

Appendices

10



NORTHAMPTON
BOROUGH COUNCIL

Item No.

12

CABINET REPORT

Report Title

TREASURY MANAGEMENT MID YEAR REPORT 2011-12

AGENDA STATUS:

PUBLIC

Cabinet Meeting Date:	14 December 2011
Key Decision:	NO
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	Finance and Support
Accountable Cabinet Member:	Alan Bottwood
Ward(s)	Not Applicable

1. Purpose

- 1.1 To inform the Cabinet of the Council's performance in relation to its treasury management activities, including its borrowing and investment strategy, for the period 1 April to 30 September 2011.
- 1.2 To request approval for temporary changes to the Council's borrowing and investment strategy to accommodate the operational implications of the requirements of Housing Finance Reform as detailed in the Localism Bill

2. Recommendations

- 2.1 That Cabinet recommend to Council that they note the Council's treasury management activities and performance for the period 1 April to 30 September 2011.

2.2 That Cabinet recommend to Council that they agree that:

- For the period from 17 January 2012 to 31 May 2012 the individual limit for all eligible counterparties is raised to £30m for all counterparty types.
- For the period from 17 January 2012 to 31 May 2012 the amount of any single investment transaction is raised from £5m to £30m.
- The amount that may be invested overnight on 26 & 27 March 2012 with HSBC, the Council's own bankers, be set at the actual amount of the CLG payment due, plus £1m to allow for the Council's normal business activity.
- That authority be delegated to the Council's Chief Finance Officer, the Director of Finance and Support, in liaison with the Portfolio Holder for Finance, to make any temporary changes needed to the Council's borrowing and investment strategy to enable the Council to meet its obligations.

3. Issues and Choices

3.1 Report Background

3.1.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("the Treasury Management Code of Practice") fully revised second edition 2009.

3.1.2 The Treasury Management Code of Practice and the associated guidance notes for local authorities include recommendations on reporting requirements, including the requirement for an annual mid year report on treasury activities. The table below shows how the specific reporting requirements of the Treasury Management Code of Practice have been incorporated into this report.

Reporting Requirement	Reference
Activities undertaken	3.2.2 – 3.2.17 Annexes B,C,D,E,F
Variations (if any) from agreed policies and practices	3.2.18 – 3.2.24
Interim performance report	3.2.25 – 3.2.27 Annex G
Regular monitoring	3.2.28 – 3.2.32 Annex H,I,J
Monitoring of treasury management indicators for local authorities	3.2.31 Annex H

3.1.3 The following topics are also covered in this report

Topic	Reference
Economic environment and interest rates	3.2.1 Annex A
Monitoring of prudential indicators for local authorities	3.2.31 Annex I
Monitoring of debt financing budget	3.2.32 Annex J

3.2 Issues and Choices

Economic Environment and Interest Rates

3.2.1 An analysis of the economic position as at the end of September 2011, including the latest interest rate forecasts, is attached at **Annex A**. This information has been provided by Sector, the Council's treasury management advisors.

Activities undertaken

Investments

3.2.2 **Annex B** shows the Council's investments and deposit account balances at 30 September 2011.

3.2.3 Cashflow balances available for investment come from working capital, amounts in provisions and reserves, and funds, such as capital grants, received in advance of expenditure. The Council's overall investments figure as at 30 September 2011 was £72m; average balances for the six-month period to 30 September were £84m. The lowest and highest balances during the period were £69m and £101m.

3.2.4 Since the start of the year, 21 new fixed term deposits have been entered into ranging in value between £1m and £7m, at rates between 0.40% and 1.30%, and for periods between 7 and 364 days. The average value of each single investment was £3m, and the average interest rate achieved for fixed term deposits was 0.81%. The average investment period was 132 days.

3.2.5 Fixed term deposits make up an average of 65% of the Council's investment portfolio, the remainder being balances held in instant access deposit accounts and in money market funds.

3.2.6 Instant access deposit accounts and money market funds have been used extensively during the first half of the year, in order to maintain liquidity and security of funds. The average balance held in deposit accounts, including notice accounts was £20m, around 24% of the Council's average investment

portfolio. The average balance held in instant access money market funds was £9m, around 11% of the Council's average investment portfolio.

- 3.2.7 The Council is in the process of opening two new AAA rated money market funds. Money market funds offer a high degree of liquidity, with instant access to funds, and have a high security rating due to their diversification. Rates are comparable to those on offer from deposit accounts. Greater use of money market funds in place of deposit accounts will create increased capacity with investment counterparties, and will enable more use to be made of direct deals at enhanced rates.
- 3.2.8 **Annex C** shows the maturity profile of the Council's investments at 30 September 2011. Due to ongoing market concerns and uncertainty, the majority of investments have been made for relatively short periods, up to three months duration, to reduce exposure to risk.
- 3.2.9 All investment activity has been carried out within the Council's counterparty policies and criteria, and with a clear strategy of risk management in line with the Council's treasury strategy for 2011-12. This has ensured that the principle of considering security, liquidity and yield in that order (SLY), has been consistently applied.

Borrowing

- 3.2.10 **Annex D** shows outstanding long-term borrowing at 30 September 2011 at amortised cost. The total long-term debt outstanding, including non-current finance leases, is £32m. Of this amount, 76% is in the form of money market LOBO loans, 19% is PWLB borrowing, 4% is the long-term element of an annuity loan with the Homes and Communities Agency (HCA), and 1% relates to non-current finance leases.
- 3.2.11 No loans have been repaid since April 2011 other than the principal element (£17k) of the HCA annuity payment made in September, and annual amounts due on some finance leases.
- 3.2.12 No rescheduling of loans took place in the first half of the year.
- 3.2.13 No new borrowing was taken out in the first six months of 2011-12. The Council's policy during 2011-12 is to use internal borrowing (ie from cash flow balances) to fund capital programme expenditure financed by borrowing, subject to external borrowing rates remaining at high levels relative to investment rates.
- 3.2.14 **Annex E** shows the Council's long-term debt maturity profile of external debt at cash value as at 30 September 2011. Three loans are due for repayment during the next five years; two LOBO loans totalling £15.6m mature in 2014-15, and a PWLB loan of £2m matures in 2015-16. Options for the repayment and replacement (if appropriate) of these loans will be examined in the period leading up to their maturity date, with advice taken from the Council's external treasury management advisors, Sector.

3.2.15 **Annex F** shows outstanding balances and applicable rates for short-term borrowing at 30 September 2011. The total outstanding for temporary borrowing at 30 September 2011 was £203k.

3.2.16 The Council has long-standing agreements with two local organisations, Billing Parish Council and Northampton Volunteering Centre, for the short-term deposit of funds with the Council. Accounting regulations require that these be treated in the accounts as short-term borrowing. The interest rate applicable on these accounts is set quarterly using the Council's average investment rate for the previous quarter, less 0.5% to cover administrative costs. The range of balances in these accounts during the period April to September 2011 was between £80k and £115k, at interest rates between 0.41% and 0.46%.

3.2.17 For consistency with accounting requirements:

- The principal element of the HCA annuity repayment due within 12 months (£19k) is included as short term borrowing
- Current commitments on finance leases – i.e. amounts due within the current financial year – are not included in the short term borrowing balances shown.

Variations (if any) from or to agreed policies and practices

3.2.18 There have been no variations to agreed policies and practices during the first six months of the year.

3.2.19 At the Council meeting of 24 October 2011 the following revisions to agreed policies and practices were approved:

- Uplifted prudential indicators for external debt in order to meet the requirements of Housing Finance Reform as detailed in the Localism Bill, which will require the Council to undertake borrowing of approximately £200m before the end of the financial year in order to make the statutory payment to CLG on 28 March 2012 to buy out the housing stock.
- Revised TMP Schedules for 2011-12 to reflect changes in roles and responsibilities due to staff and role changes that are required in the Finance Section following a number of resignations and taking into account the need to make budget savings
- Changes to the Treasury Strategy for 2011-12 to incorporate both of the above, including the amendment of the Affordable Borrowing Limit for 2011-12 as required by the Local Government Act 2003

3.2.20 The requirement to make the statutory payment to CLG on 28 March will also require temporary changes to investment counterparty limits as the money will need to be borrowed in advance, and temporarily invested until it is due for payment. Borrowing will be available from the PWLB for this purpose at special rates from a date in January (to be specified by Government) to 26 March 2011. The actual date of borrowing, which is likely to be taken in more than one tranche, will depend on interest rate movements and forecasts

during that time period; the Council will aim to borrow at the optimum (ie cheapest) rate.

3.2.21 In order to be able to invest the sums borrowed from the date of receipt until the date of payment it is proposed that for the period from 17 January 2012 to 31 May 2012:

- The individual limit for all eligible counterparties is raised from £12m or £15m depending on counterparty type to £30m for all counterparty types.
- The amount of any single investment transaction is raised from £5m to £30m

3.2.22 The payment to the CLG will be due by noon on 28 March 2012. In order to ensure compliance, and taking into account cut-off times for guaranteed bank transactions, it will, as a minimum, be necessary to have the funds available in the Council's bank accounts the day before the due date. It may even be necessary to bring the payment to CLG forward to the day before, in which case the funds will need to be available in the Council's bank account two days beforehand.

3.2.23 In order to meet these requirements it is proposed that:

- The amount that may be invested overnight on 26 & 27 March 2012 with HSBC, the Council's own bankers, be set at the actual amount of the CLG payment due, plus £1m to allow for the Council's normal business activity.

3.2.24 In order to be able to deal with any unforeseen requirements of the impacts of the HRA reform on the Council's investment and borrowing strategy, it is proposed that authority be delegated to the Council's Chief Finance Officer, the Director of Finance and Support, in liaison with the Portfolio Holder for Finance, to make any temporary changes needed to the Council's borrowing and investment strategy to enable the Council to meet its obligations. Any such temporary changes will be reported to Council at the earliest opportunity following their implementation

Interim performance report

3.2.25 Investment performance to 30 September 2011 is attached at **Annex G**. During the first four months of the year, the monthly rate of return on investments remained steady at around 0.94%. The rate of return for August and September increased slightly to around 1.00%.

3.2.26 The variance between the Council's monthly rate of return on investments and the average 7-day Libid rate (at the time of investment) is used as a measure of treasury performance, where a positive variance reflects an enhanced level of performance.

3.2.27 Variance to the 7-day libid rate averaged 0.48% in the first four months of the year, rising to 0.53% in August and September. The improvement is due to the increased use of a 95-day notice account at an enhanced rate, as well as a small number of investments placed for longer (6 month) periods. However recent restrictions advised by Sector to counterparty investment periods, to offset risk in the recent round of credit rating downgrades, mean that only a limited number of counterparties are now available to us to place for over three months.

Regular monitoring

3.2.28 An investment register is maintained, and updated on a daily basis, showing current investments and deposit account balances with counterparties used, investment durations and interest rates achieved.

3.2.29 Monthly reconciliations are completed for outstanding investment principal, interest received, outstanding borrowing principal and interest paid to ensure all transactions have been made and recorded accurately.

3.2.30 The Chief Finance Officer receives monthly treasury investment performance data and minutes from monthly treasury management meetings.

3.2.31 Prudential and treasury indicators are monitored on a regular basis. Any variances or breaches of the indicators are reported to Cabinet and Council on a timely basis. **Annex H** contains treasury management indicator monitoring information at 30 September 2011. **Annex I** contains prudential indicator monitoring information at 30 September 2011. Where appropriate figures include borrowings arising from finance leases. There have been no breaches of any indicators during the first half of the financial year.

3.2.32 The debt financing and debt management budgets have been monitored monthly since the start of the year, with any significant variances feeding into the dashboard reports to Cabinet. The debt financing budget forecast as at 30 September 2011 is attached at **Annex J**. A net underspend of £367k is currently forecast for debt financing in 2011-12. This can be broken down as follows:

- £187k - Reduced MRP (Minimum Revenue Provision) due to refinancing of prior years General Fund capital programme expenditure from borrowing to capital receipts, and carry forward of capital programme expenditure from 2010-11
- £163k - Increased income from investments due to cash balances being higher than budgeted and rates achieved out performing the budgeted rate. The figure is net of recharges from the HRA to recognise HRA cash balances
- £49k - Contributions from services for self financed prudential borrowing for capital expenditure

Less

- £32k - Increased recharge from the HRA for interest on the CFR (Capital Financing Requirement) due to carry forward of expenditure from the 2010-11 HRA capital programme

4. Implications (including financial implications)

4.1 Policy

4.1.1 The Council is required to adopt the latest CIPFA Treasury Management Code of Practice, and to set and agree the following policy and strategy documents:

- a) A Treasury Management Policy Statement
- b) Treasury Management Practices (TMPs) and TMP Schedules
- c) An annual Treasury Strategy incorporating:
 - (i) The Capital Financing and Borrowing Strategy for the year including:
 - The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
 - The Affordable Borrowing Limit for the year as required by the Local Government Act 2003.
 - (ii) The Investment Strategy for the year as required by the CLG Guidance on Local Government Investments issued in 2004, and updated in 2010.
- d) A mid-year review report and an annual review report of the previous year.

Items (a) to (c) are reported to Cabinet and Council as part of the budget setting process. The Council's Treasury Strategy for 2011-12 was approved by Council at its meeting on 28 February 2011.

4.1.2 The updated CIPFA Treasury Management Code of Practice, published in 2009, requires the Council to place greater emphasis on the scrutiny of treasury management strategies and policies. This includes the nomination of the body (such as an audit or scrutiny committee) responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. The Audit Committee has been nominated for this role, which includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and for making recommendations to Council.

4.2 Resources and Risk

- 4.2.1 The resources required for the Council's debt management and debt financing budgets are agreed annually through the Council's budget setting process. The debt financing budget position as at 30 September 2011 is shown at paragraph 3.2.26 and **Annex J**.
- 4.2.2 The risk management of the treasury function is an integral part of day-to-day treasury activities. It is also specifically covered in the Council's Treasury Management Practices (TMPs), which are reviewed annually.

4.3 Legal

- 4.3.1 The Council is obliged to carry out its treasury management activities in line with statutory requirements and associated regulations and professional guidance. The relevant legislative and regulatory documents are referred to within the report and listed in the background papers.

4.4 Equality

- 4.4.1 An Equalities Impact Assessment was carried out on the Council's Treasury Strategy for 2011-12, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs. This was included as an annex to the report to Cabinet on 23 February 2011 and to Council on 28 February 2011.
- 4.4.2 As a result of that assessment, it was noted that the potential impact of the strategy and associated documents (including Treasury Management Practices (TMPs) and the Schedules to the TMPs) on the different equalities groups must be considered as it is developed and put together each year. This includes the consideration of the potential impact on the different equalities groups of any processes, procedures or outcomes arising from these.

4.5 Consultees (Internal and External)

- 4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury management advisor, Sector, and with the Portfolio holder for Finance.
- 4.5.2 The Audit Committee has been nominated by Council as the body responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. This role includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and the making of recommendations to Council. Audit Committee reviewed and noted the draft treasury management mid year report and annexes at their meeting on 7 November 2011.

4.6 How the Proposals deliver Priority Outcomes

- 4.6.1 Management of performance in relation to treasury management activities supports the Council's priority of providing quality services.

4.7 Other Implications

4.7.1 No other implications have been identified

5. Background Papers

Statute, Regulation and Guidance

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes (Fully Revised Second Edition) 2009

Local Government Act 2003

Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010

CIPFA Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition) 2009

ODPM Guidance on Local Government Investments 2004

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Third Edition) 2009

CIPFA Prudential Code for Capital Finance in Local Authorities – Fully Revised Guidance Notes for Practitioners 2007

Audit Commission. Risk & Return: English Local Authorities and the Icelandic Banking Crisis (March 2009)

CLG Select Committee report on Local Authority Investments (11 June 2009)

The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008

CLG Guidance on Local Government Investments (11 March 2010)

CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010-11

Reports to Cabinet & Council

Treasury Strategy 2011-12 to 2013-14 – Report to Cabinet 23 February 2011 & Council 28 February 2011

Prudential Indicators for Capital Finance 2011-12 to 2013-14 – Report to Cabinet 23 February 2011 & Council 28 February 2011

Treasury Strategy and Prudential Indicators 2011-12 Update - Report to
Council 24 October 2011

Bev Dixon, Finance Manager – Capital & Treasury, ext 7401