Regulatory & Audit Committee

Title:	**Treasury Management Annual Report 2012/13**
Date:	27 June 2013
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Electoral divisions affected:	n/a

Summary

The Council is required to report to members on the previous year's treasury management activity. It was agreed at County Council that an annual treasury management report, reporting on treasury management activity in the previous financial year would be reported to Regulatory and Audit Committee in June.

Recommendation

The Committee are asked to RECOMMEND to Council the Treasury Management Annual Report and the actual Prudential Indicators for 2012/13.

A Supporting information

Background

1 In line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management, revised in 2011, and the Council's Financial Regulations (A3.2), this Council is required to provide Regulatory and Audit Committee with a report on the previous year's treasury management activity.

2 The Code of Practice defines Treasury Management as:
The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Treasury Management Strategy

3 The Council approved the 2012/13 treasury management strategy at its meeting on 16 February 2012. The general policy objective for this Council is the prudent investment

of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. The effective management and control of risk are prime objectives of the Council's treasury management activities.

4 All treasury management activity undertaken during the period complied with the approved strategy, the CIPFA Code of Practice and the relevant legislative provisions.

5 Due to the higher than anticipated average cash balances and the ongoing reduction in the number of counterparties that the Council can place investments with, it became necessary to make some amendments to the investment strategy during 2012/13. It was agreed that the Council could invest in UK building societies valued at or in excess of £1bn rated BBB or above (currently Nationwide, Yorkshire, Coventry, Leeds and Nottingham) and those valued at or in excess of £1bn without credit ratings (currently Progressive, Cumberland, National Counties, Saffron and Cambridge.) A cash limit of £3m per institution up to a maximum of £30m was agreed for Building Societies that are not rated or are rated lower than A-.

Debt Management Strategy

6 The Council's borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio.
- To manage the Council's debt maturity profile, leaving no one future year with a disproportionate level of repayments.
- To maintain a view on current and possible future interest rate movements and borrow accordingly.
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and the Prudential Indicators.
- The strategy was for no new borrowing in 2012/13.

Investment Performance in 2012/13

7 Internal monitoring procedures of the Treasury Management function included:

- A monthly management review of relative investment performance against the Finance & Commercial Services Service Plan target to achieve the LIBID weighted average interest on treasury income, the weighted average is a composite of investment returns for 7 days, 1 month, 3 months, 6 months and 1 year maturities;
- Periodic internal and external audit scrutiny, no significant findings were reported;
- Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking to monitor performance compared to other local authorities; and
- Proactive management – acting on arlingclose's (the Council's treasury advisor) advice and liaising with other Council's treasury functions regarding best practice and new initiatives.

8 The average rate of return on investments was 0.80% percentage points, exceeding the weighted average LIBID for the year by 0.12% percentage points. The Government's Funding for Lending (FLS) initiative commenced in August 2012 which gave banks access to cheaper funding on the basis that it would then result in them passing this advantage to the wider economy. One direct consequence of the FLS initiative was the sharp drop in rates at which banks borrowed from local government. 3 month, 6 month and 12 month LIBID rates which were 1.00%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

9 During 2012/13 Buckinghamshire County Council (BCC) invested cash balances not required on a day-to-day basis for periods up to 1 year. The total of these investments at any one time varied between £208m and £265m at interest rates between 0.25% and 3.25%. The Service Director (Finance and Commercial Services) approves and monitors the institution lending list in line with a predetermined set of criteria (approved by County Council as part of the Treasury Management Strategy) and investments were made within the agreed list of lenders and associated lending limits and maturity periods. During 2012/13 the Council held and invested in the region of £15m cash on behalf of the Buckinghamshire Fire and Rescue Service, in 2012/13 £60k interest was paid to the fire authority in respect of these cash balances. With effect from 2 April 2013 the fire authority undertakes its own treasury management function.

10 The interest earned and credited to the Council's revenue account was £2.28m overachieving income by £144,000 compared to the £2.14m budget. The difference between the actual income received and the budget is due to additional interest income being achieved since cash balances during the year were higher than expected. The base interest rate has been 0.5% since March 2009 and is forecast by Arlingclose, the Council's treasury advisors, to remain at 0.5% until 2016.

11 The principal of sums invested as at 31 March 2013 totalled £245m. These investments were placed with 29 institutions in sums of between £2m and £15m at interest rates of between 0.45% and 0.95%. Of the 29 institutions, 9 are local authorities, 12 are UK banks or building societies, 3 are AAA rated money market funds operated by financial institutions and 5 are foreign institutions. During the year the Council continued to adopt a defensive strategy by not investing in banks in the eurozone and keeping all investments to a short term. This was an internal Treasury Management Strategy reviewed monthly by the Treasury Management Group with the Cabinet Member for Finance and Resources. As reported to Regulatory and Audit Committee in January Arlingclose recommended that the three month internal limit is removed and that the Council could consider investing in eurozone banks on a bank by bank basis. During 2012/13 there were no investments placed with banks in the eurozone.

12 In January 2013 the investment strategy for 2013/14 was considered by Regulatory and Audit Committee prior to being approved by County Council in February. The 2013/14 strategy increased the maximum duration of investment with UK local authorities from 3 years to 25 years with a counterparty limit of £25m. It was agreed that any investments greater than 10 years and the risk management process would be reported to Regulatory and Audit Committee. There have been no such investments.

13 In December 2011 the Icelandic Supreme Court determined that UK local authority deposits with Landsbanki qualified for priority creditor status. Securing priority creditor status means that UK local authorities' claims have been recognised as deposits with priority status over other creditors' claims. We are being paid first when it comes to getting our money back and will recover almost all of the £5 million we had on deposit with Landsbanki. During 2011/12 we received £1.5m and a further £900k was received in the first half of 2012/13 leaving £2.6m outstanding. The way in which the LGA and our legal advisors have co-ordinated the legal action with other local authorities, universities and other UK wholesale depositors has minimised legal costs whilst enabling us to advance the strongest possible arguments to secure this result. The cost of the litigation to date amounts to less than 1 per cent of the amount we expect to recover.

Borrowing in 2012/13

14 Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The actual Prudential Indicators

for 2012/13 and the Indicators for 2013/14 to 2016/17 agreed by County Council at its meeting on 14 February 2013 are shown in Appendix 1.

15 Loans outstanding totalled £193.928m at 31 March 2013; £105.660m was from the Public Works Loan Board (PWLB), £82m from the money markets, £2.3m accrued interest and £4m from Aylesbury Vale Advantage for Berryfields development which is due to be repaid by December 2013.. The provisional outturn for interest on external borrowing is £12.439m. £11.732m was repaid to the PWLB as part of scheduled instalments, there has been no new long term borrowing during the period although the Council actively monitors debt restructuring options. The Certainty Rate was introduced by the PWLB in November 2012, allowing the authority to borrow at a reduction of 20bps on the Standard Rate.

16 Short-term cash held by the Council and treated as short term borrowing was £15.3m from the Buckinghamshire Fire and Rescue Service as at 31 March 2013. On 2 April 2013 the Council repaid the cash balance to the fire authority which has decided to undertake its own treasury management role. During 2012/13 there were no occasions when the Council borrowed from the money markets for short term cash flow purposes.

B Resource implications

There are no additional costs associated with the recommendation.

C Legal implications

The publication of annual strategy, a mid year treasury report and an annual strategy conforms to best practice as required by the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice.

D Other implications/issues

There are none.

E Feedback from consultation, Local Area Forums and Local Member views (if relevant)

Not applicable.

Background Papers

Treasury Management Strategy Report to County Council 16 February 2012
http://democracy.buckscc.gov.uk/mgChooseDocPack.aspx?ID=5053

Treasury Management Statement and Annual Report to County Council 19 July 2012
http://democracy.buckscc.gov.uk/ieListDocuments.aspx?CId=107&MId=5056&Ver=4

Treasury Management Update to County Council 22 November 2012
http://democracy.buckscc.gov.uk/documents/b14295/Updated%20Treasury%20Report%2022nd-Nov-2012%2009.30%20County%20Council.pdf?T=9