

## FLINTSHIRE COUNTY COUNCIL

**REPORT TO:**           **AUDIT COMMITTEE**

**DATE:**               **TUESDAY, 30 JULY 2013**

**REPORT BY:**       **HEAD OF FINANCE**

**SUBJECT:**           **TREASURY MANAGEMENT ANNUAL REPORT**  
**2012/13 AND 2013/14 UPDATE**

### **1.00 PURPOSE OF REPORT**

1.01 To present the Annual Report on the Council's Treasury Management Policy, Strategy and Practices 2012/13 and to provide an update on Treasury Management activity in 2013/14 to the end of May 2013.

### **2.00 BACKGROUND**

2.01 The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of Treasury Management Strategy and Policies. The Audit Committee has previously agreed to include Treasury Management as a standing item on each quarterly agenda to receive an update.

2.02 On 1<sup>st</sup> March, the Council approved the Treasury Management Policy Statement 2013-2016, Treasury Management Strategy 2013/14 and Treasury Management Practices 2013-16, following the recommendation of the Cabinet and consideration by the Audit Committee.

### **3.00 CONSIDERATIONS**

#### Governance

3.01 A schedule for the reporting cycle for Treasury Management reports in 2013/14 is attached as Appendix 1 for information. Where Members have any specific items of interest, concern or questions on the Council's Treasury Policy or Investment Strategy these can be addressed within these reports upon request.

#### Treasury Management Annual Report 2012/13

3.02 The draft Treasury Management Annual Report for 2012/13 is attached as Appendix 2 for review. As required by Financial Procedures, this Annual Report will be reported to the Cabinet and Council.

3.03 A summary of the main points of note from the year are included in 3.04 – 3.08 below.

- 3.04 A review of the treasury management function was completed by Internal Audit during the first quarter of the year and reported that substantial assurance could be placed in the treasury management system and controls.
- 3.05 The Council's treasury management advisor, Sterling Consultancy Services was acquired by Arlingclose Ltd. in October 2012. The Council's existing contract with Sterling was transferred to Arlingclose who now provide advice and information on the Council's investment and borrowing activities.
- 3.06 Arlingclose revised their interest rate forecast during the year. The original forecast was for the Bank of England's base rate to rise steadily from the end of 2012 to reach 2.5% in June 2014. As we entered 2013, the base rate was still 0.5% and the latest forecasts indicate that it will remain there for the foreseeable future.

The financial implications of the revised forecast were reported in the Central Loans and Investment account in revenue budget monitoring reports.

- 3.07 Investment strategy - At the start of 2012/13 the Council continued with its self imposed low risk policy of only making short term investments (maximum term of 3 months), or investing in instant access call accounts and money market funds.

In January 2013, following discussions with Arlingclose, the financial environment had stabilised sufficiently for the self imposed restriction of only making short term investments to be lifted, and subsequently a number of longer term investments ranging from 3 to 12 months were made.

- 3.08 Borrowing strategy - A £1.5 million PWLB loan matured on 22<sup>nd</sup> November 2012, and consideration was given to either repaying or refinancing the loan with new borrowing.

Given the Council's high level of cash balances and the current cost of carrying debt being sufficiently higher than returns on investments, it was decided to reduce the Council's exposure to interest risk and credit risk and the loan was repaid.

### Treasury Management 2013/14 Update

#### Economic Context

- 3.09 Continuing with the trend of recent updates, there has been little change to economic conditions since the last update in March 2013 with the economy remaining subdued and the Bank of England unanimous in keeping the base interest rate at 0.5% where it is expected to stay for the foreseeable future.

Mark Carney commences his role as the new Governor of the Bank of England on July 1<sup>st</sup> with most analysts' expectations that initially, little will change in terms of central economic policy.

The Chancellor's recent Mansion House speech was reasonably upbeat in that the economy was viewed as being out of intensive care and moving towards recovery.

During his speech, the Chancellor also made announcements regarding banks that are part owned by Government. He signalled his intention to sell the Government's stake in Lloyds Bank reasonably soon with further consideration given to RBS.

#### Investments Update

3.10 A statement setting out the Council's investments as at 31<sup>st</sup> May 2013 is attached as Appendix 3. It shows an investment balance of £66.6m spread across 17 counterparties, along with the interest that will be earned by each investment listed during its life.

3.11 The potential sale of Lloyds Bank as referred to in 3.09 is of particular interest to the Council as we recently held two fixed term investments (investment period of 1 year each) totalling £7m with Lloyds Bank.

One investment of £4m matured in early July 2013 with the remaining £3m maturing in December 2013.

Discussions regarding the potential implications of a sale have taken place with Arlingclose – their current advice is that Lloyds remains a credit-worthy counterparty, but given the uncertainty around timing of any sale, the future owner and the level of post sale government support, that any new investments are restricted to a 6 month term.

A further £2.5m was invested on 4<sup>th</sup> July for 3 months at a rate of 0.7% following the advice given by Arlingclose.

3.12 From the 1<sup>st</sup> April 2013 the Treasury Management Strategy 2013/14 has been implemented. This includes investing with counterparties rated at A- for a maximum period of 6 months and a limit of £5m per counterparty (in 2012/13 the strategy was to invest with counterparties rated A or above with a limit of £7m per counterparty.) On the 3<sup>rd</sup> April 2013 an 'on-call account' investment of £7m was made with a counterparty rated by Moody's at A-, which therefore breached our investment criteria. Once the error was discovered action was taken immediately to reduce the investment to the agreed limit of £5m and working practices have been strengthened to ensure such an error does not occur again.

#### Officer Training

- 3.13 Officers attended a half day CIPFA Treasury Management closedown masterclass in March, in preparation for the closure of the 2012/13 accounts. The event, hosted by Lloyds in Manchester, highlighted a number of items for consideration and provided worthwhile networking opportunities with treasury management colleagues from other Councils in the region.

#### Treasury Management IT System

- 3.14 The treasury management team recently viewed an online demonstration of a new CIPFA endorsed treasury management IT system.

The initial impression was that the new system would improve our treasury management capability and will be explored further.

Further updates will be provided to Audit Committee as appropriate in future reports.

#### Borrowing Update

- 3.15 Officers, in conjunction with Arlingclose continue to review and assess debt restructuring options that may provide an opportunity for the Council to repay some of its higher interest rate debt or deliver savings by replacing existing debt with new loans at lower interest rates.

As reported in our March Audit Committee update, Arlingclose have provided a debt restructuring proposal which we are in the process of assessing to establish its viability over the short, medium and longer term given current forecasts for interest and inflation rates. The outcome of this particular proposal will be reported in our next Audit Committee update.

#### Landsbanki Update

- 3.16 The Winding up Board of Landsbanki made distributions to the Council as a priority creditor in February, May and October 2012 totalling £1.76 million.

The Winding up Board published details of Landsbanki's (LBI's) financial position as at 31<sup>st</sup> December 2012 on its website. This showed that LBI's assets, including partial repayments already made in respect of priority claims were greater than the sum of the priority claims.

It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. The final impact on the Council will not be known until the distribution process is complete.

The future pattern of distributions by the Landsbanki Winding up Board is not known, but based on the latest information, the Local Authority Accounting Panel (LAAP) recommends that the estimate of the recoverable amount is based on a total repayment of 100% and that the future payment schedule should be estimated as follows –

<b>Date</b>	<b>%</b>
Dec 2013	7.50
Dec 2014	7.50
Dec 2015	7.50
Dec 2016	7.50
Dec 2017	7.50
Dec 2018	7.50
Dec 2019	5.35
<b>Total</b>	<b>50.35</b>

#### **4.00 RECOMMENDATIONS**

4.01 That Members note the report.

#### **5.00 FINANCIAL IMPLICATIONS**

5.01 None.

#### **6.00 ANTI POVERTY IMPACT**

6.01 None.

#### **7.00 ENVIRONMENTAL IMPACT**

7.01 None.

#### **8.00 EQUALITIES IMPACT**

8.01 None.

#### **9.00 PERSONNEL IMPLICATIONS**

9.01 None.

#### **10.00 CONSULTATION REQUIRED**

10.01 Arlingclose Ltd.

#### **11.00 CONSULTATION UNDERTAKEN**

11.01 Arlingclose Ltd.

## **12.00 APPENDICES**

Appendix 1 – Treasury Management Reports Schedule 2013/14  
Appendix 2 – Draft Treasury Management Annual Report 2012/13  
Appendix 3 – Investments as at 31<sup>st</sup> May 2013.

### **LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985 BACKGROUND DOCUMENTS**

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