Appendices
7

NORTHAMPTON
BOROUGH COUNCIL

Item No. [For Democratic Services Use only]

CABINET REPORT

Report Title	TREASURY MANAGEMENT OUTTURN 2009-10

AGENDA STATUS: **PUBLIC**

Cabinet Meeting Date:	22 September 2010
Key Decision:	NO
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	Finance and Support
Accountable Cabinet Member:	David Perkins
Ward(s)	Not Applicable

1. Purpose

1.1 To inform the Cabinet of the Council's performance in relation to its borrowing and investment strategy for 2009-10.

2. Recommendations

2.1 That the Cabinet recommend to Council that they note the Council's Treasury Management Performance in 2009-10.

3. Issues and Choices

3.1 Report Background

3.1.1 The Council 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") following its publication in 2001.

3.1.2 During 2009, in the light of the impacts on local authorities of the Icelandic bank situation in 2008, CIPFA published a fully revised second edition of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and a fully revised third edition of the Guidance Notes for Local Authorities. The adoption of the updated code was formally minuted as a decision at the Council meeting of 25 February 2010.

3.1.3 The Treasury Management Code of Practice includes recommendations on reporting requirements. The table below shows how the specific requirements have been incorporated into this report.

Reporting Requirement	**Reference**
Report on the risk implications of decisions taken and transactions executed	Paragraph 3.2.13
Transactions executed and their revenue (current) effects	Paragraph 3.2.14 to 3.2.17 Annexes B to F
Performance report	Paragraph 3.2.14 to 3.2.17 Annexes B to F
Monitoring of treasury management indicators for local authorities.	Paragraph 3.2.18 Annex G
Compliance report on agreed policies/practices and on statutory/regulatory requirements	Paragraph 3.2.19

3.2 Issues and Choices

Accounting & Audit Issues

3.2.1 The 2009 CIPFA Statement of Recommended Practice (2009 SORP) 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.

3.2.2 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 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 on their original cash value

3.2.3 In summary, and broadly speaking, the balance sheet values of the Council's debt and investments at 31 March 2010 are held as follows:

Borrowing (Financial Liabilities)	
Long term borrowing	Amortised cost
Short term borrowing	Original (cash) value
Investments (Financial Assets)	
Deposit and call accounts	Original (cash) value
Short term money market investments	Amortised cost

3.2.4 All outturn figures contained in this report are subject to external scrutiny, through the annual audit of the Council's Statement of Accounts.

Economic Environment

3.2.5 The UK, along with most major world economies, began 2009 in recession following the worldwide banking crisis of 2008. Banks were reluctant to lend due to fears over their weakened balance sheets, and many governments were forced to rescue their major banks in order to prevent the collapse of the world banking system. Central bank rates were cut in an attempt to counter the recession; the UK bank base rate was cut to 0.5% in March 2009 and has remained at this level.

3.2.6 In March 2009, the UK Monetary Policy Committee began a programme of quantitative easing to increase liquidity in the economy in order to stimulate growth. This resulted in a reduction in borrowing costs, and caused the spread between bank base rate and investment rates to decrease from 0.95% to zero during the first 5 months of the year, reducing income for investors.

3.2.7 Worldwide, government debt increased in 2009-10 as more support was given to failing banks, and the sovereign ratings of several countries were downgraded due to weak growth and increased debt. The credit ratings of many worldwide banks continued to be unstable throughout the year, and while the frequency of downgrades has now decreased, negative rating watches remain in place for many counterparties.

3.2.8 Standard and Poor's placed a negative outlook on the UK's AAA sovereign rating in May 2009, amid concerns that UK government debt could approach 100% of GDP. This outlook remained in place throughout the year, due to uncertainty over the result of the 2010 general election and the ability of the government to produce an achievable plan for the reduction in budget deficit.

3.2.9 While economic growth returned in the US and the EU in the third quarter of 2009, recovery in the UK was slower. The UK eventually came out of recession in the final quarter of 2009, with growth at 0.4%. Opinion remains divided on the speed and strength of recovery of the major world economies, and interest rate forecasts vary significantly between analysts. In the UK concerns remain over the possibility of a double dip recession caused by a reluctance of consumers to spend in a period of tax increases and redundancy threats, and the potential impact of the current economic climate in the EU on the UK. Even the most optimistic forecasts do not expect UK bank base rate to increase until the end of 2010.

Interest Rates

3.2.10 Interest rates were closely monitored during the course of the year. The bank base rate remained at 0.5% throughout 2009-10. The average 7 day London Interbank Bid Rate (LIBID), and average 7 day London Interbank Offered Rate (LIBOR) fell sharply in the first six months of 2009-10, then started to increase again during the second half of the year.

3.2.11 Rates for money market investments fell in line with the LIBID in the first half of the year, reaching a low point in September 2009 before slowly beginning to rise again in the final six months of 2009-10

3.2.12 **Annex A** shows this information in graphical form and also includes definitions of the key terms used (Bank of England base rate, LIBID rate, LIBOR rate).

Risk implications of decisions taken and transactions executed

3.2.13 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 2010-11 reported to Cabinet on 24 February 2010 & Council 25 February 2010. The management of these risks during 2009-10 is covered in the following paragraphs.

a) Credit and counterparty risk – In the economic and banking environment that prevailed during 2009-10 this was an area of considerable risk for all local authority investors. The Council managed this risk extremely closely during 2009-10 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. The Council was not subject to the failure of any of its counterparties to meet their contractual obligations to the Council under treasury transactions during 2009-10.

b) Liquidity risk – This was managed effectively during 2009-10 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 bank 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 £6m of long term borrowing in advance of need to fund planned capital expenditure over the coming two to three years. These sums were invested within the rules of the Council's agreed investment and counterparty policies.

c) Interest rate risk - The Council's upper limits for fixed and variable interest rate exposures in respect of net external debt are managed as treasury indicators. These are reported at Annex G. The indicators were not breached during 2009-10.

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 2009-10 and was therefore not exposed to this category of risk during the year.

f) Legal and regulatory risk - The Council has carried out its treasury management activities for 2009-10 within the current legal and regulatory framework. 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 - 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). The internal audit report on treasury management for 2009-10 gave a high level of assurance with no recommendations for action.

h) Market risk – The Council did not hold any investments during 2009-10 that were subject to fluctuations in market value, such as gilts and CDs (Certificates of Deposit), and was therefore not exposed to this category of risk during the year.

Performance Report - Borrowing

3.2.14 Long Term Borrowing

a) **Annex B** shows the Council's long-term debt as at 31 March 2010 at amortised cost. The total debt outstanding is £32m. Of this amount, 77% (£24.8m) is in the form of money market LOBO loans, 19% (£6m) is PWLB borrowing and the remaining balance of 4% (£1.2m) is in the form of an annuity loan with the Homes and Communities Agency (HCA).

b) No loans were repaid during the year other than the repayment of the principal element of the annuity with HCA (£14k) due in 2009-10. The principal amount due to HCA in 2010-11 (£16k) is treated as short-term borrowing and is included in the discussion at paragraph 3.2.15 below.

c) New borrowing of £6m was undertaken during January 2010 in the form of three £2m fixed rate maturity loans from the Public Works Loan Board (PWLB), for periods of six, seven and eight years respectively.

d) The timing of the loans, to fund capital expenditure over the next three years, was on the advice of the Council's treasury advisors, Sector, who, in line with other forecasters anticipate that borrowing rates will rise in the short to medium term. Sector also advise that the loans are rescheduled to longer maturity periods when long-term borrowing rates have subsequently decreased back to lower levels.

e) No rescheduling of loans took place during the financial year.

f) 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 borrowing limit. The affordable borrowing limit for 2009-10 was set by Council at its meeting on 26 February 2009.

Compliance is demonstrated below:

	Affordable Borrowing Limit as set 26 February 2009	**Maximum Actual Amount Outstanding in Year**
Overall Borrowing	£43m	£32m

g) **Annex C** illustrates the Council's long-term debt maturity profile as at 31 March 2010.

   Two LOBO loans totalling £15.6m are due for repayment in 2014-15. As current interest rates are lower than the rates applicable to these loans, rescheduling of this debt at current rates would incur high premiums, and would therefore not be beneficial. Options for the repayment or rescheduling of these loans will be revisited nearer to their maturity date, and advice taken from Sector the Council's treasury management advisers.

3.2.15 Short Term Borrowing

a) The year-end position on temporary borrowing, and the range of rates applied, is set out at **Annex D**.

b) 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.

c) The repayment of the principal element of the HCA annuity (£16k) due in 2010-11 is also treated as short term borrowing in the accounts in order to comply with accounting requirements.

Performance Report - Investments

3.2.16 Investments Strategy

a) The CLG Guidance on Local Government Investments requires Councils to set an Investment Strategy. The regulations in force for 2009-10 required this to cover types of investment, liquidity issues, interest rates and prudential indicators. The Council's Investment Strategy for 2009-10 was included in the Treasury Strategy for 2009-10, approved by Council at its meeting on 26 February 2009.

b) Investments are split into 2 categories:

   (i) Specified investments which are broadly sterling investments, not exceeding 364 days and with a high credit rating; and

   (ii) Non-specified investments that do not satisfy the conditions for specified investments.

c) The Council's Investment Strategy for 2009-10 set out the Council's credit rating criteria for specified investments, and the types of unspecified investments that it might enter into, including investments over 364 days.

d) All money market investments made during the year were specified investments.

e) Following the collapse of the Icelandic banks in 2008, the Council severely restricted its list of approved investment counterparties and shortened the maximum investment period in order to safeguard investments. These changes led to decreased return on investments, in an overall depressed market, as short-term investment rates were significantly lower than the longer-term rates, The limited number of available investment counterparties also led to more deposits being placed with the UK Debt Management Office, at rates below bank base rate.

f) In November 2009, following a period of increased stability of credit ratings, the maximum period for investments with counterparties on the Council's existing counterparty list was extended from 3 months to 12 months, subject to (a) the investment being within the Council's external treasury adviser's recommended time limit for the counterparty, and (b) that a maximum of £10m was invested in this way. This was approved by the Chief Finance Officer on 2 November 2009, and reported to Cabinet on 25 November 2009. £8m was invested for periods between 3 and 12 months during 2009-10, which led to a slight increase in the overall rate of return on investments.

g) Instant access deposit accounts were used during 2009-10 to ensure liquidity and security of funds; the average balance in deposit accounts throughout the year was £10m, representing 16% of the overall investment portfolio.

h) The total value of investments held at 31st March 2010, at amortised cost for money market investments and cash values for deposit accounts, was £49m. All investments were placed with reference to the pre-determined lending list, in line with the investment strategy.

Investment Type	**Balance at 31 March 2010 £m**
Building Societies	3.00
Cash on Deposit	3.40
Banks	42.73
Total	**49.13**

i) Most short-term investments were held for cashflow purposes. 70 money market investments were made during the year (excluding instant access deposit accounts). The range of investment periods was from 1 day to 364 days (1 year). The average investment period was 83 days.

j) **Annex E** shows the analysis of the Council's performance on investment returns by plotting the Council's average monthly investment rate achieved against the average 7 day London Interbank Bid Rate (LIBID), and the average 7 day London Interbank Offered Rate (LIBOR). The average rate achieved was 1.66% compared to 0.42% LIBID, and 0.55% LIBOR.

k) Longer term investments entered into at the beginning of 2008 when interest rates were high enabled the Council to achieve a significant variance above the LIBID rate at the beginning of the year. The Council's rate of return fell significantly during the first half of the year as most of these investments matured and the funds were reinvested at lower rates.

l) Following the revision of the Investment Strategy in November 2009, Council officers were able to access the higher rates available for investments made for periods over 3 months, and the rate of return began to rise again from the low point in November, with variance against the LIBID rate continuing to increase steadily for the rest of 2009-10.

m) The Council does not hold any financial instruments listed or publicly traded on a stock exchange.

Performance Report - Debt Financing Budget Outturn

3.2.17 **Annex F** shows the budget, outturn and variance for the Council's debt and investment portfolio in 2009-10. This demonstrates the revenue (current) effects of the treasury transactions executed. A summary is set out below:

Budget Comparison	**Approved Budget 2009-10 £000**	**Outturn 2009-10 £000**	**Variance 2009-10 £000**
Debt Financing & Interest	1,083	1,122	39

Prudential Indicators and Treasury Management Indicators

3.2.18 Throughout the course of the year the Council's treasury staff have monitored the prudential Indicators and the treasury management indicators set for 2009-10. No indicators were breached during the financial year. The outturn indicators are shown at **Annex G**. These are at original (cash) value rather than amortised cost, in line with the requirements of the Prudential Code.

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

3.2.19 The Council's officers and 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). There were no recorded breaches of these responsibilities during 2009-10.

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 the following policy and strategy documents:

a) A Treasury Management Policy Statement

b) Treasury Management Practices (TMPs) and TMP Schedules

c) An annual Treasury Strategy incorporating:

(i) The Capital Financing and Borrowing Strategy for the year including:

- The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.

- The Affordable Borrowing Limit for the year as required by the Local Government Act 2003.

(ii) The Investment Strategy for the year as required by the CLG Guidance on Local Government Investments issued in 2004, and updated in 2010.

d) A mid-year review report and an annual review report of the previous year.

These documents are reported to Cabinet and Council as part of the budget setting process. The Council's Treasury Strategy for 2009-10 was approved by Council at its meeting on 26 February 2009.

3.1.4 The updated CIPFA Treasury Management Code of Practice (published in 2009) requires the Council to place greater emphasis on the scrutiny of treasury management strategies and policies. This includes the nomination of 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 3.2.17 and Annex F.

4.2.2 The risk management of the treasury function is an integral part of day-to-day treasury activities. It is also specifically covered in the Council's Treasury Management Practices (TMPs), which are reviewed annually.

4.2.3 The risk implications of decisions taken and transactions executed during 2009-10 financial year are discussed in the body of the report at paragraph 3.2.13.

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. The relevant legislative and regulatory documents are referred to within the report and listed in the background papers.

4.4 Equality

4.4.1 An Equalities Impact Assessment was carried out on the Council's Treasury Strategy for 2009-10, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs. This was included as an annex to the report to Cabinet on 19 February 2009 and to Council on 26 February 2009.

4.4.2 As a result of that assessment, it was noted that the potential impact of the strategy and associated documents (including Treasury Management Practices (TMPs) and the Schedules to the TMPs) on the different equalities groups must be considered as it is developed and put together each year. This includes the consideration of the potential impact on the different equalities groups of any processes, procedures or outcomes arising from these.

4.5 Consultees (Internal and External)

4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury advisers, Sector, and with the Portfolio holder for Finance.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 The Council is required to keep its Treasury Management Strategy under review and monitor against it. The strategy should reflect the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services.

4.6.2 This supports the Council's priority to be a well-managed organisation that puts our customers at the heart of what we do.

4.7 Other Implications

4.7.1 No other implications have been identified

5. Background Papers

Statute, Regulation and Guidance

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes 2001

Local Government Act 2003

Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

CIPFA Prudential Code for Capital Finance in Local Authorities 2003

ODPM Guidance on Local Government Investments 2004

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Second Edition 2006)

CIPFA Prudential Code for Capital Finance in Local Authorities – Fully Revised Guidance Notes for Practitioners 2007

Audit Commission. Risk & Return: English Local Authorities and the Icelandic Banking Crisis (March 2009)

CLG Select Committee report on Local Authority Investments (11 June 2009)

The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008

CIPFA Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition) 2009

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes (Fully Revised Second Edition) 2009

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Third Edition) 2009

CLG Guidance on Local Government Investments (11 March 2010)

Reports to Cabinet & Council

Treasury Strategy 2009-10 to 2011-12 – Report to Cabinet 19 February 2009 & Council 26 February 2009

Prudential Indicators for Capital Finance 2009-10 to 2011-12 – Monitoring to 30 September 2009 – Report to Cabinet 25 November 2009 *(Informs Cabinet of a change to the Council's investment counterparty limits approved by the Chief Finance Officer on 2 November 2009)*

Treasury Strategy 2010-11 to 2012-13 – Report to Cabinet 24 February 2010 & Council 25 February 2010 *(Contains formal adoption of the fully revised second edition of CIPFA Code of Practice for Treasury Management)*

Bev Dixon, Finance Manager – Capital & Treasury, ext 7401

REPORT COMPLETION CHECK LIST

Note: Steps 1 – 25 should be completed BEFORE report goes to call-over

		Yes	No	Initials
	Forward Plan			
1	Does the issue need to come for a Cabinet decision?	Yes		BD
2	Has the issue been discussed with Portfolio Holder?			
3	Have the ward Cllrs been made aware of the issue?	N/A		BD
4	Is it agreed if the issue is a KEY or NON-KEY decision?	Yes		BD
5	Is the title confirmed as it will appear on the agenda?	Yes		BD
6	Has the item gone onto the current Forward Plan?	Yes		BD
7	**Write Report (check formatting)**			
8	Is it on the correct (latest) template?	Yes		BD
9	Are the pages numbered?	Yes		BD
10	Is the alignment consistent (should be left aligned)?	Yes		BD
11	Is the paragraph numbering correct?	Yes		BD
12	Is the font set throughout at Arial 12?	Yes		BD
	Have you used the same format for bullet points through out the report?	Yes		BD
13	Does the report state clearly if it is PRIVATE?	N/A		BD
14	Is the correct date on the report?	Yes		BD
15	Have you deleted KEY/NON-KEY	Yes		BD
16	Have you put the correct Directorate(s)	Yes		BD
17	Have you put the correct Portfolio Holder(s)	Yes		BD
18	Have you run a spell / grammar check?	Yes		BD
19	**Write Report (content)**			
20	Attach appendices and insert number on front of report	Yes		BD
21	Is the Report content agreed with: Portfolio Holder?			
22	Director?			
23	Accountant?	Yes		BD
24	Legal Services?			
25	Send Report to Democratic Services			
26	**Report Presented to Call Over (by Author/Director)**			

27	**Refer to Call-Over Notes (sent following meeting)**			
28	Is the report cleared to go on the agenda?			
29	**Report updated to reflect Mngt Board comments**			
30	Tick sheet completed?			
31	Send updated report to Democratic Services			

Friday after Call Over: Reports to IP/FF
IP/FF return reports to Director with comments
Following Wednesday: Final input from Portfolio Holder
Friday am: Reports to IP → FF → Democratic Services
Fri pm /Weekend /Mon am: Reports cleared by IP / FF / DK
Monday am: Reports returned to Democratic Services
Monday Midday: Reports to Print
Tuesday: Agenda collated/ Published /distributed