Appendices 2

Appendix 1

NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	TREASURY MANAGEMENT OUTTURN 2013-14

AGENDA STATUS: **PUBLIC**

Cabinet Meeting Date:	10 September 2014
Key Decision:	NO
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 2013-14.

2. Recommendations

2.1 That Cabinet recommend to Council that they note the Council's treasury management performance for 2013-14

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 3.2.7 to 3.2.13
Performance report	Paragraph 3.2.7 to 3.2.13
Monitoring of treasury management indicators for local authorities.	Paragraph 3.2.14 Appendix B
Compliance report on agreed policies/practices and on statutory/regulatory requirements	Paragraph 3.2.15 to 3.2.16
Report on compliance with CIPFA Code recommendations	Paragraph 3.2.17

3.1.3

Key Headlines

- **Interest Rates** have remained low throughout 2013-14 with the average 7 day LIBID rate being 0.35%
- **Borrowing** as at 31 March 2014 was £226m, of which £193m relates to the HRA. The weighted average interest rate on borrowing was 3.52%
- **Investments** at 31 March 2014 were £73m. Average investment levels were £70m and the rate of return was 0.79%. This was 0.44%.above the LIBID 7 day benchmark.
- **Investment benchmarking** shows that the Council investments are performing ahead of the average of councils in its benchmarking group
- **Prudential and Treasury Indicators** have been monitored throughout the year. All activity has been within agreed limits.

3.2 Issues

Economic Environment and Interest Rates

3.2.1 A short commentary on the economic environment and interest rate forecasts, provided by Capita, the Council's treasury management advisers, is included at **Appendix A**.

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 2013-14 approved by Council 25 February 2013. The management of these risks during 2013-14 is covered in the following paragraphs.

a) Credit and counterparty risk – This continued to be an area of considerable risk for all local authority investors, given the prevailing economic and banking environment. 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 2013-14.

b) Liquidity risk – This was managed effectively during 2013-14 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 2013-14.

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 B**. The indicators were not breached during 2013-14.

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 2013-14 and was therefore not exposed to this category of risk during the year.

f) Legal and regulatory risk - The Council carried out its treasury management activities for 2013-14 within the current legal and regulatory framework. LGSS 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 – LGSS 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 2013-14.

The Council purchased certificates of deposit in 2013-14, 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

3.2.3 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.

3.2.4 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.

3.2.5 In summary, and broadly speaking, the balance sheet values of the Council's debt and investments at 31 March 2014 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

3.2.6 Outturn figures relating to borrowing and investments are shown and discussed at paragraphs 3.2.7 to 3.2.10 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

3.2.7 Borrowing

a) 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 2013-14 was £250m. The total amount of debt outstanding, including finance leases, as at 31 March was £227m

b) New PWLB borrowing of £10m was taken out during 2013-14 to support loans to two local sports clubs.

c) 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) (£20k) due in 2013-14.

3.2.8 Long Term Borrowing

a) The table below shows the Council's long-term debt as at 31 March 2014 at amortised cost. The total long term debt outstanding is £210m.

Long Term Debt Outstanding at 31 March 2014	**Principal**	**Proportion of Debt**	**Range of Interest Rates**	
			From	**To**
	£000	**%**	**%**	
PWLB	199,910	95%	1.24%	3.97%
Money Market LOBO Loans	9,068	4%	4.85%	4.85%
HCA Annuity Loan	1,148	1%	9.25%	9.25%
Total	**210,126**	**100%**		

b) 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. The split between HRA and GF long term borrowing is as follows:

Long Term Debt Outstanding at 31 March 2014	**Principal**	**Proportion of Debt**	**Range of Interest Rates**	
			From	**To**
	£000	**%**	**%**	
General Fund	16,993	8%	2.40%	9.25%
HRA	193,133	92%	1.24%	4.85%
Total	**210,126**	**100%**		

c) The table below shows the Council's long-term debt maturity profile as at 31 March 2014. This excludes debt due for repayment within the next 12 months (see paragraph 3.2.7)

Long Term Debt Outstanding at 31 March 2014	**Principal**	**Proportion of Debt**
	£000	**%**
Maturing in 1-2 years	2,259	1%
Maturing in 2-5 years	18,299	9%
Maturing in 5-10 years	16,312	8%
Maturing in over 10 years	173,256	82%
Total	**210,126**	**100%**

3.2.9 Short Term Borrowing

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

Short Term Debt Outstanding at 31st March 2014	**Principal**	**Proportion of Debt**	**Range of Interest Rates**	
			From	**To**
	£000	**%**	**%**	
PWLB	261	2%	3.97%	3.97%
Money Market LOBO Loans	15,721	97%	5.68%	7.03%
HCA Annuity Loan	22	0%	9.25%	9.25%
Northampton Volunteering Centre	189	1%	0.17%	0.63%
Billing Parish Council	90	1%	0.17%	0.63%
Total	**16,283**	**100**		

b) PWLB Equal Instalment Payment (EIP) loans were taken out in 2013-14 to fund third party loans to Northampton Rugby Football Club. The repayment of the principal element of the loans due in 2014-15 is treated as short term borrowing in the accounts in accordance with accounting requirements.

c) Two money market LOBO loans totalling £15.7m are due for repayment at final maturity in February 2015. These will be funded from internal borrowing, new borrowing, or a combination of both, depending on interest rate conditions and forecasts, and subject to advice from the Council's external treasury management advisors.

d) The repayment of the principal element of the HCA annuity due in 2014-15 is treated as short term borrowing in the accounts in accordance with accounting requirements.

e) 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.

f) All short term borrowing as at 31 March relates to the General Fund.

Performance Report - Investments

3.2.10 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 2013-14 was included in the Treasury Strategy for 2013-14, approved by Council on 25 February 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 2013-14 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 Capita, the Council's treasury management advisors. In addition, the Investment Strategy imposes Council specific value and investment period limits for each category of approved counterparty.

g) The maximum limits in 2013-14 for placements with individual or group counterparties are set out below. Within this framework lower limits applied depending on credit ratings and other factors specific to each institution.

Investments may be placed with counterparties recommended by the Council's external treasury advisors, and which meet the following criteria:	**Additional limits**
(1) UK counterparties	NBC **additional limits** in force will be £15m and a maximum of 2 years (729 days)
Or	
(2) UK nationalised or part nationalised banking institutions	NBC **additional limits** in force will be £20m and a maximum of 2 years (729 days)
Or	
(3) Non UK counterparties having a sovereign rating of AAA	NBC **additional limits** in force will be £15m and a maximum of 2 years (729 days)

h) Instant access deposit accounts and call accounts continued to be used during 2013-14 to ensure liquidity and security of funds. The average balance in deposit and call accounts throughout the year was £19.8m.

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 £19.4m.

j) The number of new fixed term money market investments, including Certificates of Deposit, made during the year was 19, with a range of investment periods from 50 days to 364 days. The average investment period was 246 days.

k) The total value of investments held at 31 March 2014 - at amortised value for money market investments over three months, and cash values for all other investments - was £73.2m. 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	
	£000	%
Cash & Cash Equivalents		
Deposit accounts	12,181	17%
Call Accounts	9,500	13%
Money Market Funds	22,860	31%
Short Term Investments under 1 year		
Short Term Investments – Fixed Term	27,610	38%
Long Term Investments over 1 year		
Long Term Investments – Fixed Term	1,002	1%
Total	**73,153**	**100.0**

l) The Council's average rate of return on investments in 2013-14 was 0.79%, ranging from a high of 1.10% (April 2013) to 0.62% (February 2014). Performance above the 7 day LIBID (London Interbank Bid Rate), ranged from 0.73% (April 2013) to 0.27% (February 2014), averaging 0.44% against a target of 0.50%. The average differential to 7 day LIBID represents an uplift of £4,400 per £1m invested.

m) The ability to meet the 7 day LIBID performance target is reliant on the market providing financial products with suitable rates that also comply with the risk requirements set out within the Council's Treasury Management Strategy. Economic initiatives such as Funding for Lending and Quantitative Easing have seen financial institutions cut back on offered rates as their need to attract new money has diminished, and the rates available on suitable investments have reduced significantly as a result. Benchmarking data available to the authority demonstrates that this situation is common across local authorities

n) The Council has benchmarked its investment performance against other local authorities, using data from the Capita Investment Benchmarking Forum, which provides quarterly benchmarking data, on a snapshot basis, on investment returns. The following table sets out the Council's performance compared with other local authorities during 2013-14 using this indicator.

Average Investment Returns 2013-14				
Benchmarking Forum Classification	**30 June 2013**	**30 Sept 2013**	**31 Dec 2013**	**31 March 2014**
Northampton Borough Council	1.01%	0.78%	0.68%	0.63%
Benchmarking Group	0.81%	0.67%	0.60%	0.62%
Non Metropolitan Districts	1.01%	0.79%	0.71%	0.73%
Whole population	0.89%	0.77%	0.69%	0.70%

o) Average investment returns have fallen across the board as the rates available to local authorities have been squeezed.

p) The circumstances and risk appetite of individual local authorities will be reflected in their returns. For example some local authorities will invest in non-rated building societies and consequently have access to higher rates, but with an increased level of risk. NBC were maintaining higher levels of liquidity than normal in the final quarter of 2013-14 in order to meet cash requirements and hence a lower rate of return would be expected as investments were kept short or available for immediate recall.

q) To ensure the Council is maximising the current opportunities contained in the Treasury Management Strategy it will continue to work with its external treasury management advisers to review the position, and if opportunities exist outside of the existing strategy , it will propose these to senior management and members for consideration.

Performance Report - Debt Financing Budget Outturn

3.2.11 The table below shows the budget, outturn and variance for the Council's General Fund debt and investment portfolio in 2013-14. This demonstrates the revenue (current) effects of the treasury transactions executed.

Debt Financing and Interest	Budget 2013-14 £000	Outturn 2013-14 £000	Variance 2013-14 £000
Interest Payable	1,328	1,394	66
Interest Receivable	(625)	(674)	(49)
Other Debt Financing	1,343	1,383	40
Total	**2,046**	**2,103**	**57**

3.2.12 A savings target of £200k on interest receivable was not met due to the poor interest rate environment and the lack of suitable investment opportunities meeting the criteria of the Council's treasury management strategy. This shortfall was funded from the Council's debt financing earmarked reserve, and has been netted off in the table above.

3.2.13 Minimum Revenue Provision, which is the amount of money required to be set aside to finance borrowing was £57k over budget, as a savings target based on an assumption of slippage in the 2012-13 capital programme that did not materialise, was not fully realised.

Prudential Indicators and Treasury Management Indicators

3.2.14 Throughout the course of the year, LGSS treasury staff have monitored the prudential Indicators and the treasury management indicators set for 2013-14. The outturn indicators are shown at **Appendix B** with a brief commentary**.** 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 2013-14 financial year.

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

3.2.15 NBC and LGSS officers and NBC 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).

3.2.16 Compliance has been monitored during the year. No breaches of compliance have been recorded.

Compliance with CIPFA Code Recommendations

3.2.17 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 2013-14 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 2013-14 was approved by Council on 25 February 2013.

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

4.3.2 The CIPFA Treasury Management Code of Practice requires the Council to nominate 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 3.2.11 to 3.2.13.

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 2013-14 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 2013-14, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs. 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. This report will be presented to Audit Committee at their meeting of 3 November 2014.

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

Glenn Hammons, Chief Finance Officer 0300 330 7000