

**TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE – 25 JUNE 2013**

**TREASURY MANAGEMENT - 2012/13 ANNUAL REPORT AND 2013/14 TO DATE**

**REPORT OF THE ASSISTANT DIRECTOR: FINANCE, AUDIT & INFORMATION GOVERNANCE (CHIEF FINANCIAL OFFICER)**

**PART A) – SUMMARY REPORT**

**1. SUMMARY OF MAIN PROPOSALS**

The report updates members on the outcome of Treasury Management activities for 2012/13 and details the position for 2013/14 to date.

**2012/13 Treasury Outturn**

The treasury portfolio ended the year with net indebtedness of £79.2m (borrowing: £110.6m less investments: £31.4m), a reduction of £15.4m compared to the position at 31 March 2012. Base rate was 0.5% for the whole year and is predicted to stay at 0.5% until mid 2016.

The borrowing strategy for 12/13 was to use maturing investments to reduce borrowing where possible. Borrowing was £37m lower at 31 March 2013 compared to 31 March 2012 which was due to £6m repayment of PWLB loans and a reduction in temporary borrowing at year end. Short term borrowing was used to fund short term cash flow requirements during the year, also at favourable interest rates.

The investment strategy for 12/13 was to gain maximum benefit with security of capital being the key consideration. The average return on investments for the year was 3.86% against a benchmark of 0.49%; further, comparative information from our treasury advisors, Arlingclose, highlights that our rate of return is significantly higher than their other local authority clients.

Overall, treasury delivered a net over-achievement of £0.923m against the budget in 2012/13.

**2013/14 Update**

The strategy for 2013/14 remains consistent with that of the previous year. Investment opportunities will be reviewed as they arise, where possible maturing investments will be used to reduce the need to borrow, and we will seek to gain maximum benefit within the agreed risk parameters.

There has been no new borrowing undertaken to date in 2013/14. Investments were £63m at 31 May 2013.

**Prudential Indicators**

There are no breaches of the Prudential Indicators set at Full Council and none have been amended.

2. **RECOMMENDATIONS**

**Audit Committee Members are asked to:-**

- 2.1 note the contents of the report
- 2.2 note the performance against Prudential Indicators.

3. ***SUMMARY IMPACT ASSESSMENT***

***COMMUNITY IMPACT*** Do these proposals contribute to specific priority plan objectives?

Yes/No Efficient Community Focussed Council

Will the proposals impact on specific groups of people?

Yes/No

***TARGET  
COMPLETION /  
DELIVERY DATE***

Part of ongoing Treasury Management Activities within the Treasury Management Strategy and Policy approved by Council.

***FINANCIAL/VALUE  
FOR MONEY IMPACT***

Yes/No Where appropriate these are detailed in the body of the report.

***LEGAL ISSUES***

Yes/No The AD: Finance, Audit and IG (Section 151 Officer), has responsibility for the administration of the financial affairs of the Council. In providing this report the Section 151 Officer is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee."

***OTHER IMPACTS,  
RISKS AND  
OPPORTUNITIES***

Yes/No The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.

***IMPACT ON  
SPECIFIC WARDS***

Yes/No

4. **PREVIOUS MINUTES**

Council 1 March 2012

Audit Committee 26 June 2012

Audit Committee 29 January 2013

Council 7 March 2013

## PART B – ADDITIONAL INFORMATION

### 5. BACKGROUND

Treasury Management in local government is regulated by the 2001 revision of the CIPFA Treasury Management in Public Services : Code of Practice (the Code). This Council has adopted the Code and fully complies with its requirements. The primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement, which states the policies and objectives of its treasury management activities.

A requirement of the Council's Treasury Management Practices is the reporting to the Council of both the expected treasury activity for the forthcoming financial year (the annual treasury strategy statement) and subsequently the results of the Council's treasury management activities in that year (this annual treasury report).

### 6. 2012/13

The annual report is covered in paragraphs 6-15 and deals with: -

- 2012/13 Portfolio position;
- the borrowing strategy for 2012/13;
- the borrowing outturn for 2012/13;
- compliance with treasury limits;
- investments strategy for 2012/13;
- investments outturn for 2012/13;
- debt rescheduling;
- Shropshire Council debt
- overall outturn position
- leasing

### 7. 2012/13 PORTFOLIO POSITION

The Council's treasury management position at the beginning and the end of the year was as follows: -

	31 March 2013		31 March 2012	
	Principal £m	Rate %	Principal £m	Rate %
Borrowing	<u>110.614</u>	3.49	<u>147.670</u>	3.41
<b>Total Debt</b>	<b>110.614</b>	<b>3.49</b>	<b>147.670</b>	<b>3.41</b>
Investments	<u>31.426</u>	3.86	<u>53.060</u>	3.46
<b>Total Investments</b>	<b>31.426</b>	<b>3.86</b>	<b>53.060</b>	<b>3.46</b>
<b>Net Indebtedness</b>	<b><u>(79.188)</u></b>		<b><u>(94.610)</u></b>	

There was no new borrowing and repayment of £6m PWLB during 2012/13; temporary borrowing was also nil at 31 March 2013. The capital programme was funded from a combination of capital receipts, grants and other external contributions plus funds from maturing investments; This has resulted in borrowing and investments both

reducing during the year. Prudential borrowing actually reduced slightly in 2012/13 due to capital receipts and slippage.

***The Adopted Treasury Strategy was to:-***

- Monitor borrowing opportunities determined by the prevailing markets.
- To use maturing investments to reduce borrowing where possible.
- Reduce the volatility of investment returns while maintaining adequate flexibility in arrangements.
- To achieve optimum return on investments commensurate with proper levels of security and liquidity.

**9. COUNCILS RESPONSE TO ECONOMIC CLIMATE**

- 9.1 2012/13 saw continued problems with both sovereign and individual bank credit ratings. Base rate remained at 0.5% throughout the whole of 2012/13. The UK economy has dipped in and out of recession. Base rate is generally predicted to stay at 0.5% until mid 2016.
- 9.2 The Council has reduced both the amount and duration of its investments and as other investments mature, total investments will be reduced further. These funds were used to reduce the need to borrow and reduce exposure to investment risk.
- 9.3 We have closely followed guidance issued by our Treasury Advisors in relation to credit ratings, financial standing and duration.

**10. BORROWING 2012/13**

**10.1 Original Economic Projections**

The Expectation for Interest Rates – When the budget was set for 2012/13 the “average” City view anticipated that Bank Rate would remain at 0.5% until mid 2014 before starting to rise gradually back towards more normal levels in 2015, though it would be 2017 before Bank Rate returned to around 4.5%.

**10.2 Outturn 2012/13**

During 2012/13 the Monetary Policy Committee (MPC) was focused on helping the economy to recover, but against a backdrop of inflation remaining above its target level.

Despite keeping Bank Rate at an unprecedented historical low of 0.5% all year, the MPC increased the level of quantitative easing from £325bn to £375bn.

The dominant focus in 2012/13 was on quarterly GDP growth figures. Whilst there was growth of 0.9% in quarter July-Sept 2012 the economy shrank in all the other quarters, leaving growth for the year at 0.2%.

Inflation has been a major concern of the MPC as it has remained above the 2% target level for CPI for the whole of 2012/13. Inflation is predicted to gradually fall, but is likely to remain above target for some time.

### **Borrowing and Investment Rates in 2012/13**

The overnight investment rate has varied little during the year. The 3 month investment rate has fallen gradually throughout the year to stand at 0.44% at year end having started the year at 1%. This has been as a direct result of the governments funding for lending scheme.

### **Treasury Borrowing and Rescheduling**

The borrowing strategy for the current year has been to use maturing investments to reduce the Council's exposure to interest and market volatility and reduce borrowing where possible.

During the year we borrowed no new PWLB loans, although we did have some maturities totalling £6m.

### **PWLB Repayments & Discounts**

No loans were repaid early or rescheduled during the year.

An analysis of the maturity structure of our debt is shown below.

### **Analysis of Debt Maturity as at 31<sup>st</sup> March**

	<b>2013</b>		<b>2012</b>	
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
Maturing in less than 1 year	11,093	10.0	37,148	25.2
Maturing in 1-2 years	11,001	9.9	11,001	7.4
Maturing in 2-5 years	3,002	2.7	13,002	8.8
Maturing in 5-10 years	2,506	2.3	3,505	3.5
Maturing in more than 10 years*	<u>83,012</u>	75.1	<u>83,014</u>	56.2
	<b><u>110,614</u></b>	100.0	<b><u>147,670</u></b>	100.0

\* this includes £60m LOBO (Lenders Option Borrowers Option) loans that are potentially callable at certain points before the maturity date. There is therefore the potential that these loans would have to be replaced sooner exposing the council to the prevailing market at that time. To-date, no LOBOs have been called before maturity.

### **Debt Performance**

As highlighted in section 7 the average debt portfolio rate has risen over the course of the year from 3.41% to 3.49%. This is due to the lack of temporary borrowing the council had to do in 2012/13 as compared to 2011/12. The low rates of this in 2011/12 reduced the overall interest rate of the portfolio in that year.

## **11. COMPLIANCE WITH TREASURY LIMITS**

During the financial year the Council operated within the Treasury Limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement at all times. The outturn for the Prudential Indicators are detailed in Appendix 1 which shows that no limits were breached during the year.

## 12. INVESTMENTS 2012/13

### 12.1 **Strategy**

Internally Managed Investments - The authority currently manages all of its investments in-house and invests within the institutions complying with its counterparty limits and credit ratings. Some investments are short term related to cash flows and others include longer term investment instruments that benefited returns in 2012/13.

Investment Strategy - The agreed short term investment strategy for 2012/13 was to achieve optimum return on investments commensurate with proper levels of security and liquidity and to use maturing investments to reduce the need to borrow, where possible.

### 12.2 **Outturn 2012/13**

Detailed below are the results of the investment strategy undertaken by the Council, based on the average investment during the year.

	<b>Average Investment</b>	<b>Rate of Return (gross of fees)</b>	<b>Rate of Return (net of fees)</b>	<b>Benchmark Return *</b>
<u>Internally Managed Investments</u>				
Investments	£48.181m	3.86%	3.86%	0.49%

No institutions in which investments were made showed any difficulty in repaying investments and interest in full during the year.

## 13. SHROPSHIRE COUNCIL DEBT

The Council makes an annual contribution (£2.017m in 2012/13) towards County Council costs on pre disaggregation debt (i.e. pre unitary inception) - interest paid averaged 5.40% last year. The rate of interest paid on this is managed by Shropshire and is considerably higher than the rate payable by Telford & Wrekin Council on its borrowing.

## 14. OVERALL OUTTURN FOR 2012/13

The net overall position is summarised in the table below. The sound overall position has resulted from a mix of cash flow benefits plus proactive treasury management activities. The budget reflected the position when the budget was set, the underspend has been achieved through active management of debt principal and the low interest rates prevailing for the year. Overall a net saving of just over £0.9m was made against budget for the year.

### Summary of Outturn Position

	Estimate £m	Outturn £m	Variance £m
Interest Received (net of debt mgt costs)	(1.448)	(1.752)	(0.304)
Principal Repayments	6.199	5.841	(0.358)
Interest Paid	<u>5.624</u>	<u>5.363</u>	<u>(0.261)</u>
Net Position	10.375	9.452	(0.923)

## 15 **LEASING**

Each year the Council arranges operating leases for assets such as vehicles, computers and equipment. This helps spread the cost over a number of years in line with the anticipated life of the equipment.

The final drawdown for 2012/13 was completed in March. The drawdown from JCB Finance totalled £0.252m and funded the purchase of vehicles and a grass cutter over five years and seven years at an interest rates of 1.01% and 1.42%.

## 16. **2013/14 UPDATE**

The remainder of this report deals with the current financial year based largely on information to 31 May 2013.

### 16.1 **Strategy**

The strategy for 2013/14 is to continue to use maturing investments, where possible, to reduce the need to borrow thus reducing investment exposure. We will review investment opportunities if they arise and also review borrowing opportunities as we progress through the year and look to take advantage of the advantageous interest rates if possible.

### 16.2 **Interest Rates**

Base rate began the year at 0.5% and has remained there. The current expectation is that there will be no increase before June 2016.

### 16.3 **Prudential Regime**

This Council agreed its required indicators at Council on 7 March 2013. There have been no breaches of the indicators and none have been amended. The Council set itself an Operational limit for external debt of £188m for 2013/14 and an Authorised limit of £210m. Our total borrowing outstanding (including PFI) is £170m which is within both limits.

### 16.4 **Borrowing**

We have not taken any new borrowing in 2013/14 and have had no maturities to-date. In total we have £11m maturing during 2013/14.

### 16.5. **Internally Managed Investments**

The strategy for the year is to gain maximum benefit at minimum risk whilst achieving as a minimum, the 7 day deposit rate. As mentioned above, we will also continue to use maturing investments, where possible, to reduce the need to borrow. For the period to 31 May 2013 some £412m worth of investments have been made in our overnight call accounts. Rates have ranged from 0.35% to 0.80%. As at 31 May 2013 internal investments stood at £63.05m.

Potentially the Council can place up to £20.0m with any Counterparty. At the end of May the greatest exposure with a single counterparty was £20.0m with Barclays (31.7% of the portfolio). We currently have no investments with non UK sovereigns. A detailed breakdown is shown in Appendix 2.

17 **Background Papers**

CIPFA Code of Practice for Treasury Management in Local Authorities;  
Fund Manager Valuations; Temporary Borrowing records;PWLB records  
Investment records

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## PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2011/12	2012/13	2012/13
<b>(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	<b>Actual Outturn</b>	<b>Original Estimate</b>	<b>Actual Outturn</b>
<b>Capital Expenditure</b>			
TOTAL	71.7	95.9	71.7
<b>Ratio of financing costs to net revenue stream</b>			
General fund	2.35%	3.15%	3.15%
<b>Net borrowing requirement</b>			
brought forward 1 April	130.9	134.5	147.7
carried forward 31 March	147.7	123.8	110.6
in year borrowing requirement	16.8	-10.7	-31.1
<b>Capital Financing Requirement as at 31 March</b>			
TOTAL	249.8	256.9	242.0
<b>Annual change in Cap. Financing Requirement</b>			
TOTAL	22.5	7.4	-7.8
<b>Incremental impact of capital investment decisions</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>
Increase in council tax (band D) per annum (not cumulative)	4.04	-0.53	-0.53

PRUDENTIAL INDICATOR	2011/12	2012/13	2012/13
<b>(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	<b>final</b>	<b>original</b>	<b>final</b>
<b>Authorised limit for external debt -</b>			
borrowing	330	230	230
other long term liabilities	6	6	6
TOTAL	336	236	236
<b>Operational boundary for external debt -</b>			
borrowing	310	210	210
other long term liabilities	4	4	4
TOTAL	314	214	214
<b>Upper limit for fixed interest rate exposure</b>			
Net principal re fixed rate borrowing / investments	190	190	190
<b>Upper limit for variable rate exposure</b>			
Net principal re variable rate borrowing / investments:-	60%	80%	80%
<b>Upper limit for total principal sums invested for over 364 days</b>			
(per maturity date)	95%	95%	95%

<b>Maturity structure of fixed rate borrowing during 2012/13</b>	lower limit	upper limit
under 12 months	0%	25%
12 months and within 24 months	0%	25%
24 months and within 5 years	0%	50%
5 years and within 10 years	0%	75%
10 years and above	25%	100%

## Summary of Investments at 31 May 2013

	<b>Sovereign Credit Rating</b>	<b>Individual Credit Rating</b>	<b>Total £m</b>	<b>%</b>
<b>Call Accounts</b>				
HSBC	UK AA+	F1+ AA- Support 1 Viability A+	3.602	
RBS	UK AA+	F1 A Support 1 Viability BBB	14.730	
Santander	UK AA+	F1 A Support 1 Viability A	19.715	
			<b>38.047</b>	<b>60</b>
<b>Fixed Deposits</b>				
Barclays	UK AA+	F1 A Support 1 Viability A	20.000	
RBS	UK AA+	F1 A Support 1 Viability BBB	5.000	
			<b>25.000</b>	<b>40</b>
<b>Variable Deposit</b>				
None			0.000	0
			<b>0.000</b>	<b>0</b>
<b>Total</b>			<b>63.047</b>	<b>100</b>