APPENDIX 7

Bolsover
District Council

Treasury
Management

Annual Report
2011/12

1 Introduction & Background

1.1 Definition

Treasury Management is defined as: "The management of all the local authorities' 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". It involves decisions on the long term borrowing requirements of the Council to finance the Capital Programme, and also decisions relating to short term borrowing and investment requirements of the Council in managing its cash flow.

The Council's Treasury Management activities have been conducted in accordance with the CIPFA Code of Practice *Treasury Management in Local Authorities,* which was adopted by the Authority on 01 March 2002.

In 2002 the Council adopted the Prudential Code for Capital Finance and developed an integrated Treasury Management Strategy that is reviewed each year, the current strategy having been approved by Council in March 2011 and updated by Council in March 2012.

The primary requirements of the Prudential Code are as follows:

- Local Authorities are required to develop and maintain a Treasury Management Policy Statement which sets out the policies and objectives of its treasury management activities.

- This Policy Statement must be supported by a set of formal Treasury Management Practices which set out the manner in which the Council will seek to achieve its policies and objectives.

- On an annual basis the Council should approve a strategy covering the following 3 year period, with a separate annual review report covering the previous year. This report effectively satisfies the requirement to review the performance of Bolsover in respect of the 2011/12 financial year. Members should note that Council has agreed that Executive should be the body responsible for receiving reports concerning the performance of Bolsover in its Treasury Management operations.

- The Council agrees to delegate to appropriate officers the responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions, which are incorporated within the Treasury Management Annual Strategy.

2 Borrowing

2.1 Strategy

All the Council's external borrowing to cover capital expenditure is undertaken via the Public Works Loan Board (PWLB). The strategy for external borrowing for 2011/2012 was agreed as follows:

- Undertake borrowing for the HRA self financing payment of £88m.
- Undertake Prudential borrowing of up to £1m for General Fund capital expenditure.

2.2 Activity 2011/12

PWLB Borrowing

During the year £88.00m in loans were taken out with the PWLB. Details of the individual loans are shown on the table below. The loans were taken to pay for the HRA self financing agreement to buy the Council out of the HRA subsidy system (£94.386m). The balance required to finance the self financing payment to the Government £6.486m (£94.386m less £88.000m) has been covered by reducing the level of temporary investments by £6.486m, which is in effect utilising the Council's own internal balances to finance the £6.486m. No further external loans were taken to finance capital expenditure in 2011/12.

Date	Amount	Rate	Term
28 March 2012	£2,000,000	0.47%	1 year 6 months
28 March 2012	£1,000,000	0.75%	3 years 0 months
28 March 2012	£1,000,000	1.11%	4 years 6 months
28 March 2012	£1,000,000	1.50%	6 years 0 months
28 March 2012	£2,000,000	2.10%	8 years 5 months
28 March 2012	£2,000,000	2.48%	10 years 6 months
28 March 2012	£2,000,000	2.70%	12 years 0 months
28 March 2012	£2,000,000	2.82%	13 years 0 months
28 March 2012	£2,000,000	2.87%	13 years 6 months
28 March 2012	£3,000,000	3.01%	15 years 0 months
28 March 2012	£4,000,000	3.05%	15 years 6 months
28 March 2012	£4,000,000	3.15%	17 years 0 months
28 March 2012	£4,000,000	3.21%	18 years 0 months
28 March 2012	£4,000,000	3.23%	18 years 6 months
28 March 2012	£4,000,000	3.30%	20 years 0 months
28 March 2012	£5,000,000	3.32%	20 years 6 months
28 March 2012	£5,000,000	3.37%	22 years 0 months
28 March 2012	£5,000,000	3.40%	23 years 0 months
28 March 2012	£5,000,000	3.41%	23 years 0 months
28 March 2012	£5,000,000	3.44%	25 years 0 months
28 March 2012	£5,000,000	3.45%	25 years 6 months
28 March 2012	£5,000,000	3.47%	27 years 0 months
28 March 2012	£5,000,000	3.48%	28 years 0 months
28 March 2012	£5,000,000	3.49%	28 years 6 months
28 March 2012	£5,000,000	3.50%	30 years 0 months
Total	£88,000,000		

As at 31 March 2012 the Authority's total outstanding PWLB debt amounted to £107.100m which is £88.000m above the level at 31 March 2011. The profile of the outstanding debt is analysed as follows: -

PWLB BORROWING Term	Maturity Profile 31 March 2011 £	Maturity Profile 31 March 2012 £
Less than 12 Months	0	0
1 - 2 years	0	2,000,000
2 - 5 years	0	3,000,000
5 - 10 years	3,000,000	8,700,000
Over 10 years	16,100,000	93,400,000
Total PWLB Debt	19,100,000	107,100,000

PWLB Interest

The interest cost to the Council of the PWLB debt for 2011/12 is shown in the table below. The cost is split between the HRA and General Fund based on the level of debt outstanding.

Interest on PWLB Debt	
2010/11	**2011/12**
£947,149	£978,170

Temporary Borrowing

Cash flow monitoring and management serves to identify the need for short term borrowing to cover delays in the receipt of income during the course of the year. During the year it was not necessary to undertake short term borrowing from the money markets however the Council allows Parish Council's to invest their surplus funds with the Council and these are treated in the Accounts as short term borrowing. At the 31 March 2012 the Council had temporary borrowing of £187,982 from Parish Councils (£326,708 2010/11).

3 Investments

3.1 Strategy

The primary objective of the Council's investment strategy continues to be the minimisation of risk exposure. The Strategy adopted by the Council in respect of short term investments states that these investments are for not more than one year maturity. It is also required that investments are placed in low risk deposits where the possibility of loss of principal is minimal. These would include investments with the UK Government, UK Banks, Non UK Banks domiciled in a country which has a sovereign long term rating of AA+, Building Societies and other Local Authorities.

Investments primarily are undertaken where a temporary cash flow surplus is achieved and instead of leaving the surplus in the bank it is invested in one of the Council's approved call accounts or on a short fixed term with an approved counterparty.

3.2 Activity 2011/12

Temporary Investments
The tables below detail the short term investments as at 31 March 2012.

Counterparty	Amount	Rate of Interest	Fixed / Variable	Maturity Date
Santander UK plc	3,200,000	0.50	Variable	On Call
Landsbanki	2,000,000	5.98	Fixed	18/12/2008
Landsbanki	1,000,000	6.15	Fixed	15/05/2009
	6,200,000			

Icelandic Investments Update
Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £3m deposited with Landsbanki with maturity dates and interest rates shown in the table above.

In 2011/12 the Council have again followed The Local Authority Accounting Panel (LAAP) Bulletin issued by The Chartered Institute of Public Finance and Accountancy (CIPFA), to ensure we correctly account for the Iceland Investments to meet the requirements of the Code of Practice on Local Authority Accounting.

On 28 October 2011 the Icelandic Supreme Court ruled that UK local authorities' claims in the administrations of Glitnir and Landsbanki qualified as priority claims under Icelandic bankruptcy legislation, confirming the earlier decision of the Reykjavik District Court. The position as to the status of interest on UK local authorities' deposits maturing between 6 October 2008 and 22 April 2009 has also been fully resolved for Glitnir depositors and resolved for all but a handful of Landsbanki depositors. This means that the values of local authorities' claims in the Icelandic administrations qualifying for priority settlement are now final and will, at the very least, be equal to the value of the original deposit plus interest accrued to 22 April 2009 or, if earlier, the maturity date.

The Winding Up Board announced on 9 March 2012 that it anticipated that recoveries in the Landsbanki Administration would exceed the book value of the recognised priority claims by around ISK 121bn, taking into account the sale of its holding in Iceland Foods. Estimated recoveries are some 9% higher than the value of priority claims and it is therefore now considered likely that UK local authorities will recover 100% of their deposits, although this may be subject to exchange rate fluctuations.

Based on the latest LAAP Bulletin an amount of £213,019 was credited to the General Fund as a reversal of previous impairment estimates. An amount of £1,973 was debited to the General Fund as an exchange rate loss on the valuation of the escrow account at 31 March 2012.

4 Interest Rates

4.1 Strategy

The Authority’s aim is to minimise its exposure to interest rate fluctuations. In practice none of the Council’s long term debt is on variable interest rate terms. Any temporary borrowing is generally taken at short fixed rates, allowing the Council to replace them with long term fixed interest loans when interest rates are at their most favourable.

4.2 Activity 2011/2012

Bank base rates started the year at a level of 0.50% and the Bank of England's Monetary Policy Committee (MPC) kept the same rate throughout the financial year. The MPC met on twelve occasions and at each meeting decided to leave the rate unchanged.

Short-term money market rates are dependent on the laws of supply and demand, and they have fluctuated during the year. Investment rates obtained in 2011/12 by the Council ranged between 1.40% at the highest investment rate and 0.45% at the lowest. The 2011/12 financial year was one of very stable but very low investment interest rates.

5 Prudential Capital Finance System

The Prudential Capital Finance System was adopted by the Government and local authorities with effect from 1 April 2004. In terms of Treasury Management Strategy, a key change was the introduction of the Capital Financing Requirement which calculates the underlying need of an authority to borrow money in order to fund its capital expenditure.

5.1 Capital Financing Requirements

The Capital Financing Requirements for Bolsover in respect of 2011/12 compared to 2010/11 is detailed in the table below:-

	2010/11 £'000	**2011/12 £'000**
Capital Financing Requirement Opening Balance 1 April	17,342	17,481
Prudential Borrowing	757	1,384
HRA Self Financing Arrangement	0	94,386
Minimum Revenue Provision	(618)	(537)
Capital Financing Requirement Closing Balance 31 March	**17,481**	**112,714**
Financed via Council Resources	0	5,614
Temporary reduction in CFR due to receipts set-a-side arrangement	(1,619)	0
Total PWLB Debt to finance capital expenditure	19,100	107,100

Within the closing CFR figure of £112.714m, the HRA element is £100.898m which is below the HRA debt cap of £112.807m.

5.2 Compliance with Treasury Limits

During the financial year the Council continued to operate within the treasury limits and Prudential Indicators as set out in the Council's Borrowing and Investment Strategy. However as preparations for the HRA self financing settlement were put into place for the 28 March 2012 transactions a breach of a counterparty limit was incurred for one night. In order for the settlement to be made sufficient cleared funds needed to be in the Council's bank account i.e. £94.386m. Therefore the day before the settlement date (27 March 2012) officers called back temporary investments to the Council's account to ensure that they were in place ready for the following days transaction which was due to be made at 9am. The call back on the 27 March 2012 was done as it could not be guaranteed on the settlement date that all the funds would return on time to make the settlement payment to the DCLG. The impact of this action was that the Council had £6.133m invested with the Co-operative bank overnight on the 27 March 2012 which is above our counterparty limit which limits officers to invest up to £0.500m of cleared working balances with the Co-operative Bank. This action although in breach of our counterparty limit ensured the settlement payment to the DCLG proceeded without any issue.

It should be noted that a separate breach of the counterparty limits took place at an earlier stage in the 2011/12 financial year which has already been reported to Members. Appropriate steps have been taken to minimise the risk of such breaches taking place in future.

Overall the Council's compliance with limits and controls is demonstrated in the table above which shows that our long term borrowing remains below the capital financing requirements. Short term borrowing is only undertaken to finance cash flow shortfalls arising from delays in income receipts. Short term investments were made with approved counterparties and were specified investments (less than 12 months).

Prudential Indicators

	Actual 2011/12	**Set Limits 2011/12**
Ratio of financing costs to net revenue stream	26.50%	30.50%
Authorised Limit (total Council external borrowing limit – maximum in year)	107,456,000	125,426,000
Operational Boundary	107,456,000	120,426,000

	Actual 2011/12	**Estimate 2011/12**
Capital Financing Requirement	112,714,370	115,426,000

Capital Financing Requirement
The Capital Financing Requirement is below the estimate for the year as a lower amount of borrowing was undertaken for the capital programme.

The Authorised Limit
The Authorised limit is the limit the Authority decides to impose for total borrowing and other authorised long term liabilities. The Authorised Limit must be set to establish the outer boundary of the Authority's borrowing based on a realistic assessment of the risks. The Authorised Limit therefore sets the overall level of borrowing by the Council for external debt covering both long term external debt and short term cash flow borrowings.

The maximum external debt position in 2011/12 was £107.304m. This remained comfortably below our Authorised Limit level of £125.426m set for the year 2011/12. The total external borrowing that has to be counted against the Authorised Limit at 31 March 2012 was £107.304m (PWLB £107.100m plus leasing £0.204m).

The Operational Boundary

The operational boundary is the focus of the day-to-day treasury management activity within the authority and is based on the expectations of probable events. The operational limit will be lower than the authorised limited. Breaches of the operational limit should trigger corrective management action before the authorised limit is reached. The margin between the operational and the authorised limit are based on the assessment of risk that the authority faces.

As the Council had no temporary borrowing requirements the Operational Boundary is set at five million pounds below the Authorised Limit at £120.426m. The Operational Boundary was not breached in 2011/12.