

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE – 26 JUNE 2013**

Title of report	<b>TREASURY MANAGEMENT STEWARDSHIP REPORT 2012/13</b>
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Purpose of report	To inform Members of the Council's Treasury Management activity undertaken during the financial year 2012/13.
Reason for Decision	To ensure that Members are informed of the Council's Treasury Management activity during the financial year and have the opportunity to scrutinise that activity.
Council Priorities	Value for Money
Implications:	
Financial/Staff	Not applicable
Link to relevant CAT	Could impact upon all Corporate Action Teams
Risk Management	Borrowing and investment both carry an element of risk. This risk is moderated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA code of Treasury Management and the retention of Treasury Management Advisors (Arlingclose) to proffer expert advice.
Equalities Impact Assessment	Not applicable
Human Rights	Not applicable
Transformational Government	Not applicable
Consultees	None

Background papers	<a href="#">Treasury Management Strategy Statement 2012/13 – Council Meeting 23 February 2012</a> <a href="#">Treasury Management Activity – April to August 2012 – Audit and Governance Committee 26 September 2012</a> <a href="#">Treasury Management Activity – April to November 2012 – Audit and Governance Committee 18 December 2012</a> <a href="#">Treasury Management Stewardship Report 2011/12 – Cabinet 22 May 2012</a>
Recommendations	<b>THAT MEMBERS APPROVE THIS REPORT.</b>

## 1.0 BACKGROUND

- 1.1 The Authority's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the code"), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and Investment activity.
- 1.2 Treasury Management is defined as "the management of the local authority'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."
- 1.3 The Treasury Management Stewardship Report is supplemented by two in-year reports to the Audit and Governance Committee on 26 September 2012 and 18 December 2012.

## 2.0 THE U.K. ECONOMY AND EVENTS

- The economy shrank in the first, second and fourth quarters of 2012 calendar year. However the Olympic Games aided the 0.9% growth in the third quarter. This allowed growth to register at 0.2% over the 2012 calendar year.
- The UK Bank Rate was maintained at 0.5% throughout the financial year.
- Household financial conditions and purchasing power were constrained as wage growth remained subdued at 1.2% and was outstripped by inflation.
- The annual Consumer Price Index (CPI) dipped below 3%, falling to 2.4% in June before ticking up to 2.8% in February 2013.
- The four big banks in the UK – Barclays, RBS, Lloyds and HSBC - along with several global institutions came under investigation in the LIBOR rigging scandal
- The UK's Sovereign rating was downgraded in year, by Moody's to Aa1
- The Chancellor largely stuck to his fiscal plans with the austerity drive extending into 2018
- The Government's Funding for Lending (FLS) initiative commenced in August giving banks access to cheaper funding on the basis that they would pass this advantage to the wider economy. This resulted in an improved flow of credit to mortgagees but was still below expectations for Small and Medium Enterprises (SME's)
- A direct consequence of the FLS was the sharp drop in rates at which banks borrowed from local Government. 3; 6 and 12 month London Interbank Bid (Libid)

rates were at 1%; 1.33% and 1.84% at the beginning of the financial year but fell to 0.44%; 0.51% and 0.75% respectively.

### 3.0 THE COUNCIL'S TREASURY POSITION

3.1 The Council's gross / net debt and investment positions are as follows:

<b>DEBT</b>	<b>Balance at 01/4/2012 £m</b>	<b>%</b>	<b>Maturing loans £m</b>	<b>Premature redemptions £m</b>	<b>New Borrowing £m</b>	<b>Balance at 31/3/2013 £m</b>	<b>%</b>
Long-term fixed rate	£89.475m	100	£0.965m	£0m	£0m	£88.510m	100
Long-term variable rate	£0m	0	£0m	£0m	£0m	£0m	0
Temporary Borrowing	£0m	0	£0m	£0m	£0m	£0m	0
<b>Total borrowing</b>	<b>£89.475m</b>	<b>100</b>	<b>£0.965m</b>	<b>£0m</b>	<b>£0m</b>	<b>£88.510m</b>	<b>100</b>
Other long-term liabilities	£0.161m		£0.012m	£0m	£0m	£0.149m	
<b>TOTAL EXTERNAL DEBT</b>	<b>£89.636m</b>		<b>£0.977m</b>	<b>£0m</b>	<b>£0m</b>	<b>£88.659m</b>	
<b>INVESTMENTS</b>	<b>Balance at 01/4/2012 £m</b>	<b>%</b>	<b>Maturities £m</b>	<b>Sales £m</b>	<b>New Investments £m</b>	<b>Balance at 31/3/2013 £m</b>	<b>%</b>
<b>Internally Managed</b>	£7.342m	100	£126.812m	£0m	£133.523m	£14.053m	100
Investments with maturities up to 1 year,	£7.342m	100	£126.812m	£0m	£133.523m	£14.053m	100
Investments with maturities in excess of 1 year	£0m	0	£0m	£0m	£0m	£0m	0
<b>Externally Managed Investments</b>	£0m	0	£0m	£0m	£0m	£0m	0
<b>TOTAL INVESTMENTS</b>	<b>£7.342m</b>		<b>£126.812m</b>	<b>£0m</b>	<b>£133.523m</b>	<b>£14.053m</b>	
<b>NET DEBT</b>	<b>£82.294m</b>					<b>£74.606m</b>	

3.2 The loan portfolio is significantly higher than previous years due to the self financing system of council housing introduced by the Government in 2011/12. This was reported in the Treasury Management Stewardship Report 2011/12. Two of the PWLB loans taken out as part of the financing were on an annuity basis and have a repayment of principal included. This is shown in the table under the column 'Maturing Loans'.

3.3 The investment position varies throughout the year as it is dependent upon cash flow. Examples of significant areas that can impact on cash flow are collection of council tax, NNDR, grants, capital receipts, payments to other precepting authorities, central government and interest on treasury activity. In 2012/13 the capacity for investment has increased by £6.7m. This is in part due to the allocation of the Decent Homes Grant (£3.7m), sales of houses under the 'Right to Buy' scheme (£0.7m) and the timing of income and expenditure.

### 4.0 BORROWING ACTIVITY

4.1 The Council's Borrowing Strategy 2012/13, approved by Council on 23 February 2012, incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.

- 4.2 No existing loans requiring replacement, matured during 2012/13.
- 4.3 The Council did not undertake any new long-term borrowing during the year and interest payments totalling £2.96m were made in respect of existing debt.
- 4.4 The Council's cash flow remained positive during the year. The Authority did not require any temporary loans in the year.
- 4.5 The Authority has approximately £4.4m of internal debt at 31 March 2013 as this is currently judged to be the most cost effective means of funding the capital programme. The 2012/13 net capital programme financing requirement of £0.7m is included in the above figure. The Minimum Revenue Provision (MRP) charge that was made to the revenue account for 2012/13 was £1.57m and includes both the Housing and general fund elements. The MRP is intended to ensure that the capital financing debt is paid off over the longer term.

## **5.0 DEBT RESCHEDULING ACTIVITY**

- 5.1 The Council's Debt Rescheduling Strategy 2012/13, which was approved by Council on 23 February 2012, establishes a flexible approach where the rationale for rescheduling could be one or more of the following:
- Savings in interest costs with minimal risk.
  - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
  - Amending the profile of maturing debt to reduce any inherent refinancing risks.
- 5.2 No opportunities for debt rescheduling were identified which conformed to the above rationale. Accordingly, the Council undertook no debt rescheduling activity during the year.
- 5.3 The Council's portfolio of fourteen loans - eight PWLB loans and four market loans - will continue to be monitored for debt rescheduling opportunities that comply with the Council's Policy and rationale.

## **6.0 INVESTMENT ACTIVITY**

- 6.1 The Council's Investment Policy and Strategy 2012/13, which was approved by Council on 23 February 2012, establish that the major policy objective is to invest its surplus funds prudently.

The Council's investment priorities are:

- security of the invested capital;
- sufficient liquidity to permit investments; and,
- optimum yield which is commensurate with security and liquidity.

The counterparty criteria, approved by Council on 23 February 2012, restricted new deposits to the following:

- the Debt Management Office
- Other local authorities
- AAA-rated Stable Net Asset Value Money Market Funds
- Banks / Building Societies which have an AA or Aa rating with all three credit ratings agencies: Fitch, Moody's and Standard and Poor's. The only bank available in the year with the agreed counterparty criteria was HSBC.

6.2 The Authority sought to optimise returns commensurate with its objectives of security and liquidity. However, an appropriate risk management response to uncertain and deteriorating credit conditions in Europe was to shorten the term of maturity for investments. Short term money market rates were at very low levels which had a significant impact on investment income.

6.3 The Authority's budgeted investment income for the year was estimated at £70,000. The average cash balances representing the Authority's reserves, capital receipts and working balances were £14.3m during the year. An average interest rate of 0.39% was achieved and the total interest earned on investments was £74,667. Of this total interest, £7,980 is applied to balances held on external income. This external income represents balances from S106 contributions for schemes such as affordable housing and recreation that have not yet been spent.

## 7.0 **SUMMARY**

7.1 The Authority can confirm that it has complied with its Prudential Indicators for 2012/13, which were approved on 23 February 2012 as part of the Authority's Treasury Management Strategy Statement.

7.2 In compliance with the requirements of the CIPFA Code of Practice, this report provides members with a summary report of the Treasury management activity during 2012/2013. No indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

7.3 The Authority can confirm that during 2012/13, it complied with its Treasury Management Strategy Statement, policies and Treasury Management Practices.