Appendices
3

CABINET REPORT

Report Title	TREASURY MANAGEMENT OUTTURN 2012-13

AGENDA STATUS: **PUBLIC**

Cabinet Meeting Date:	11 September 2013
Key Decision:	NO
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	LGSS
Accountable Cabinet Member:	Alan Bottwood
Ward(s)	Not Applicable

1. Purpose

1.1 To inform Cabinet of the Council's performance in relation to its borrowing and investment strategy for 2012-13.

2. Recommendations

2.1 That Cabinet recommend to Council that they note the Council's treasury management performance for 2012-13

3. Issues and Choices

3.1 CIPFA Code of Practice on Treasury Management in the Public Services

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”).

3.1.2 The Treasury Management Code of Practice includes recommendations on annual reporting requirements after the year-end. The table below shows how these have been incorporated into this report.

Reporting Requirement	**Reference**
Report on the risk implications of decisions taken and transactions executed	Paragraph 3.2.2
Transactions executed and their revenue (current) effects	Paragraph 3.2.5 to 3.2.8 Appendix B
Performance report	Paragraph 3.2.5 to 3.2.8 Appendix B
Monitoring of treasury management indicators for local authorities.	Paragraph 3.2.9 Appendix C
Compliance report on agreed policies/practices and on statutory/regulatory requirements	Paragraph 3.2.10 to 3.2.11
Report on compliance with CIPFA Code recommendations	Paragraph 3.2.12

3.2 Issues

Economic Environment and Interest Rates

3.2.1 2012-13 was another year of uncertainty in the economic environment, most notably in the Euro zone. Low investment interest rates have been the norm throughout the year, against a background of a Bank of England base rate that has remained unchanged at 0.5%. A short commentary on the economic environment and interest rates, provided by Sector, the Council’s treasury management advisers, is included at **Appendix A1**. Definitions of the key terms used (Bank of England base rate, LIBID rate, LIBOR rate) and an analysis of interest rate movements in the year are included at **Appendix A2.**

Risk implications of decisions taken and transactions executed

3.2.2 The Treasury Management Code of Practice identifies eight main treasury management risks. Definitions of these are included in the Council's Treasury Management Practices (TMPs) for 2012-13 approved by Council 29 February 2012. The management of these risks during 2012-13 is covered in the following paragraphs.

a) Credit and counterparty risk – In the economic and banking environment that prevailed during 2012-13, this continued to be an area of considerable risk for all local authority investors. The Council managed this risk extremely closely during the year through strict adherence to its treasury management policies and practices and a tightly controlled counterparty list that took into account a range of relevant factors including sovereign rating, credit ratings, inclusion in the UK banking system support package and credit default swap spreads. The advice of the Council's treasury management advisors was also an underlying feature. None of the Council's counterparties failed to meet the contractual obligations of their treasury transactions with the Council during 2012-13.

b) Liquidity risk – This was managed effectively during 2012-13 through pro-active management of the Council's cashflow, including the choice of suitable investment values and maturity dates and the maintenance of sufficient levels of liquid cash in money market funds and deposit accounts. The Council also maintained its access to overdraft facilities and temporary borrowing facilities as a contingency for use in exceptional circumstances. The Council undertook no long or short-term borrowing to manage liquidity during 2012-13.

c) Interest rate risk - The Council's upper limits for fixed and variable interest rate exposures in respect of investments, borrowing and net external debt are managed as treasury indicators. These are reported at **Appendix C**. The indicators were not breached during 2012-13.

d) Exchange rate risk - The Council has a policy of only entering into loans and investments that are settled in £ sterling, and has no treasury management exposure to this category of risk.

e) Refinancing risk – The Council did not refinance any of its debt during 2012-13 and was therefore not exposed to this category of risk during the year.

f) Legal and regulatory risk - The Council has carried out its treasury management activities for 2012-13 within the current legal and regulatory framework. Officers responsible for strategic and operational treasury management decisions are required to keep abreast of new legislation and regulations impacting on the treasury management function, and have applied any changes as necessary. Legal and regulatory risks associated with other organisations with which the Council deals in its treasury management activities have been managed through counterparty risk management policies.

g) Fraud, error and corruption and contingency management - Officers involved in treasury management are explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council. All treasury activities must be carried out in strict accordance with the agreed systems and procedures in order to prevent opportunities for fraud, error and corruption. The measures in place to ensure this include a scheme of delegation and segregation of duties, internal audit of the treasury function, detailed procedure notes for dealing and other treasury functions, and emergency and contingency planning arrangements (including a business continuity plan for treasury management).

h) Market risk – Investments that may be subject to fluctuations in market value in some circumstances include certificates of deposit, gilts, bonds and money market funds.

The Council has deposits placed in money market funds, whereby the underlying assets of the fund are subject to capital fluctuations as a result of interest rate risk and credit risk. However the structure of the fund minimises the movement of capital value due to the restrictions laid down by the credit rating agencies. The Council did not experience any fluctuations in the capital value of its money market funds in 2012-13.

The Council purchased certificates of deposit in 2012-13, which were held to maturity and were therefore not subject to movement in capital value.

The Council did not invest in gilts or bonds during 2013-14.

Accounting & Audit Issues

3.2.2 The CIPFA Code of Practice on Local Authority Accounting includes a complex set of regulations on accounting for financial instruments. These requirements have been fully complied with in the preparation of the Council's Statement of Accounts.

3.2.3 The regulations include the values at which financial instruments, including borrowing and investments, should be calculated for inclusion on the balance sheet at year-end. In some instances, this is at amortised cost, whereby the balance sheet value is written up or down via the comprehensive income and expenditure account over the life of the instrument to reflect costs or benefits, such as transaction costs or interest earned or due to date. Alternatively, financial instruments may be valued at their original cash value.

3.2.3 In summary, and broadly speaking, the balance sheet values of the Council's debt and investments at 31 March 2013 are shown in the following ways:

Borrowing (Financial Liabilities)	
Long term borrowing	Amortised value
Short term borrowing	Original (cash) value
Investments (Financial Assets)	
Deposit and call accounts (cash equivalents)	Original (cash) value
Money market funds (cash equivalents)	Original (cash) value
Short term money market investments up to three months duration (cash equivalents)	Original (cash) value
Short term money market investments over three months duration	Amortised value
Long term money market investments over 1 years duration	Amortised value

3.2.4 Outturn figures relating to borrowing and investments are shown and discussed at paragraphs 3.2.5 to 3.2.7 below. All outturn figures contained in this report are subject to external scrutiny, through the annual audit of the Council's Statement of Accounts.

Performance Report - Borrowing

3.2.5 Long Term Borrowing

a) The table below shows the Council's long-term debt as at 31 March 2013 at amortised cost. The total debt outstanding is £216m.

Long Term Debt Outstanding at 31 March 2013	**Principal**	**Proportion of Debt**	**Range of Interest Rates**	
			From	**To**
	£000	**%**	**%**	
PWLB	190,113	88	1.24	3.97
Money Market LOBO Loans	24,788	11	4.85	7.03
HCA Annuity Loan	1,170	1	9.25	9.25
Total	**216,071**	**100**		

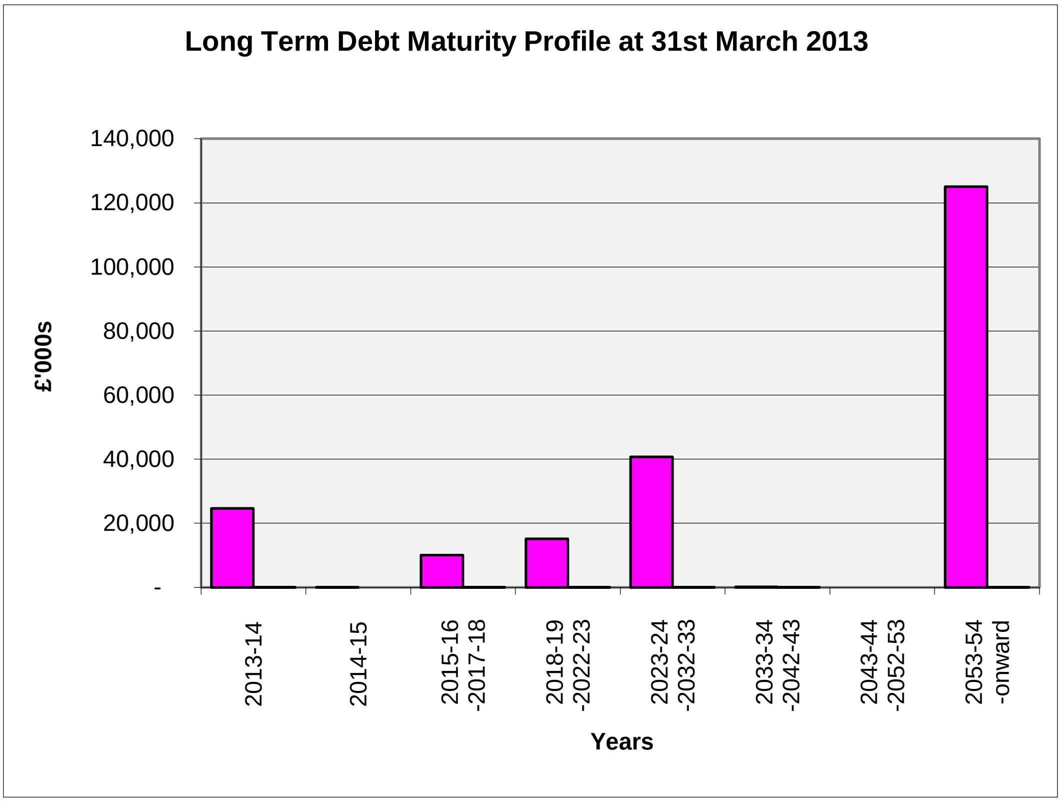
b) Under Section 3 of the Local Government Act 2003, the Council is required to set an annual affordable borrowing limit. This limit is also set as a prudential indicator, i.e. the authorised limit for external debt.

The Council's annual affordable borrowing limit for 2012-13 was £250m.

c) The Council has adopted a two-pool approach to splitting debt between the HRA and General Fund, whereby loans are assigned internally to either the HRA or the General Fund.

d) No loans were repaid during the year other than the scheduled repayment of the principal element of the annuity with the Homes and Communities Agency (HCA) (£19k) due in 2012-13. The principal amount due to HCA in 2013-14 (£20k) is treated as short-term borrowing and is included in the discussion at paragraph 3.2.6 below.

e) The graph below shows the Council's long-term debt maturity profile as at 31 March 2013. The figures are shown at cash value to reflect commitment at maturity.



f) The Treasury Management Code of Practice requires the maturity of borrowing to be determined by reference to the earliest date on which the lender can require payment. The Council's three LOBO loans are therefore presented as maturing in 2013-14, due to the six monthly break clauses, whereby the lender can opt to increase the rate, and the Council can choose to accept or decline the new rate. However it is not anticipated that the lender will opt to increase the rates at the break dates in the current interest rate environment.

g) However LOBO loans of £15.6m are due for repayment at final maturity in 2014-15. The Council does not have the option to repay or reschedule these before the due date unless the lender opts to increase the interest rate. Repayment at maturity will be funded from internal borrowing, new loans, or a combination of both.

3.2.6 Short Term Borrowing

a) The year-end position on temporary borrowing, and the range of rates applied, is set out below.

Short Term Debt Outstanding at 31st March 2013	**Principal**	**Proportion of Debt**	**Range of Interest Rates**	
			From	**To**
	£000	**%**	**%**	
Northampton Volunteering Centre	189	63	0.53	0.76
Billing Parish Council	90	30	0.53	0.76
HCA Principal due within 1 year	20	7	9.25	9.25
Total	**299**	**100**		

b) 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.

c) The repayment of the principal element of the HCA annuity (£20k) due in 2013-14 is also treated as short term borrowing in the accounts in accordance with accounting requirements.

Performance Report - Investments

3.2.7 Investments Strategy

a) The CLG Guidance on Local Government Investments requires Councils to set an Investment Strategy. This sets out the authority's policies for the prudent management of its investments and for giving priority, firstly to the security of those investments and secondly, to their liquidity. It should therefore identify the procedures for monitoring, assessing and mitigating the risk of loss of invested sums and for ensuring that such sums are readily accessible for expenditure whenever needed.

b) The Council's Investment Strategy for 2012-13 was included in the Treasury Strategy for 2012-13, approved by Council on 29 February 2012. Updates to some of the counterparty limits in the Treasury Strategy were approved during the year by the Council's Chief Finance Officer and reported to Council on 21 January 2013.

c) The CLG Guidance on Local Government Investments requires that investments are split into two categories:

  (i) Specified investments – broadly, sterling investments, not exceeding 364 days and with a body or investment scheme of high credit quality.

  (ii) Non-specified investments – do not satisfy the conditions for specified investments. This may include investment products that would normally be considered as specified investments, but are judged to have a higher level of risk than normal attached to them.

d) The Council's Investment Strategy for 2012-13 set out the Council's credit rating criteria for specified investments, including its definition of high credit quality, and the types of unspecified investments that it might enter into, including investments over 364 days.

e) The Council defines high credit quality in terms of investment counterparties as those organisations that:

- Meet the requirements of the creditworthiness service provided by the Council's external treasury advisers (ie have a colour rating) and,
- Have sovereign ratings of AAA, or are
- UK nationalised or part nationalised banking institutions, or are
- UK banks or building societies supported by the UK banking system support package or are
- UK national or local government bodies or are
- Triple A rated Money Market funds

f) Investments periods are determined in line with the maximum periods recommended by Sector, the Council's treasury management advisor. In addition, the Investment Strategy imposes Council specific value and investment period limits for each category of approved counterparty.

g) The maximum limits in 2012-13 for placements with individual or group counterparties were £20m and 729 days for UK nationalised or part nationalised banking institutions and UK banks or building societies supported by the UK banking system support package, and £15m and 729 days for counterparties having sovereign ratings of AAA (Overseas or UK). Within this framework lower limits applied depending on credit ratings and other factors specific to each institution.

h) Instant access deposit accounts and call accounts continued to be used during 2012-13 to ensure liquidity and security of funds. The average balance in deposit and call accounts throughout the year was £7.4m.

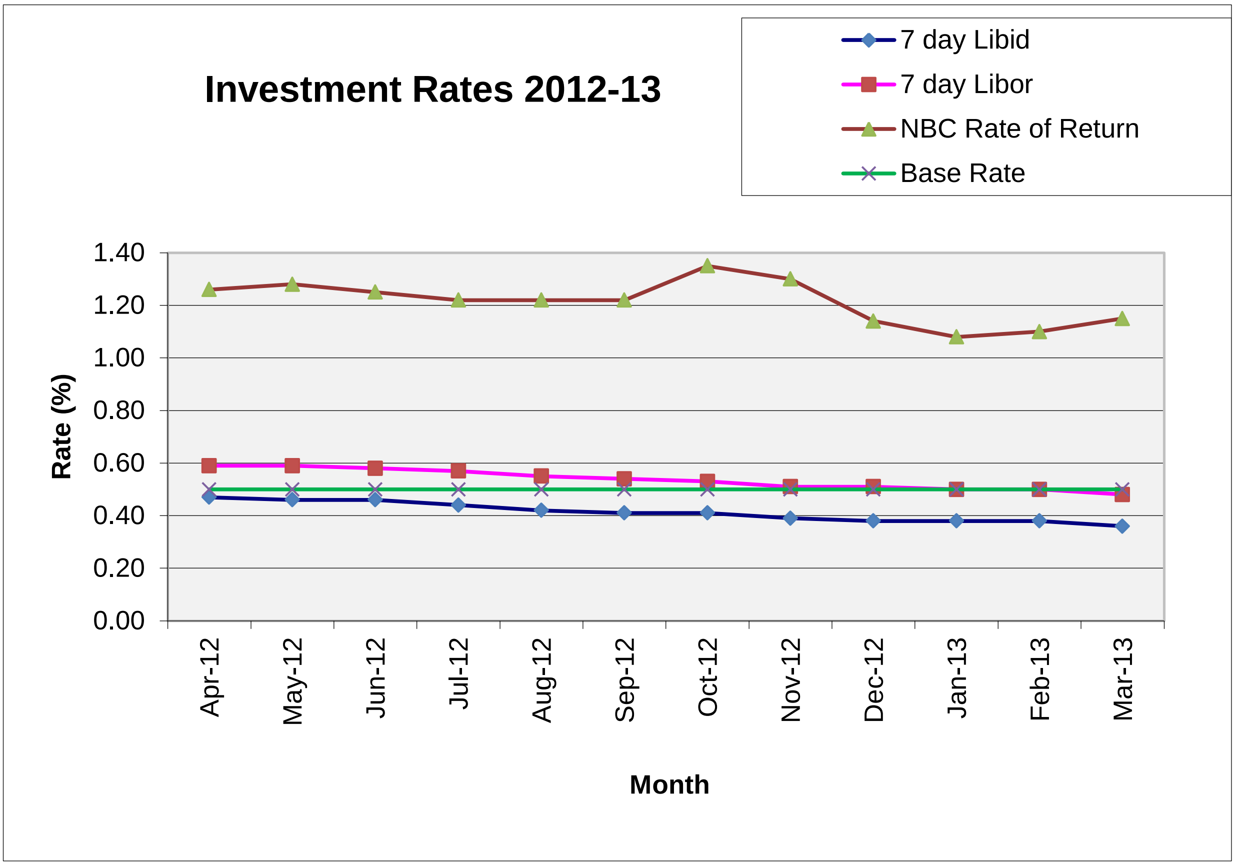
i) The Council also makes use of triple-A rated money market funds. These have the benefits of high credit rating, high liquidity, instant access to funds, portfolio diversification, competitive returns, and administrative convenience. The average balance in money market funds throughout the year was £18.7m.

j) The number fixed term money market investments made during the year was 24, with a range of investment periods from 73 days to 730 days. One investment over 364 days was placed during the year. The average investment period was 205 days.

k) The total value of investments held at 31 March 2013 - at amortised value for money market investments over three months, and cash values for all other investments - was £46.2m. Investments were placed with reference to the pre-determined lending list, in line with the investment strategy. The breakdown of investments at year-end is shown in the table below:

Investment Type	**Balance at 31 March 2013**	
	£m	%
Cash & Cash Equivalents		
Deposit accounts	12.1	26.2
Call Accounts	5.0	10.8
Money Market Funds	2.6	5.6
Short Term Investments under 1 year		
Short Term Investments – Fixed Term	25.5	55.2
Long Term Investments over 1 year		
Long Term Investments – Fixed Term	1.0	2.2
Total	**46.2**	**100.0**

l) The graph below shows the analysis of the Council's performance on investment returns during 2012-13 by plotting the Council's average monthly investment rate achieved against the average 7 day London Interbank Bid Rate (LIBID), and the average 7 day London Interbank Offered Rate (LIBOR).



m) The Council's average rate of return on investments was 1.21%, ranging from 1.08% (January 2013) to 1.35% (October 2012). Performance above 7 day LIBID ranged from 0.70% to 0.94%, averaging 0.80% against a target of 0.50%. The average differential to 7 day LIBID represents an uplift of £8,000 per £1m invested.

n) The Council does not hold any financial instruments listed or publicly traded on a stock exchange. The Council purchases Certificates of Deposit, which are traded over the counter rather than being listed on any stock exchange, both in the primary and secondary market. Where the Council buys CDs with the intention of holding them to maturity they would be classed as financial instruments issued over the counter, and available for sale in the secondary market.

Performance Report - Debt Financing Budget Outturn

3.2.8 **Appendix B** shows the budget, outturn and variance for the Council's General Fund debt and investment portfolio in 2012-13. This demonstrates the revenue (current) effects of the treasury transactions executed. A summary is set out below:

Budget Comparison	Approved Budget 2012-13 £000	Outturn 2012-13 £000	Variance 2012-13 £000
Debt Financing & Interest	1,743	1,679	(64)

The most significant elements of the outturn variance were as follows:

- Minimum Revenue Provision, which is the amount of money required to be set aside to finance borrowing (including finance leases), was £335k below budget, mainly due to capital financing decisions made in 2011-12 (including the use of capital receipts instead of borrowing), and the carry forward of capital expenditure delaying MRP impact to future years. £141k of this saving was transferred to a debt financing earmarked reserve to mitigate risk in the investment interest budgets in 2013-14 against a background of falling interest rates

- An amount of £109k interest on a backdated VAT claim was received from HMRC. This was also transferred to the debt financing earmarked reserve.

- Interest achieved on investments was £43k below budget. Although the average rate on investments was above the 1% budgeted, average balances were lower than forecast.

- There were savings on interest on finance leases, where actual liability was around £21k less than budgeted.

- Recharges from the HRA were £128k more than budgeted, due to an increase in the levels of forecast average HRA balances, and the achievement of a higher than budgeted rate of return on investments.

Prudential Indicators and Treasury Management Indicators

3.2.9 Throughout the course of the year, the Council's treasury staff have monitored the prudential Indicators and the treasury management indicators set for 2012-13. The outturn indicators are shown at **Appendix C.** Figures are shown at cash value rather than amortised cost, in line with the requirements of the Prudential Code. There have been no breaches of limits during the 2012-13 financial year.

Compliance with agreed policies and practices, and statutory and regulatory requirements

3.2.10 The Council's officers and members have individual and collective responsibilities to comply with agreed policies and practices and statutory and regulatory requirements. These are set out in detail in the Schedules to the Council's Treasury Management Practices (TMPs).

3.2.11 Compliance has been monitored during the year. Two incidences of failure to comply with the policies were reported to Council in January 2013 in the Mid Year Treasury Management report for 2012-13, as follows:

- An investment of £1m was made with Royal Bank of Scotland on 1 May 2012 for a period of two years (730 days). Whilst this investment was within the Council's own duration limits for the counterparty, it exceeded the recommended Sector temporary duration limit of 364 days. The remaining investment period now falls within the recommended limit.

- It was identified during the year that the £7m limit in place for any single investment transaction did not meet the Council's needs, as funds over and above this amount regularly need to be placed in money market funds or deposit accounts. The limit was exceeded on five occasions in the first few months of the financial year, with no increase to the risk level of the Council's investment portfolio. Council were advised that the Chief Financial Officer had approved the raising of the limit to £10m.

Compliance with CIPFA Code Recommendations

3.2.12 Under the umbrella of compliance with regulatory requirements, the Council has sought to comply with the requirements of the CIPFA Treasury Management Code of Practice. No breaches have been recorded during the 2012-13 financial year.

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 a number of policy and strategy documents. These policy documents are reported to Cabinet and Council as part of the budget setting process. The Council's Treasury Strategy for 2012-13 was approved by Council on 29 February 2012. Updates to some of the counterparty limits in the Treasury Strategy were approved during the year by the Council's Chief Finance Officer and reported to Council on 21 January 2013.

4.1.2 This report complies with the requirement to submit an annual treasury management review report to Council.

4.3.2 The updated CIPFA Treasury Management Code of Practice requires the Council to place 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 outturn position is shown at paragraph 3.2.8 and **Appendix B**.

4.2.2 The risk management of the treasury function is specifically covered in the Council's Treasury Management Practices (TMPs), which are reviewed annually. Treasury risk management forms an integral part of day-to-day treasury activities.

4.2.3 The risk implications of decisions taken and transactions executed during 2012-13 financial year are discussed in the body of the report at paragraph 3.2.2.

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.

4.4 Equality

4.4.1 An Equalities Impact Assessment was carried out on the Council's Treasury Strategy for 2012-13, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs. This was included as an annex to the report to Council on 29 February 2012.

4.4.2 The EIA assessment is that a full impact assessment is not necessary, as no direct or indirect relevance to equality and diversity duties has been identified

4.5 Consultees (Internal and External)

4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury advisors, Sector, and with the Portfolio holder for Finance.

4.5.2 Under the regulatory requirements, 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 Outturn 2012-13 report and appendices at their meeting on 29 July 2013.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 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").

4.6.2 Under the umbrella of the Treasury Management Code of Practice, the Council's Treasury Management Policy Statement "…acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management."

4.6.3 This supports the Council's priority of making every £ go further.

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4.7 Other Implications

4.7.1 No other implications have been identified.

5. Background Papers

None

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