

10 July 2013		ITEM 11 01104223
Cabinet		
Borrowing and Investment Performance and Policy Review 2012/13		
Portfolio Holder: John Kent, Leader of the Council		
Wards and communities affected: None		Key Decision: Yes
Accountable Head of Service: Sean Clark, Head of Corporate Finance		
Accountable Director: Martin Hone, Director of Finance and Corporate Governance		
This report is Public		
Purpose of Report: To review the borrowing and investment activity and report on the treasury outturn position for 2012/13.		

EXECUTIVE SUMMARY

The Revised CIPFA Prudential Code requires that a Treasury Management Outturn report is produced as soon after the financial year end as is practicable.

In accordance with the Revised CIPFA Prudential Code, this report

- (a) reviews borrowing and investment activity for 2012/13; and
- (b) reports the treasury outturn position for 2012/13.

1. RECOMMENDATIONS:

- 1.1 In line with the Treasury Management Policy Statement approved by Council on 29 February 2012 and the CIPFA Code of Practice, the Cabinet is asked to comment on the borrowing and investment performance for 2012/13.**

2. INTRODUCTION AND BACKGROUND:

- 2.1 This Borrowing and Investment Performance and Policy Review 2012/13 report is prepared under the terms of the CIPFA Prudential Code.**

- 2.2 The report presents details of borrowing and investment transactions that took place in 2012/13 and also reports the outturn position on treasury management transactions for 2012/13.

3. ISSUES AND/OR OPTIONS:

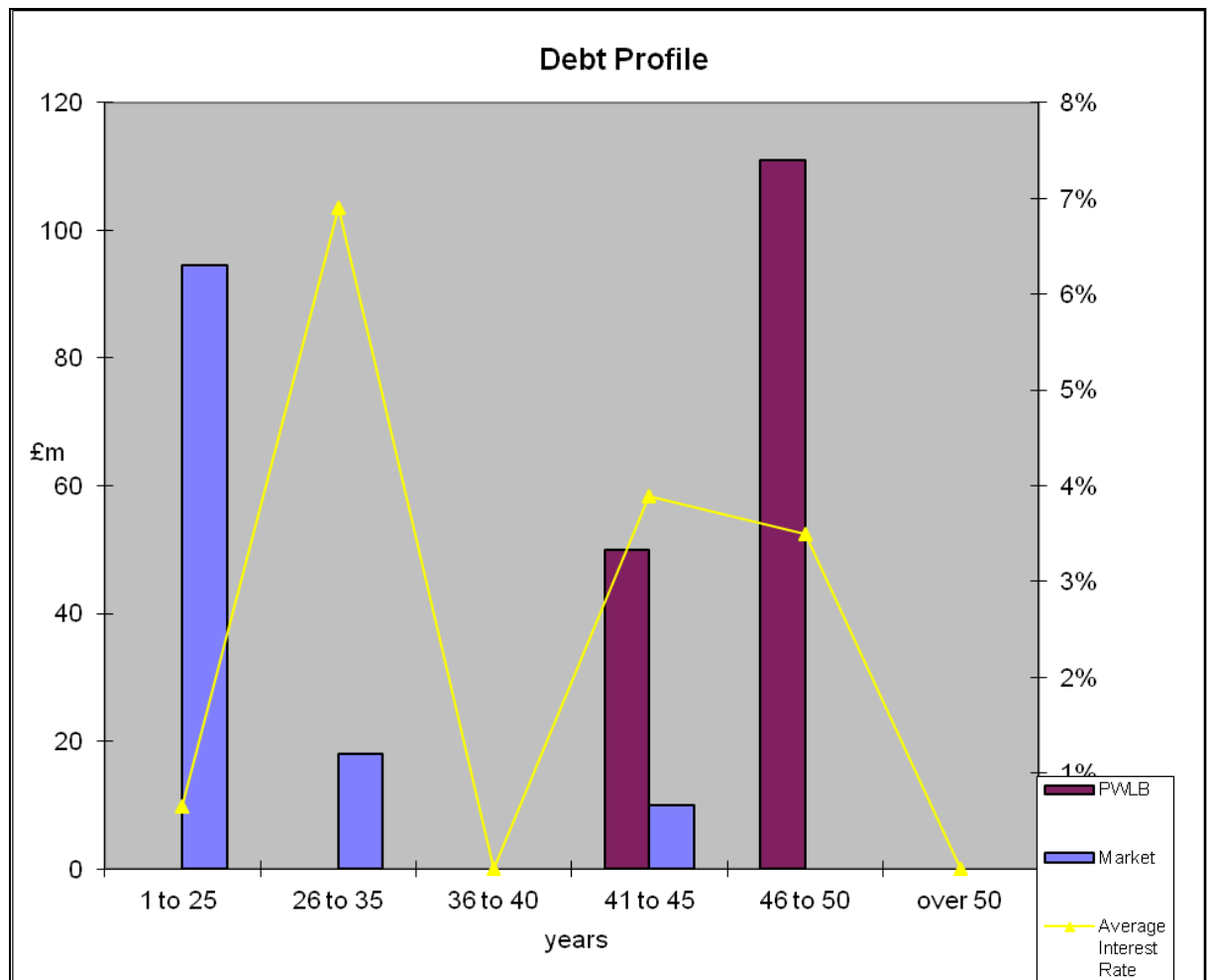
- 3.1 The Council's borrowing activity during 2012/13 is summarised in table 1 below:

Table 1				
Source of loan	Outstanding Debt 1 April 2012 £000's	New loans Raised £000's	Loans Repaid £000's	Outstanding Debt 31 March 2013 £000's
Public Works Loan Board (PWLB)	160,889	0	0	160,889
Market Loans	29,003	0	0	29,003
Total long term	189,892	0	0	189,892
Temporary Market Loans	94,500	206,650	207,650	93,500
Total Debt	284,392	206,650	207,650	284,392

- 3.2 No long term borrowing has been taken in 2012/13. The Council continued to fund the £84.5 million of old PWLB debt by taking short term temporary loans at much lower rates.
- 3.3 The major events during the year are identified below:
- 3.4 The Council had a Borrowing Requirement of £17.26m for 2012/13 (the amount that the Council would have been able to increase its debt by over the financial year). This requirement allows the Council to borrow (from the PWLB or money market) the amount that will keep the Council within its estimated Capital Financing Requirement. Known as the CFR, this reflects the Council's underlying need to borrow for Capital purposes at the end of the financial year. In general terms the Council's overall long term borrowing should not exceed its CFR.
- 3.5 None of the Borrowing Requirement for 2012/13 has been taken up. In consultation with the Council's treasury advisors, Arlingclose, it was decided not to take any of the requirement before the end of the financial year.

- 3.6 After taking into account the levels of reserves and balances held by the Council and the fact that the Council's Capital Financing Requirement (CFR) is estimated to reduce in future years, it was deemed inappropriate to borrow long term funding at this point in time.
- 3.7 The graph below (table 2) illustrates the maturity profile of the Council's debt portfolio. The £93.5 million maturing in 1-25 years is made up of £93.5 million temporary debt taken to cover cash flow and finance the PWLB restructuring that all mature in 2013/14. All of the Council's remaining long term debt matures after 25 years, but, ranges from 26 to 50 years, with the HRA Financing Settlement loans maturing from 2056/57 onwards. This maturity profile occurs as a result of the continuing historical low in interest rates and the decision taken to borrow longer at the lowest rates available.

Table 2



- 3.8 During 2010/11 the Council undertook a rescheduling exercise whereby the entire PWLB portfolio was repaid. This was reported in detail to Cabinet in the Half Year Treasury Report on 10 November 2010 and in further detail to the Audit Committee in January and February 2011. This rescheduling has continued to contribute greatly to the final favourable outcome to the General Fund as shown in paragraph 5.1 Table 8. The current assumption is that the

Council will start to fix rates in 2015/16 and growth of £1.5m has been included in the Medium Term Financial Strategy over 2015/16-2016/17 financial years. Officers continue to monitor the economic projections relating to interest rates and will take action to fix rates earlier should it be necessary.

3.9 During the year the Council operated within the treasury limits set out in the Council's Treasury Policy Statement which were as follows:

- (a) To obtain any long term borrowing requirement from the sources of finance mentioned in paragraph 3.3 of the Borrowing and Investment Annual Strategy.
- (b) To continue to fund the ex-PWLB debt via short term funds from the money markets unless circumstances dictate moving back into long term fixed rate debt. The borrowing sources mentioned in paragraph 3.3 of the Borrowing and Investment Annual Strategy will then be assessed as to their suitability for use.
- (c) Repay market loans that come up for renewal by realising equivalent amounts of investments. If it is not possible to realise investments then the borrowing sources in paragraph 3.3 of the Borrowing and Investment Annual Strategy will be assessed as to their suitability for use as replacements.
- (d) To undertake short term temporary borrowing when necessary in order to manage cash flow to the Council's advantage.
- (e) Reschedule market and PWLB loans, if practicable, to achieve interest rate reductions, balance the volatility profile or amend the debt profile, dependent on the level of premiums payable or discounts receivable.
- (f) Ensure security and liquidity of the Council's investments and to then optimise investment returns commensurate to those ideals.
- (g) Contain the type, size and duration of investments with individual institutions within the limits specified in Appendix 2 and Appendix 3 of the Borrowing and Investment Annual Strategy.
- (h) Move a further £5 million into Invetsec's Short Dated Bond Fund and Target return Fund if it is felt prudent to do so.
- (i) In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 the Council's policy for the calculation of MRP in 2012/13 shall be the regulatory method for supported borrowing and the asset life (equal instalment) method for Prudential borrowing.

2012/13 Investment Transactions

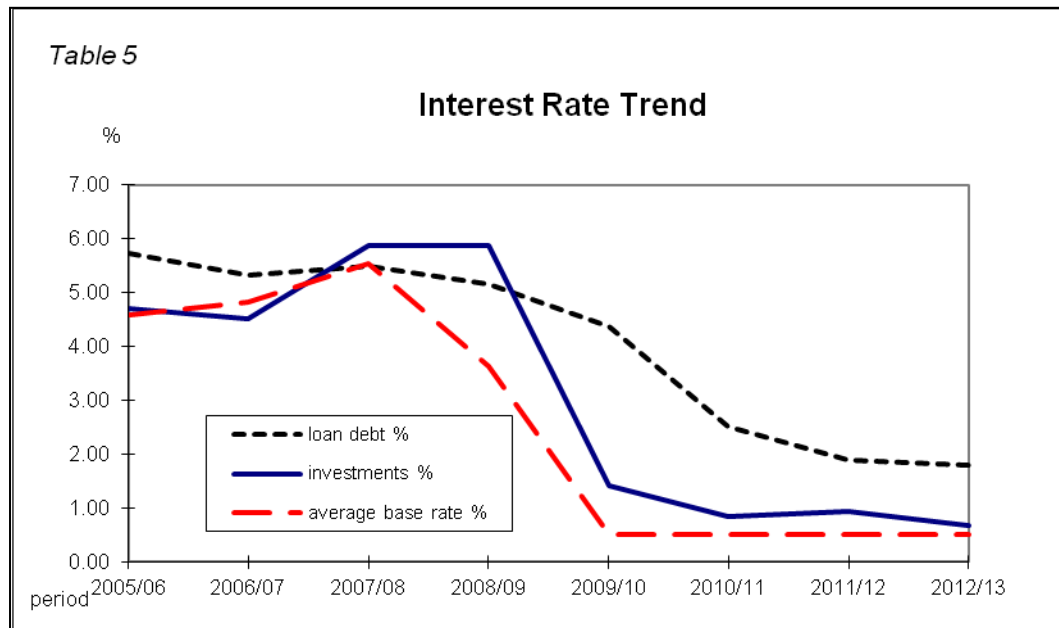
3.10 The movements in the Council's investments may be summarised in a similar manner as follows:

Table 3			
	Fund Managers £'000s	In House £'000s	Total £'000s
1 Total at 1 April 2012	20,000	12,000	32,000
2 New Investments	38,720	3,481,140	3,519,860
3 Investments Redeemed	38,720	3,464,340	3,503,060
4 Total at 31 March 2013	20,000	28,800	48,800

- 3.11 The very large figures in the In-house column relates in the main to investments held on an overnight basis. The continuing effect of the financial crisis has led to the Council reducing its investment counterparty list and it has often been difficult to find counterparties to invest with for any length of time. This has therefore led to more funds being placed on an overnight basis increasing the turnover of the In-House investments in lines 2 and 3 in the above table.
- 3.12 The difference between the opening balance and the closing balance (£16.8 million) represents an increase in investment balances.
- 3.13 At 31 March 2013 the money was invested with the following types of institutions:

Table 4	
	£ 000's
Banks	32,730
Building Societies	4,700
Fixed Interest Securities	370
UK Commercial Paper	400
UK Local Authority	10,600
Total	48,800

- 3.14 All investments made in 2012/13 have been with organisations listed in the Borrowing and Investment Annual Strategy, which was presented to Council on 29 February 2012, and the total sums invested with individual institutions have been contained within the limits specified therein.
- 3.15 The average interest rate paid on the Council's general fund external borrowings in 2012/13 was 1.80% (1.88% in 2012/13) while the corresponding figure for interest earned on investments was 0.67% (0.93% in 2011/12).



The graph (table 5) above shows the trend in interest rate movements over the last eight years. The dotted line **represents** the average rate payable by the Council on its' **borrowings**. The continuous line represents the interest earned on the Council's investments. The movement in the Bank of England's base rate is shown by the dashes. This illustrates

- the success in reducing the Council's average borrowing rate from 5.73% in 2005/06 to 1.80% in 2012/13.
- that investment returns have continued above the Base Rate in 2012/13 despite the base rate staying at a low of 0.50%.

Investment Returns

- 3.16 The net rates of return (after the deduction of fees) achieved by the Council's cash managers, Investec Investment Management as compared with the relevant funds benchmark are set out in Table 6 below. The table shows that during 2012/13 the Investec No. 1 Fund outperformed the benchmark by 0.08% and the Investec no.2 Fund underperformed the composite benchmark by 0.10%.

Table 6				
	Jan 2013 to March 2013 Net Rate of Return %	Benchmark %	April 2012 to March 2013 Net Rate of Return %	Benchmark %
Investec No.1 Fund	0.08	0.11	0.76	0.68
Investec No.2 Fund – Target Return	0.16	0.90	1.58	3.62
Investec No.2 Fund – Short Dated Bond Fund	0.15	0.12	0.88	0.49
Overall Investec No. 2 Fund	0.15	0.28	1.02	1.12

- 3.17 By way of comparison to Investec's returns, the average rate achieved on the Council's directly managed investments in 2012/13 was 0.67% despite the need to finance day to day cash requirements, with the consequent variations in amounts available for investment. However no allowance is made for internal costs associated with Investments.

4. CONSULTATION (including Overview and Scrutiny, if applicable)

- 4.1 The Council's Treasury Advisors, Arlingclose, have been consulted.

5. IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT

- 5.1 The financial implications of the above treasury management activities on the Council's revenue budget are illustrated in the table below. The outturn position is compared against both the original and revised forecast.

Table 8		2012/13 Revised Budget £000's	2012/13 Actual outturn £000's	2012/13 Variance £000's
	Interest payable on external debt			
1	Market Loans	3,746.5	2,403.6	-1,342.9
2	SORP Discounts/Premiums	188.5	188.5	0
3	Internal Interest Payable	-106.9	-15.0	91.9
4	Net Interest Payable	3,828.1	2,577.1	-1,251.0
	Income			
5	Interest on Investments	-454.0	-435.4	18.6
6	Net Charge to GF	3,374.1	2,141.7	-1,232.4
7	MRP Supported Borrowing	4,301.3	4,220.0	-81.3
8	Overall Total	7,675.4	6,361.7	-1,313.7

6. IMPLICATIONS

6.1 Financial

Implications verified by: **Chris Buckley**
 Telephone and email: **01376 652015**
cbuckley@thurrock.gov.uk

The financial implications can be found in the main body of the report

6.2 Legal

Implications verified by: **David Lawson**
 Telephone and email: **01375 652087**
dlawson@thurrock.gov.uk

In determining its affordable borrowing limits under section 3 of the Local Government Act 2003, the Council must have regard to the "Prudential Code for Capital Finance in Local Authorities" (revised Edition 2007) published by CIPFA. In carrying out its functions under Chapter 1, Part 1 of the Local Government Act 2003, the Council must have regard to the code of practice contained in the document "Treasury Management in the Public Sector : Code of Practice and Cross-Sectoral Guidance Notes" (Revised Edition 2009) published by CIPFA.

6.3 **Diversity and Equality**

Implications verified by: **Samson DeAlyn**
Telephone and email: **01375 652472**
SDeAlyn@thurrock.gov.uk

There are no specific implications from this report.

6.4 **Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

None

7. **CONCLUSION**

- 7.1 The overall impact to the General Fund of treasury management activities in 2012/13 is £6.36 million which represents a favourable position of £1.31 million to the General Fund

BACKGROUND PAPERS USED IN PREPARING THIS REPORT:

- Revised CIPFA Prudential Code
- Revised draft ODPM's Guidance on Local Government Investments
- Revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes
- Treasury Management Policy Statement
- 2012/13 Annual Investment Strategy
- Arlingclose's Investment Review.

APPENDICES TO THIS REPORT:

- None

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