,260 interest was earned on bank deposits, which was in line with the budget provision. A £50,000 debenture held by the Association of District Councils was repaid during the year with interest of £9,242 paid to the Council.

(3) Long-term investments

Long-term investments held in 2008/09

Investment profile	Amount Invested £	Rates %	Interest Earned 2008/09 £000	Counterparty
2 year fixed term/ fixed interest deposit	£3m	6.65	199 **	Landsbanki (**interest accrued- funds currently frozen)
3 year fixed term/ fixed interest deposit	£3m	6.69	201	Clydesdale
4 year fixed term/ fixed interest callable deposit	£3m	7.02	157	Lloyds TSB (repaid Dec 2008)
TOTAL	£9m		557	

Performance on these investments has been monitored closely against the benchmark set (7 day LIBID rate) and reported to Members during the year.

In 2008/09, the long-term investments returned income of £557,140 which equates to an average return of 6.75% which was in line with the revised budget. The return on the Council's long-term investments equates to 3.04% (or £250,000 in cash terms) above the benchmark of 3.71% for the same period.

Prudential Indicators and Compliance Issues

The Council is required by the Prudential Code to report the actual treasury management prudential indicators after the year end. Appendix B provides a schedule of all the mandatory prudential indicators. Certain of these indicators provide either an overview or a limit on treasury activity, and these are shown below:

	31 March 2009 Actual £000	31 March 2009 Indicator £000
Net borrowing position	(9,892)	(8,692)
Capital Financing Requirement	5,577	5,344

The Capital Financing Requirement (CFR) shows the Council's underlying need to borrow or lease for a capital purpose, and this is a gauge for the Council's debt position shown above. In order to ensure that over the medium term borrowing net of investments will only be for a capital purpose, net borrowing should not, except in the short term, exceed the CFR for 2008/09 plus the expected changes to the CFR over 2009/10 and 2010/11. The table above highlights that the Council has complied with this requirement for the financial year end March 2009.

	2008/09
Original Indicator - Authorised Limit ¹	£9.85m
Original Indicator - Operational Boundary ²	£5.35m
Maximum gross borrowing position during the year	£5.6m
Minimum gross borrowing position during the year	£5.2m

¹The Authorised Limit is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The table demonstrates that during 2008/09 the Council has maintained gross borrowing within its Authorised Limit.

²The Operational Boundary is the expected borrowing position of the Council during the year, and periods where the actual position is either below or above the Boundary are acceptable subject to the Authorised Limit not being breached.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas shown below. The table shows the implications in respect of each of these.

FINANCIAL	As set out in the report
LEGAL	Compliance with the various regulations as covered by the adoption of the CIPFA Code of Practice for Treasury Management in Public Services.
RISK	Risks are as identified within the report.
OTHER (see below)	.

Asset Management	Corporate Plans and Policies	Crime and Disorder Act 1998 – Section 17	Data Protection
Fair Access	Freedom of Information Act 2000	Health and Safety	Human Rights Act 1998
Implementing Electronic Government	Staffing	Sustainability	Training and Development

BACKGROUND DOCUMENTS

1. Treasury Management Strategy for 2008/09 – Cabinet 13th February 2008/Council 5th March 2008
2. Treasury Management Strategy – Council 5th November 2008

APPENDICES

Appendix A	Prudential Indicators
Appendix B	Repayment of Debt Proposal
Appendix C	Glossary of Terms

Prudential Indicators

Estimated and Actual Treasury Position and Prudential Indicators

	Figures are for the financial year unless otherwise titled in italics	2008/09 Actual	2008/09 Revised Indicator*
		£000	£000
1	Capital Expenditure	3,414	4,423
2	Capital Financing Requirement (CFR) at 31 March 2008	5,577	5,510
3	Authorised Limit for external debt (against maximum position)	5,172	5,800
4	Operational Boundary for external debt	5,172	5,300
5	Ratio of financing costs to net revenue stream	0.72%	-4.78%
6	Incremental impact of capital investment decisions on the Band D council tax	n/a	-£0.32
7	Upper limits on fixed interest rates (against maximum position)	100%	100%
8	Upper limits on variable interest rates (against maximum position)	0%	25%
9	Maturity structure of fixed rate borrowing (against maximum position)		
	Under 12 months	0%	20%
	12 months to 2 years	14.3%	20%
	2 years to 5 years	0%	50%
	5 years to 10 years	0%	75%
	10 years and above	85.7%	100%
10	Maximum principal funds invested for periods longer than 364 days (against maximum position)	£m 9	£m 10

* revised indicators approved by Council 4/3/09

In addition to the above the Council is required as a Prudential Indicator to:

- Adopt the CIPFA Code of Practice.
- Ensure that over the medium term borrowing will only be for a capital purpose (i.e. net external borrowing is less than the CFR).

The compliance with these indicators is highlighted in the body of the report.

Glossary of Terms

Appendix B

Authorised Borrowing Limit	-	The “Affordable Borrowing Limit” required by s3 of the Local Government Act 2003
CFR	-	Capital Financing Requirement. The Council’s underlying need to borrow for a capital purpose. This is a gauge for the Council’s debt position
CIPFA	-	Chartered Institute of Public Finance and Accountancy
Counterparties	-	Approved organisations with whom the Council place investments
DCLG	-	Department for Communities and Local Government
Operational Boundary	-	The expected borrowing position of the Council during the year
PWLB	-	Public Works Loans Board – part of the UK Debt Management Office. An independent and statutory body which provides loans to local authorities and other prescribed bodies for which the rates of interest are determined by HM Treasury
SRBC	-	South Ribble Borough Council