CABINET

28th NOVEMBER 2013

Report of the Portfolio Holder Operations and Assets

Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2013/14

EXEMPT INFORMATION

None

PURPOSE

To present to Members the Mid-year review of the Treasury Management Strategy Statement and Annual Investment Strategy.

RECOMMENDATIONS

That Cabinet recommend Council:

Accept the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2013/14.

EXECUTIVE SUMMARY

This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following

- An economic update for the first six months of 2013/14;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital Position (Prudential Indicators);
- A review of the Council's investment portfolio for 2013/14;
- A review of the Council's borrowing strategy for 2013/14;
- A review of any debt rescheduling undertaken during 2013/14;
- Icelandic Banking Situation;
- A review of compliance with Treasury and Prudential Limits for 2013/14;

The main issues for Members to note are:

1. The Council has complied with the professional codes, statutes and guidance.

2. There are no issues to report regarding non-compliance with the approved prudential indicators.

3. The investment portfolio yield for the first six months of the year is 0.87% (1.12% for the same period in 2012/13) compared to the 3 Month LIBID benchmark rate of 0.38% (0.73% for the same period in 2012/13). This excludes all investments

currently classified as ‘At Risk’ in the former Icelandic Banking institutions.

The aim of this report is to inform Members of the treasury and investment management issues to enable all Members to have ownership and understanding when making decisions on Treasury Management matters. In order to facilitate this, training on Treasury Management issues has been delivered for Members in February and October 2010 and September of 2011. Further training is being arranged for early 2014.

RESOURCE IMPLICATIONS

All financial resource implications are detailed in the body of this report which links to the Council’s Medium Term Financial Strategy.

LEGAL/RISK IMPLICATIONS BACKGROUND

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued its revised Code of Practice for Treasury Management in November 2009 (revised 2011) following consultation with Local Authorities during that summer. The revised Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This is the second monitoring report for 2013/14 presented to Members this year and therefore ensures this Council is embracing Best Practice in accordance with CIPFA’s revised Code of Practice. Cabinet also receive regular monitoring reports as part of the quarterly healthcheck on Treasury Management activities and risks.

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the Treasury Management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Treasury Management is defined as:

“The management of the local authority’s investments and 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. ”

1 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011) was adopted by this Council on 13th December 2012.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.
5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Governance Committee.

This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2013/14;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital Position (Prudential Indicators);
- A review of the Council's investment portfolio for 2013/14;
- A review of the Council's borrowing strategy for 2013/14;
- A review of any debt rescheduling undertaken during 2013/14;
- Icelandic Banking Situation;
- A review of compliance with Treasury and Prudential Limits for 2013/14.

2 Economic update

2.1 Economic performance to date

During 2013/14 economic indicators suggested that the economy is recovering, albeit from a low level. After avoiding recession in the first quarter of 2013, with a 0.3% quarterly expansion the economy grew 0.7% in Q2. There have been signs of renewed vigour in household spending in the summer, with a further pick-up in retail sales, mortgages, house prices and new car registrations.

The strengthening in economic growth appears to have supported the labour market, with employment rising at a modest pace and strong enough to reduce the level of unemployment further. Pay growth also rebounded strongly in April, though this was mostly driven by high earners delaying bonuses until after April's cut in the top rate of income tax. Excluding bonuses, earnings rose by just 1.0% year-on -year, well below the rate of inflation at 2.7% in August, causing continuing pressure on household's disposable income.

The Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more business funding, particularly to small and medium size enterprises. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with mortgage interest rates falling further to new lows. Together with the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks have risen as have house prices, although they are still well down from the boom years pre 2008.

Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in Q2 started to come down, but only slowly, as Government expenditure cuts took effect and economic growth started to show through in a small increase in tax receipts. The 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan, and monetary policy was unchanged in advance of the new Bank of England Governor, Mark Carney, arriving. Bank Rate remained at 0.5% and quantitative easing also stayed at £375bn. In August, the Monetary Policy Committee (MPC) provided forward guidance that Bank Rate is unlikely to change until unemployment first falls to 7%, which was not expected until mid 2016. However, 7% is only a point at which the MPC will review Bank Rate, not necessarily take action to change it. The three month to July average rate was 7.7%.

CPI inflation (MPC target of 2.0%), fell marginally from a peak of 2.9% in June 2013 to 2.7% in August 2013. The Bank of England expects inflation to fall back to 2.0% in 2015.

Financial markets sold off sharply following comments from Ben Bernanke (the Fed chairman) in June that suggested the Fed. may 'taper' its asset purchases earlier than anticipated. The resulting rise in US Treasury yields was replicated in the UK. Equity prices fell initially too, as Fed. purchasing of bonds has served to underpin investor moves into equities out of low yielding bonds. However, as the market moves to realign its expectations, bond yields and equities are likely to rise further in expectation of a continuing economic recovery. Increases in payroll figures have shown further improvement, helping to pull the unemployment rate down from a high of 8.1% to 7.3%, and continuing house price rises have helped more households to escape from negative equity. In September, the Fed. surprised financial markets by not starting tapering as it felt the run of economic data in recent months had been too weak to warrant taking early action. Bond yields fell sharply as a result, though it still only remains a matter of time until tapering does start.

Tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a renewed flare-up. Economic survey data improved consistently over the first half of the year, pointing to a return to growth in Q2, so ending six quarters of Eurozone recession.

2.2 Outlook for the next six months of 2013/14

Economic forecasting remains difficult with so many external influences weighing on the UK. Volatility in bond yields is likely during 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds. Downside risks to UK gilt yields and PWLB rates include:

- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

- The Italian political situation is frail and unstable: the coalition government fell on 29 September.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

Upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- Increased investor confidence that sustainable robust world economic growth is firmly expected, together with a reduction or end of QE operations in the US, causing a further flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- In the longer term - a reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth, causing the ratio of total Government debt to GDP to rise to levels that provoke major concern.

The overall balance of risks to economic recovery in the UK is now weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last, and it remains exposed to vulnerabilities in a number of key areas. The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Near-term, there is some residual risk of further QE if there is a dip in strong growth or if the MPC were to decide to take action to combat the market's expectations of an early first increase in Bank Rate. If the MPC does takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years, such action could cause gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below. The tension in the US over passing a Federal budget for the new financial year starting on 1 October and raising the debt ceiling in mid October saw the possibility of bond yields temporarily dipping until agreement was reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Fed. will cause bond yields to rise.

2.4 Capita's Interest Rate Forecast

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
5yr PWLB rate	2.50%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%
10yr PWLB rate	3.70%	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
25yr PWLB rate	4.40%	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%
50yr PWLB rate	4.50%	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.30%

(The Capita Assets Services forecasts above are for PWLB certainty rates.)

Expectations for the first change in Bank Rate in the UK are now dependent on how to forecast when unemployment is likely to fall to 7%. Financial markets have taken a very contrary view to the MPC and have aggressively raised short term interest rates and gilt yields due to their view that the strength of economic recovery is now so rapid that unemployment will fall much faster than the Bank of England forecasts. They therefore expect the first increase in Bank Rate to be in quarter 4 of 2014. There is much latitude to disagree with this view as the economic downturn since 2008 was remarkable for the way in which unemployment did not rise to anywhere near the extent likely, unlike in previous recessions. This meant that labour was retained, productivity fell and now, as the MPC expects, there is major potential for unemployment to fall only slowly as existing labour levels are worked more intensively and productivity rises back up again. The size of the work force is also expected to increase relatively rapidly and there are many currently self employed or part time employed workers who are seeking full time employment. Capita Asset Services take the view that the unemployment rate is not likely to come down as quickly as the financial markets are currently expecting and that the MPC view is more realistic. The prospects for any increase in Bank Rate before 2016 are therefore seen as being limited. However, some forecasters are forecasting that even the Bank of England forecast is too optimistic as to when the 7% level will be reached and so do not expect the first increase in Bank Rate until Spring 2017.

3 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2013/14 was approved by Council on 26th February 2013.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	2013/14 Original Programme £m	Budget B'fwd from 2012/13 £m	Virements to Programme in Year £m	Total 2013/14 Budget £m	Actual Spend @ Period 6 £m	2013/14 Revised Estimate £m
General Fund	0.505	1.933	0.348	2.786	0.442	1.873
HRA	6.993	2.845	-	9.838	2.981	8.787
Total	**7.498**	**4.778**	**0.348**	**12.624**	**3.423**	**10.660**

4.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. Any borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2013/14 Estimate £m	2013/14 Revised Estimate £m
Supported	-	-
Unsupported	12.624	10.660
Total spend	**12.624**	**10.660**
Financed by:		
Grant	0.456	0.426
General Fund Receipts	0.696	0.695
Section 106 Receipts	0.083	0.020
General Fund Reserve	0.197	0.197
General Fund Contingencies	0.340	-
HRA Contingency	0.100	-
Sale of Council House Receipts	0.836	0.356
Contribution from BRF	0.178	0.178
Regeneration Reserve	0.500	0.150
Major Repairs Reserve	5.594	5.594
Revenue Contribution to Capital	3.644	3.044
Total financing	**12.624**	**10.660**
Borrowing need	**-**	**-**

4.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table at 4.3.2 shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

4.3.1 Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

4.3.2 Prudential Indicator – External Debt / the Operational Boundary

	2012/13 Outturn £m	2013/14 Original Estimate £m	2013/14 Revised Estimate £m
CFR – Non Housing	1.525	1.50	1.227
CFR – Housing	68.054	68.063	68.044
Total CFR	69.579	69.563	69.271
Net movement in CFR	**(0.09)**	**(0.052)**	**(0.308)***
Operational Boundary			
Expected Borrowing	72.268	72.268	72.268
Other long term liabilities	-	-	-
Total debt 31 March	**72.268**	**72.268**	**72.268**

* Increase due to voluntary revenue provision in respect of finalisation of Heritable Bank recovery and reversal of capitalisation during 2013/14.

4.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2012/13 Outturn £m	2013/14 Original Estimate £m	2013/14 Revised Estimate £m
Gross borrowing	65.06	65.06	65.06
Plus other long term liabilities	-	-	-
Less investments	(21.815)	(15.655)	(21.343)
Net borrowing	43.245	49.405	43.717
CFR (year end position)	69.579	69.563	69.271

The Executive Director Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2013/14 Original Indicator £m	Current Position £m	2013/14 Revised Indicator £m
Borrowing	89.112	89.112	89.112
Other long term liabilities	3.000	3.000	3.000
Total	92.112	92.112	92.112

5 Investment Portfolio 2013/14

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk averse environment, investment returns are likely to remain low.

The Council held £26.124m of investments as at 30th September 2013 (£20.982m at 31 March 2013) with the investment portfolio yield at 0.83% against a benchmark of the 3 months LIBID of 0.38%. A full list of investments held as at 30th September 2013 is detailed in **Appendix 2**.

The Executive Director Corporate Services confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2013/14.

The Council's budgeted investment return for 2013/14 is £200k, and performance for the year is projected to be £28k above budget.

CIPFA Benchmarking Club

The Council is a member of the CIPFA Treasury Management Benchmarking Club which is a means to assess our performance over the year against other members (35 Authorities).

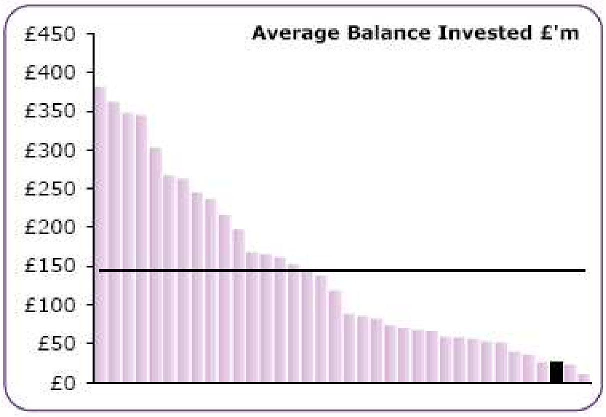
Our average return for In House Investments for the period October 2012 to September 2013 was 0.92% compared to the group average of 1.01% (information from CIPFA Benchmarking Draft Report Q2 - 2013/14) excluding the impaired investments in Icelandic banks. This is considered to be a good result in light of the current financial climate, our lower levels of deposits/funds and shorter investment time-lines due to Banking sector uncertainty, when compared to other Authorities.

This can be analysed further into the following categories:

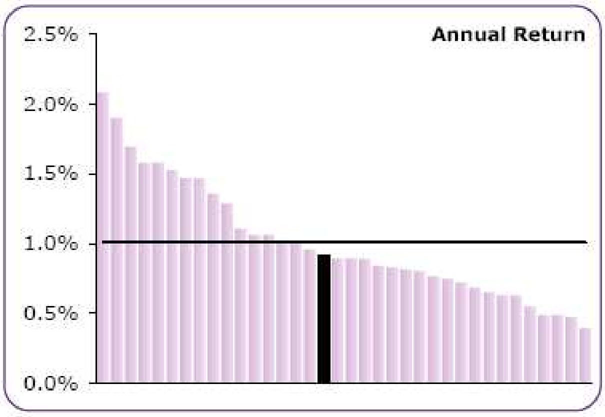
Excluding Impaired Investments	**Average Balance Invested £ m**		**Average Rates Received %**	
Category	Tamworth Borough Council	CIPFA Benchmarking Club	Tamworth Borough Council	CIPFA Benchmarking Club
Investments < 365 days Managed in-house	11.70	59.00	1.32	1.16
Investments > 365 days Managed in-house	-	31.00	-	2.15
Callable & Structured Deposits	-	26.5	-	2.00
Call Accounts	5.90	36.60	0.92	0.79
Money Market Funds	8.70	23.40	0.39	0.44
DAMDF (Govt Debt Management Office)	< min	7.00	0.25	0.25
CD's Gilts & Bonds	< min	17.20	0.18	0.92
Average of All Investments Managed in-house	**26.40**	**144.00**	**0.92**	**1.01**

The data above and graphs below display that despite the Council being a small investor in the markets, performance is marginally better in the <365 day investments, when compared with other members of the benchmarking club and affirms our 'low appetite for risk' in the continuing unsettled markets.

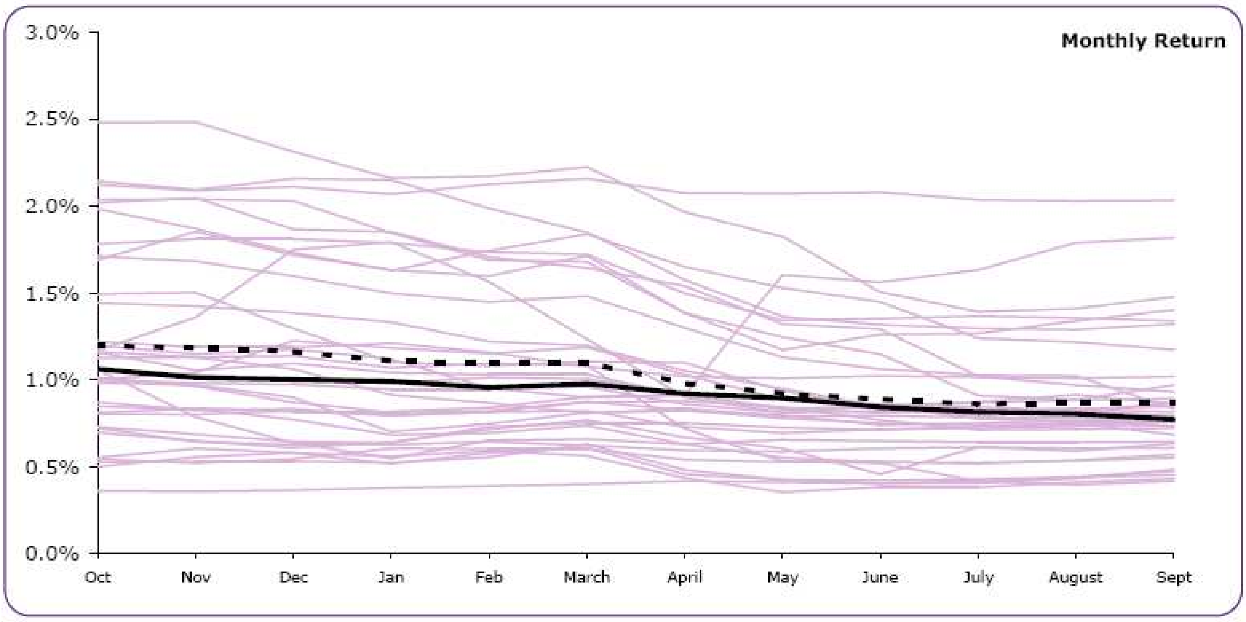
COMBINED IN-HOUSE INVESTMENTS (excluding impaired investments)



Tamworth 26.4 *Avg 144.0*



Tamworth 0.92% *Avg 1.01%*



Monthly Return (Oct 12 - Sept 13)	Oct	Nov	Dec	Jan	Feb	March	April	May	June	July	Aug	Sept	Year
Av Bal £'m	25.52	27.15	27.55	28.81	26.43	22.36	24.59	24.64	25.42	27.19	27.73	29.49	26.40
Earned £'k	23.1	22.6	23.5	24.3	19.4	18.6	18.6	18.7	17.6	18.8	19.0	18.8	242.8
% Return	1.06%	1.01%	1.00%	0.99%	0.96%	0.98%	0.92%	0.90%	0.84%	0.82%	0.81%	0.77%	0.92%
Average	*1.20%*	*1.18%*	*1.16%*	*1.11%*	*1.10%*	*1.10%*	*0.98%*	*0.92%*	*0.89%*	*0.86%*	*0.87%*	*0.87%*	*1.01%*
Margin	-0.13%	-0.17%	-0.16%	-0.12%	-0.14%	-0.12%	-0.06%	-0.03%	-0.05%	-0.05%	-0.06%	-0.10%	

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the Treasury Management function.

6 Borrowing

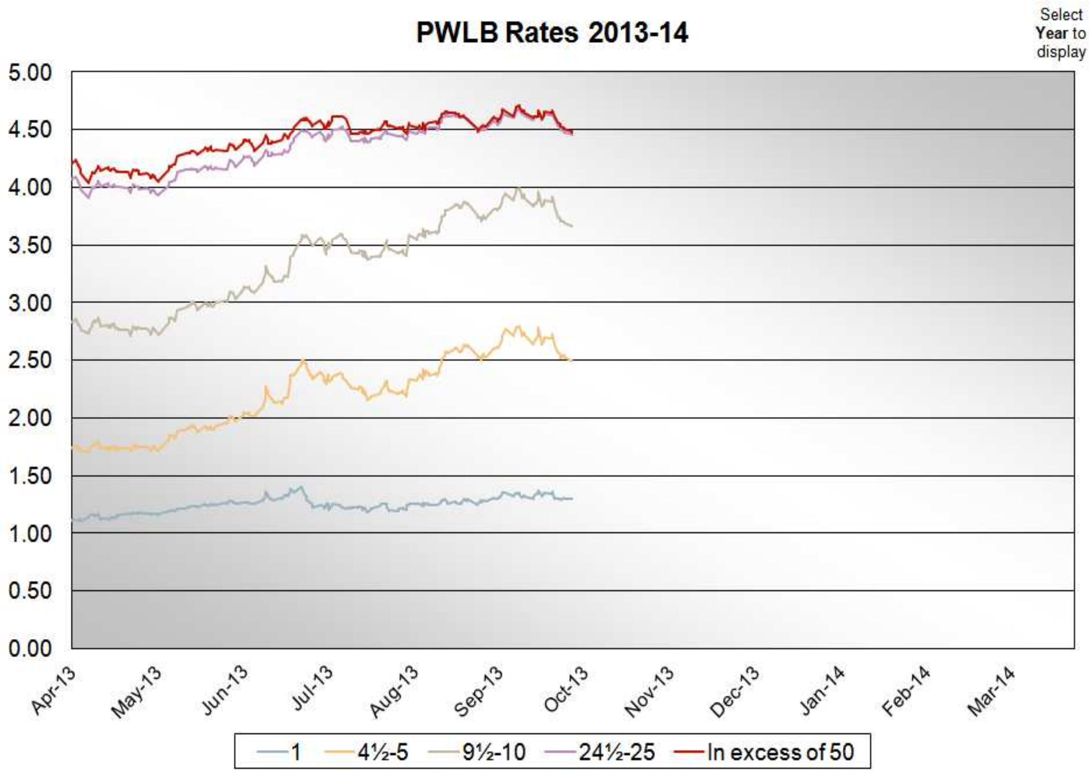
The Council's revised capital financing requirement (CFR) for 2013/14 is £69.271m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 4.4, Limits to Borrowing Activity, shows the Council has borrowings of £65.06m and has utilised £4.211m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

No new external borrowing was undertaken from the PWLB or the money markets in the first half of the year.

As outlined below, the general trend has been a reduction in interest rates during the six months, across all maturity bands.

It is anticipated that further borrowing will not be undertaken during this financial year.

The graph and table below show the movement in PWLB rates for the first six months of the year to 30th September 2013:



7 Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2013/14.

8 Icelandic Banks Update

Appendix 3 contains details of the situation with Icelandic investments as at 30th September 2013.

Expectations of future receipts and timeframes based on current information regarding each bank are given below;

- Glitnir

On 15th March 2012, the Council received £2.554m being the majority of our deposits with the bank. The balance of our approved claim, equating to £587k, is being held in an interest bearing ESCROW account. The release of these funds is dependent on a change in Icelandic Law which currently does not allow the distribution of ISK outside the country. Interest will accrue on these funds until the date of final settlement which is still unknown.

- Heritable

As at the end of September the Council had received £1.415m against our claim of £1.505m, a total recovery of 94.02%. It is anticipated that this will be the final figure received, though the Administrators are withholding a sum as a contingency against disputed claims.

- Kaupthing, Singer and Friedlander

As at the end of September the Council had received £2.604m against our claim of £3.175m. Current estimates given by the Administrator project a total recovery of 85.25% or approximately £2.707m with the majority of repayments being received by June 2015.

9 Exchequer Banking Arrangement

Members will be aware that the Authority's bank is Co-Operative Bank Limited. The current banking arrangements are due for re-tender from 31st March 2015.

It has been well publicised that the Co-Operative Bank has been suffering from financial difficulties which has resulted in a restructure and change in equity provider and consequential change in mutuality status. As part of this process a large amount of the Banks liabilities / losses have fallen on the bond holders – agreement is required from the bondholders to accept the restructure (due around 12th December 2013). Failure of the bondholders to accept the restructuring would result in the bank being placed in a Special Resolution Regime – which gives the Government a framework for dealing with failing banks..

Current banking arrangements and balances held with the bank have been significantly reduced over the past months with negligible amounts being held in over-night facilities and day – to – day banking operations.

The Authority was advised that (letter 18th November 2013) the Co-operative Bank would not re-tender for Local Authority banking contracts.

In light of the above and purely as a precautionary measure the Authority is arranging a contingency banking arrangement to enable payments to be processed in December (onwards) if the results of the bondholder vote are not in favour of the restructure.

In addition and subject to the favourable result of agreement by the bondholders to the restructure the Authority intends to bring forward its banking tendering arrangements to early Autumn 2014 or earlier if circumstances dictate.

The above actions are deemed to be prudent in light of the current banking uncertainty (Risk : Medium) – the banking operation is reviewed on a daily basis.

REPORT AUTHOR
Please contact Phil Thomas Financial Accountant extension 239

LIST OF BACKGROUND PAPERS

Background Papers:-	***Local Government Act 2003***
	CIPFA Code of Practice on Treasury Management in Public Services 2011
	Treasury Management Strategy & Prudential Indicators Report 2013/14
	Budget & Medium Term Financial Strategy 2013/14
	Financial Healthcheck Period 6, September 2013
	CIPFA Treasury Management Benchmarking Club Report Quarter 2 September 2013

APPENDICES

Appendix 1 : Prudential Indicators
Appendix 2 : Current Investment List
Appendix 3 : Icelandic Banking Situation