REPORT TO	DATE OF MEETING
Governance Committee	26 June 2013

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SOUTH RIBBLE BOROUGH COUNCIL
forward with South Ribble

SUBJECT	PORTFOLIO	AUTHOR	ITEM
Treasury Management Out-turn 2012/13	Finance & Resources	G Whitehead	7

SUMMARY AND LINK TO CORPORATE PRIORITIES

1. The current regulatory environment concerning treasury management places a greater onus on members to scrutinise treasury policy and activity. To enable that, each year the Council is required to consider, as a minimum, three treasury reports. These consist of an annual strategy statement in advance of the year (Council 29/2/12), a mid year review of that strategy (Governance Committee 26/09/2012), and finally this out-turn report.

2. The key messages within this report are that Prudential and Treasury Indicators were complied with and that the return on investments totalled 1.17% which exceeded the benchmark of 0.39%. It also provides updated information regarding the Icelandic investments, and recommends a minor change to the Investment Strategy.

RECOMMENDATIONS

3. Members are asked to recommend that Council approve the amendments to the Investment Strategy as per paragraph 11.

DETAILS AND REASONING

4. **Prudential Indicator Capital Expenditure and Financing 2012/13**

A comprehensive report on the capital out-turn has been separately submitted to Governance Committee on this agenda.

5. **Prudential Indicator The Capital Financing Requirement (CFR)**

The CFR is a measure of the capital expenditure of the Council which is still to be paid for. Such expenditure will currently be met by borrowing or by temporarily using internal cash balances. Ultimately however it has to be paid for and will be a charge to Council Tax payers.

	As last reported in Treasury Strategy 2013/14 £000	Actual £000
Capital Financing Requirement at 1 April 2012	5,455	5,455
Change in year – prudential borrowing	1,866	1,515
- MRP	(420)	(420)
- Voluntary MRP	(266)	(266)
CFR at 31 March 2013	**6,635**	**6,284**

6. **Prudential Indicator The CFR and Borrowing**

In order to ensure that Authorities only borrow for capital purposes the Prudential Code requires that borrowing, net of investments, should not exceed the CFR for the preceding year plus any anticipated increase in the current and next two years. As at 31 March 2013 net borrowing is a negative figure (para 10 below) and is thus well below the CFR.

7. **Compliance with Borrowing Limits**

The Prudential Indicators include two borrowing limits:

- The **Operational Boundary** - This is the probable, expected limit on external debt. “Debt” consists of both borrowings and other long term liabilities (finance leases, and deferred purchase liabilities incurred under the Leisure Partnership). This was set at £1.9m and the limit has not been exceeded. As at 31/3/13 the Council has no external borrowings and leasing liabilities stand at £1.45m

- The **Authorised Limit** - This reflects a level of debt which the code defines as, “while not desired, could be afforded but may not be sustainable”. The limit was set at £3.9m to accommodate any planned temporary borrowings. These were not necessary and the limit set has not been breached.

8. **Prudential Indicator Ratio of Financing Costs to the Revenue Stream**

This indicator shows what percentage of the Council’s income from Government grants and Council Tax has been used to meet interest costs and debt repayment. The indicator as per the 2013/14 Treasury Strategy forecast was 4.13%. This has fallen to an out turn of 3.16% as a result of the increased income from investments.

9. **Prudential Indicator Incremental impact of capital investment decisions**

This indicator is concerned with capital expenditure over a period of years, and reports its cumulative impact on the revenue account. It is not possible to meaningfully make comparison against this indicator, other than when it is restated each year when the Treasury Strategy is produced

10. **<u>Treasury Position as at 31 March 2013</u>**

	Estimated value as at 31 March 2013* £000	Actual value as at 31 March 2013 £000
Total borrowings at period end	**0**	**0**
Cash & investments	**10,314**	**12,440**

* As per the 2013/14 Treasury Strategy

The increase of £2m in balances available for investment is caused by a reduction in capital expenditure, the revenue surplus, and balance sheet movements in debtors and creditors.

The following table summarises investments activity and returns during the year:-

Details	**Average daily Investment £'000**	**Interest Earned £**	**Average Rate %**
Money Market Funds	3,863	19,610	0.51
Short Term deposits	8,381	148,786	1.78
Call accounts	4,111	23,518	0.57
HSBC	66	0	0
Debt Management Office (DMO)	16	41	0.25
Total	**16,437**	**191,955**	**1.17**

Income was also brought into account in respect of Icelandic investments totalling £0.201m.

The performance benchmark is the London 7 day Inter-Bank Bid Rate (LIBID). This averaged 0.39% over the year, therefore the benchmark has been exceeded. To achieve a return rate 10% greater than LIBID is a key performance indicator for Shared Financial Services.

All investments complied with the Council's policy.

11. **Proposed amendment to Investment Strategy**

The Investment Strategy approved by Council on 27 February 2013 included the usual form of schedule listing, for each counterparty and each category of investment, the limits on the amounts that could be invested and the duration of investments.
There was some ambiguity in that the call account category of investment made no reference to the Council's new banker, Barclays, nor its former banker HSBC. Both these institutions meet the required credit rating criteria.
A revised schedule is therefore attached (Appendix B) which makes specific reference to these two institutions and specifies the limits that apply to them (maximum call account deposit of £3m less the value of any fixed term deposit).
In the amended schedule references within the call account category to the Bank of Scotland and Nat West, have also been changed to 'The Lloyds Group' and 'The RBS Group'.

Governance Committee is asked to recommend approval of these changes to the Council.

12. **Treasury Indicator Upper limit on exposure to variable interest rates**

The authority is exposed to variable interest rates on all its invested cash. There is no real limit on such investments other than the size of the Council's cash balances. The Treasury Strategy anticipated these would peak at £20m. In fact on a number of occasions this was exceeded, reaching a peak of £23m.

13. **Icelandic Investment**

The following table summarises the transactions up to 31 March 2013:-

Icelandic Investment	**Heritable £'000**	**Landsbanki £'000**
Original investment	2,000	3,000
- impairment to 31/3/2012	(457)	(1,114)
- interest to 31/3/2012	217	822
- cash received to 31/3/12	(1,368)	(979)
Owing as at 31/3/2012	**392**	**1,729**
Interest accrued in 2012/13	15	75
Impairment adjustment 2012/13	(14)	126
Cash received 2012/13	(189)	(608)
Owing as at 31/3/2013	**204**	**1,322**

Unfortunately further repayment of the Landsbanki debt is delayed pending a court hearing in Iceland. The hearing is concerned with a challenge to the basis used by the Winding Up Board in converting Landsbanki's assets and liabilities, denominated in various currencies, to a common basis. Until this is decided by the court, and possibly the appeal court, no further repayment will be made. There is still confidence that the Council will fully recover the amount claimed (£3.365m), subject to any loss on exchange rates.

Up to 88% of the Heritable claim (£2.014m) is expected to be recovered.

14. **<u>The economy and Interest rates</u>**

The review of the year provided by the Council's Treasury Consultant (Sector) is at Appendix A.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	As set out in the report and its appendices.
LEGAL	Compliance with various Regulations and Statutory Codes of Practice.
RISK	The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.
OTHER (see below)	

Asset Management	*Corporate Plans and Policies*	*Crime and Disorder*	*Efficiency Savings/Value for Money*
Equality, Diversity and Community Cohesion	*Freedom of Information/ Data Protection*	*Health and Safety*	*Health Inequalities*
Human Rights Act 1998	*Implementing Electronic Government*	*Staffing, Training and Development*	*Sustainability*

BACKGROUND DOCUMENTS

Treasury Management Strategy 2013/14	02/03/2011
Treasury Management Strategy 2012/13	28/09/2011

APPENDIX A

The Economy and Interest Rates

The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that Bank Rate would start gently rising from quarter 4 2014. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. a warning that has now been realised. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March, with a fall back to below 2% pushed back to quarter 1 2016. The EU sovereign debt crisis was an ongoing saga during the year with first Greece and then Cyprus experiencing crises which were met with bailouts after difficult and fraught negotiations.

Gilt yields oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically very low levels.

Deposit rates. The Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do “whatever it takes” to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

Appendix B

Financial Institutions and Investment Criteria, incorporating changes proposed in 2013/14 Treasury Strategy

Category	Institutions	Sector colour code	Sovereign rating	Max period	Limit per Institution
Sovereign or Sovereign "type"	DMADF Local Authority			6 months 1 year	No limit £3m
UK Nationalised Institutions	None (N Rock deposits no longer guaranteed)				
Institutions guaranteed by other governments	None (Irish Banks are guaranteed but have been removed from the list)				
UK Partly nationalised institutions	RBS group (inc Nat West) Lloyds Group (inc HBoS & Lloyds)	Blue Blue	AAA stable from all 3 agencies	1 year 1 year	£3m per group £3m per group
Independent UK Institutions	HSBC Barclays, Nationwide	Orange Green Green	AAA stable from all 3 agencies	1 yr 3 months 3 months	£2m £2m
Money Market Funds	Prime Rate Sterling Liquidity Fund 4 Ignis Blackrock	Aaa/MR1+		instant access	£3m
Deposit/Call Accounts Partly nationalised institutions	Lloyds Gp, RBS Group			Instant access	£5m less amounts on term deposit
Deposit/Call Accounts Other UK institutions	Barclays HSBC Lancs CC	Green Orange		Instant access	£3m less amounts on term deposit

Note – minimum Sovereign Rating is AA