Chorley Council

Report of	Meeting	Date
Chief Finance Officer	Governance Committee	27 June 2013

TREASURY MANAGEMENT ANNUAL REPORT 2012/13

PURPOSE OF REPORT

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 28/2/12), a mid-year review of that strategy (Governance Committee 27/09/2012), and finally this out-turn report.

RECOMMENDATION(S)

2. Members are asked to note the report

EXECUTIVE SUMMARY OF REPORT

3. The report advises on compliance with Prudential and Treasury Indicators, and reports that the return on investments totalled 1.42% which exceeded the benchmark. Details of borrowings are given and the situation with regard to the Icelandic investments is updated

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

4. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	X

DETAIL

5. **<u>Prudential Indicator Capital Expenditure and Financing 2012/13</u>**

The Council's Capital Expenditure as at 31st March 2013 totalled £1.827m. This is a reduction from the original estimate as some schemes have been re-phased and will continue into the 2013/14 Capital Programme. This Capital Expenditure incurred in 2012/13 was financed as follows:-

Financing	£m
Prudential Borrowing	0.990
Capital Receipts	0.124
Revenue Budget	0.304
External Contributions	0.046
Governments Grants	0.363
Total	**1.827**

For further information a comprehensive report on the capital out-turn will be submitted to Executive Cabinet on 20 June 2013.

6. **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.

	Estimate last reported £000	Actual £000
Capital Financing Requirement at 1 April 2012	8,072	8,072
Change in year – prudential borrowing	1,346	991
- MRP	(283)	(283)
- Voluntary MRP		(308)
CFR at 31 March 2013	**9,135**	**8,472**

The Capital Financing Requirement has reduced and this will beneficially reduce future years MRP charges due to the actions taken as set out in the Council's Medium Term Financial Strategy to reduce financing costs and bridge the forecasted budget shortfall.

7. **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 and is thus well below the cumulative CFR.

8. Compliance with Borrowing Limits

The Prudential Indicators include two borrowing limits. An Operational Boundary, that reflects the expected borrowing position, and an Authorised Limit, that provides headroom to cater for "unusual" cash movements.

The Operational limit for Chorley was set at £7.285m and reflected the actual long term borrowings of the Council. The actual was very near to this at £7.272m.

The authorised limit of £9m allowed a margin for any temporary borrowing. Ordinarily there is no requirement for this, but it is used occasionally to allow advantageous longer term investments to be made, to cover for the short periods when this might cause a cash shortage. Over three weeks at year end, this happened and it was necessary to borrow £3.0m. This caused total borrowings to increase to £10.285m which exceeded the authorised limit. It should be noted that this breach was temporary in nature and was also planned. The indicator was breached as the limit pre-determined by Shared Financial Services, as part of the Treasury Strategy at the beginning of the year, turned out not to sufficient during the year. It is important to note that there has been no negative financial consequence as a result of this action.

9. 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 has increased from the 0.76%, last reported in the 2013/14 Treasury Strategy, to 2.48%. This is entirely the result of the voluntary provision for debt redemption shown in paragraph 6 above (voluntary MRP - £308k).

10. 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.

11. Treasury Position as at 31 March 2013

	As last reported (in 2013/14 Treasury Strategy) **£000**	**Actual value as at 31 March 2013** **£000**
Borrowing at period start	7,822	7,822
Borrowing repaid in year	(550)	(550)
Borrowing in year	0	0
Total borrowing at period end	**7,272**	**7,272**
Cash & investments	**11,000**	**10,823**

12. Treasury Indicator Upper limit on fixed rate exposure

The Council is exposed to fixed interest rates on its borrowings. The indicator for 2012/13 was £8.0m to match the Operational Boundary. It has not been breached.

Investments

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

Details	Average daily Investment £'000	Interest Earned £	Average Rate %
Money Market Funds	2,539	12,695	0.50
Short Term deposits	11,811	226,258	1.92
Call accounts	470	3,176	0.68
Debt Management Office (DMO)	2,776	6,942	0.25
Total	**17,596**	**249,071**	**1.42**

The performance benchmark is the London 7 day Inter-Bank Bid Rate (LIBID). This averaged 0.39% over the year

All investments complied with the criteria specified in the Investment Strategy

13. Treasury Indicator Upper limit on exposure to variable interest rates

The Council is exposed to variable interest rates on cash invested in money market funds and call accounts. The above table shows that, on average, £3.009m (£2,539k plus £470k) was invested each day in such funds. This is within the limit quoted in the Treasury Strategy of £20.0m.

14. Icelandic Investment

The following table shows progress in recovering the Council's investment in Landsbanki

Icelandic Investment	£'000
Original investment	2,000
Impairment to 31/3/2012	(767)
Interest accrued to 31/3/2012	428
Cash received to 31/3/2012	(596)
Owing as at 31/3/2012	**1,065**
Interest accrued and reductions in impairment in 2012/13	131
Cash received in 2012/13	(366)
Owing as at 31/3/2013	**830**

Further repayments are 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 various 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 repayments will be made.

The above table shows that £962k has been recovered and £830k is still owed, a total of £1.792m. This will increase by the interest continuing to accrue, to a figure of £1.930m. This is less than the £2.029m claimed as a provisional allowance has been made to account for a possible loss when monies received are converted to sterling. Exchange rates change constantly and the amount realised is dependent on the rates available at that point in time. This may or may not happen, but it is prudent to allow for the eventuality.

15. **The economy and Interest rates**

The review of the year provided by the Council's consultant is at Appendix A. The significance for Chorley Council is that:

- It forms the backdrop to Sector's opinion that base rate will not rise from its historic low level of 0.5% until December 2014.
- It explains the fall in investment returns, experienced by the Council, resulting from the Funding for Lending scheme.
- It comments on the low level of gilt yields. These are of relevance to the Council in that they are the basis of PWLB rates and in less than two years the Council will have to replace £5m of maturing PWLB debt.

IMPLICATIONS OF REPORT

16. This report has implications in the following areas and the relevant Directors' comments are included:

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

17. This report meets statutory requirements. Its statistical content is consistent with the Council's financial accounts for the year 2012/13

COMMENTS OF THE MONITORING OFFICER

18. The Monitoring Officer has no comments.

GARY HALL
CHIEF FINANCE OFFICER

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Treasury Strategy 2012/13 Treasury Strategy 2013/14	Council 28/2/2012 Cabinet 21/2/2013		Town hall

Report Author	Ext	Date	Doc ID
G Whitehead	5485	May 21 2013	Treasury Management Annual Report 2012-13.doc

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. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. 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 on-going saga during the year with first Greece and then Cyprus experiencing crises which were met with bailouts after difficult and fraught negotiations.

Gilt yields

Gilt yields oscillated during the year as events in the on-going 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.