Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

13 JULY 2011

REPORT OF FINANCE AND ASSET MANAGEMENT PORTFOLIO HOLDER

A.2 TREASURY MANAGEMENT PERFORMANCE 2010/11
(Report prepared by Jim Smetherham and Jo Baines)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To report on the Council's treasury management activities and Prudential Indicators for 2010/11.

EXECUTIVE SUMMARY
No new external borrowing or debt rescheduling was undertaken in 2010-11. Investments were undertaken in accordance with the strategy that was approved by Council on 30 March 2010. The amount of interest earned from investments remained low because of the continuing unprecedented low interest rates existing throughout the year. However due to a better than expected cash flow, the interest earned was £46,000 greater than the revised budget. The outturn for the Prudential Indicators is attached as an appendix to this report. At no time was the Authorised limit exceeded.

RECOMMENDATION(S)
That Cabinet notes the Treasury Management performance position and Prudential and Treasury Indicators for 2010/11.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES
Good and effective Treasury Management will help ensure that financial resources are available to the Council to deliver its priorities.
FINANCE, OTHER RESOURCES AND RISK
Finance and other resources Key treasury management performance data is set out in Appendix A. Despite falling

interest rates the revised budget for interest earned from investments was marginally exceeded.

Risk
All Treasury management activities entail an element of risk. These risks are set out, together with the management actions necessary to mitigate those risks in the Council's Treasury Management Practices.

LEGAL

All treasury activities are performed in accordance with the Council's Treasury Management Practices which are a requirement of CIPFA's revised Code of Practice for Treasury Management. The CIPFA code has been given legal recognition by the Local Government Act 2003.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no implications in respect of the above areas.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

This Council adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) revised Code of Practice for Treasury Management in the Public Services on 30 March 2010. The Council's Financial Procedure Rules drawn up to demonstrate compliance with the Code, require that an annual treasury strategy is approved by Cabinet and forwarded to Council for approval, and that annual performance reports are presented to Cabinet. The 2010-11 Treasury Strategy was agreed by Council on 30 March 2010.

CURRENT POSITION

The purpose of this report is to meet the requirement of the CIPFA Code and provide Cabinet with information on treasury activities during 2010-11 (Appendix A) and the actual Prudential and Treasury Indicators at the end of 2010-11 (Appendix B). The 2010 Prudential and Treasury indicators and the maturity structure of fixed rate borrowing have been amended where necessary to take account of the Cabinet decisions on 15 June 2011in relation to the financial outturn 2010/11.

THE ECONOMY AND INTEREST RATES DURING 2010-11

UK growth proved mixed over the year. The first half of 2010/11 saw the economy outperform expectations but the year finished with prospects being less optimistic over the short to medium term. The Earthquake and Tsunami in Japan and troubles in the Arab countries have dampened international economic growth prospects.

The change in UK political background was a major factor behind weaker domestic growth expectations. The heavy spending cuts announced with the aim of reducing the national debt burden to a sustainable level are also expected to act as a significant drag on growth. The financial markets drew considerable reassurance from the Government's debt reduction plans, especially in the light of Euro Zone sovereign debt concerns, and gilt yields fell for much of the first half of the year.

Rising inflation pressures were expected to cause the Monetary Policy Committee to start raising the Bank Rate leading to an increase in interest rates in the shorter term. However following the slowing of actual growth in March 2011 and weak growth prospects, together with the prospect of inflation reaching 5%, the expectation now is that the Base Rate may not be increased until autumn 2011.

The continued Euro Zone concerns and the significant funding issues still faced by many financial institutions mean that many investors remain cautious of longer-term commitment in those institutions and as a result investment is being made in secure Government stock, which has the effect of suppressing the interest rate the Government has to offer to attract funds.

BORROWING

The strategy for 2010-11 assumed that no external borrowing would be undertaken unless it was considered that it would be in the Council's interests to borrow in advance of future requirements and/or certain specific schemes received approval. The Strategy also proposed that internal borrowing be maintained at a level of up to £5m. This limit had been agreed previously following advice from the Council's treasury advisors.

No new borrowing or restructuring of existing debt was undertaken in 2010-11 and the final level of internal borrowing was £4.7m, as shown in the Prudential Indicators in Appendix B. A debt restructure was not undertaken because changes made by the Public Works Loan Board (PWLB) in November 2007 to the rates of interest for early repayment of existing debt, followed by an unexpected change of policy on lending arrangements in October 2010, meant that there was no financial advantage in restructuring the Council's existing PWLB debt portfolio with new PWLB borrowing.

No temporary borrowing from the markets was required during the year. The cost of overdrawn bank balances throughout the year, resulting from shortfalls in the daily cash position, was insignificant so there is no difference shown between long term and total debt in Appendix A (1a and 1b). The Council's maximum debit bank balance throughout the year was £4.937m which occurred as a result of investments not being repaid on the required date due to an administrative error. The Counterparty met the Council's bank charges.

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in appendix B.

INVESTMENTS

The Council manages its investments in-house and invests in accordance with the approved strategy. The Council invests for periods of time dependent on the Council's cash flows, the view as to future interest rate movements and the interest rates offered by counterparties.

Following the collapse of the Icelandic banks in 2008 and the subsequent credit crisis there has been a marked toughening of credit ratings by the 3 credit rating agencies. As a result the credit ratings for almost all of the building societies and many banks were reduced which meant that the Council's criteria (as set out in its Treasury Management Practices) were no longer met and the organisations had to be removed from the list of approved organisations. Although there were a number of counterparties that did meet the criteria their use was constrained by the Council's limit to the total amount that could be invested with any one counterparty or group. This is in place so that the Council's exposure in the event of a counterparty failure is restricted.

It was therefore necessary to place a significant proportion of the Council's investments in the UK Government in the form of Treasury Bills. The rates of interest paid by the Government are generally lower than that on the financial markets. However the investment is secure and a realistic option given that the number of approved counterparties had reduced dramatically.

The total invested in Treasury Bills at 31 March 2011 was £12.5m out of a total investment of £24.298m.

In order to help counter the downturn in investment rates and earnings the liquidity accounts that the Council has with main UK banks were used to their fullest extent, within the individual counterparty limits. These accounts offered both instant access and rates which were considerably higher than those available from Treasury Bills or in the money markets for overnight money, and for most periods up to six months with financial institutions.

The Head of Financial Services is currently investigating the use of Moneymarket Funds to provide additional options on where to place funds and earn interest at slightly higher rates of interest without compromising on security.

Financial service's performance target for the year was therefore based on the comparison between 7 day LIBOR (the rate that could be earned on the markets) and all investments not placed with the Government. This was met, as can be seen in Appendix A 2b, and the return achieved on all the Council's investments, at 0.56%, equalled the target. The latter was slightly above the 0.55% used for the revised estimate. The actual interest earned was higher than the budget. This was mainly due to higher cash surpluses due to a better than expected cashflow.

The graph of investment levels in Appendix A (2a) shows the position at the end of each month. These fluctuated considerably within a month with the maximum invested during the year being £43.120m.

BACKGROUND PAPERS FOR THE DECISION

Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2009.

APPENDICES

Appendix A. Treasury Performance figures
Appendix B. Prudential and Treasury Indicators

Key treasury management performance data for 2010-11

1 Borrowing

		£m	Average Interest Rate %
1a	***Long term debt***		
	Balance at 1 April 2010	22.331	4.985
	New borrowings	0.000	
	Debt repaid	(0.193)	
	Balance at 31 March 2011	22.138	4.937
	Average debt over the year	22.282	4.960
	Interest paid relating to 2010-11	1.105	

Long term debt is defined in legislation as loans repayable over more than one year.

		£m	Average Interest Rate %
1b	***Total debt***		
	Average debt over the year	22.282	4.960
	Interest paid relating to 2010-11	1.105	

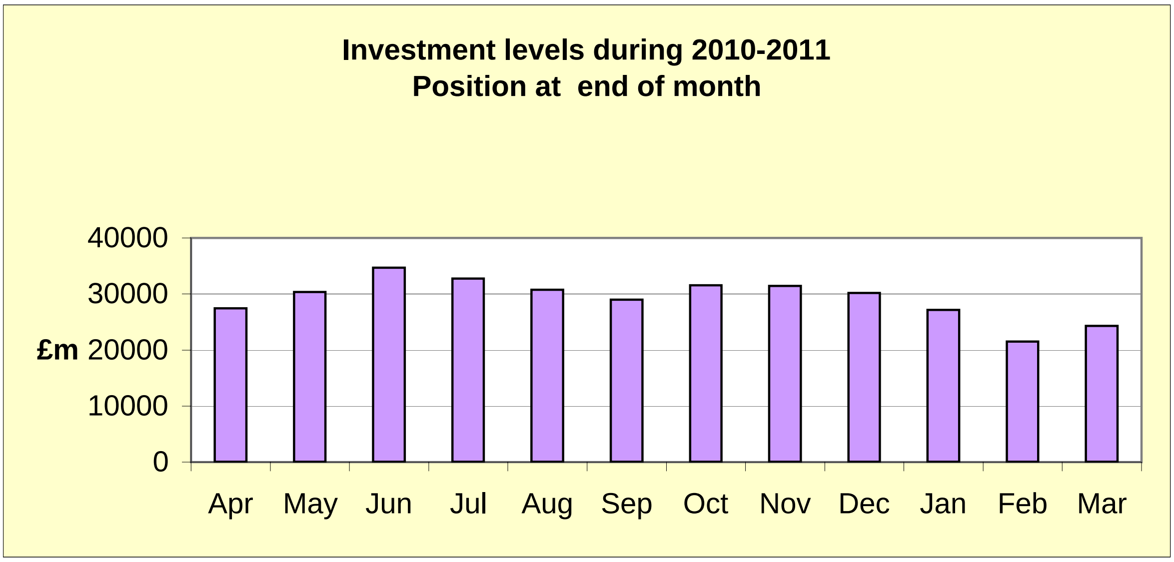
This includes interest paid on temporary debt which in 2010-11 related solely to overdrawn bank balances throughout the year.

		£m
1c	***Budget for total interest paid***	
	Original estimate (a)	1.122
	Revised estimate (b)	1.122
	Outturn relating to 2010-11 (c)	1.105
	Variation from budget (c-b)	(0.017)

2 Investments

2a	***Temporary Investments***	£m	Average Interest Rate %
	Balance at 1 April 2010	18.850	0.526
	New investments	130.908	
	Investments repaid	(125.460)	
	Balance at 31 March 2011	24.298	0.656
	Average investments over the year	31.759	0.560

Key treasury management performance data for 2010-11



2b ***Interest earned from investments***

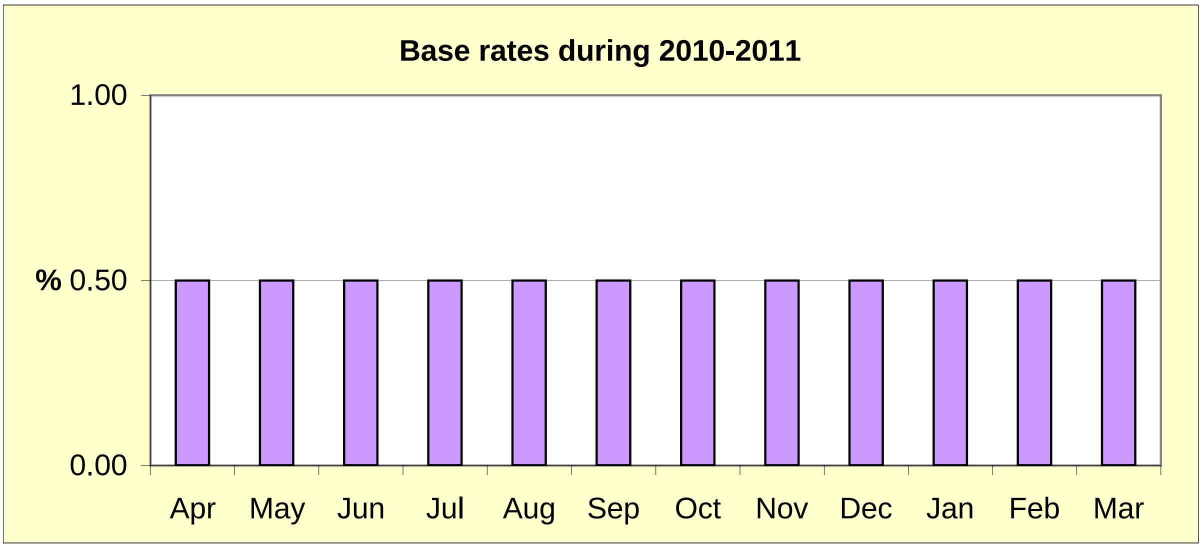
Target return - Service Efficiency Statement	Average Interest Rate %
General benchmark	0.560
Rate of return achieved	0.574
Variation from target	0.014

The rate of return taken for comparison excludes all investments made with the UK Government.
The rate of return for all investments (shown in 2a) is 0.56

2c ***Budget for investment income***	£m
Revised budget (a)	0.132
Outturn (b)	0.178
Variation from budget (b-a)	0.046

Key treasury management performance data for 2010-11

3 Base rates	%
At 1 April 2010	0.500
At 31 March 2011	0.500



PRUDENTIAL INDICATORS

	Actual 2009/10 £000	2010/11 Revised Estimate £000	Actual 2010/11 £000	Notes	2010/11 estimates: 2011/12 as agreed by Council March 2011 £000	2010/11 estimates: Amended 2011/12 £000
Capital Expenditure						
Non -HRA	4,788	8,624	5,388		3,595	6,634
HRA	2,302	3,878	3,094		3,055	3,810
TOTAL	**7,090**	**12,502**	**8,482**		**6,650**	**10,444**
Ratio of Financing Costs to Net Revenue Stream						
Non –HRA	2.54%	2.70%	2.18%		2.52%	2.87%
HRA	26.82%	33.84%	28.33%		25.57%	26.43%
TOTAL	**29.36%**	**36.54%**	**30.51%**		**28.09%**	**29.30%**
Impact of capital investment decisions						
If the Council had funded the proposed capital investment and associated ongoing costs by a direct charge on Council Tax alone the estimate of the **incremental impact of capital investment decisions on the Council Tax** would have been as follows.	n/a	£13.96	n/a	*(1)*	(£1.97)	(£1.97)
Estimate of the Incremental Impact of Capital Investment Decisions on Housing Rents	n/a	Nil	n/a	*(1)*	Nil	Nil
Capital Financing Requirement				*(2)*		
Non -HRA	8,195	7,867	7,867		7,552	7,539
HRA	18,236	18,941	18,941		19,629	18,941
TOTAL	**26,431**	**26,808**	**26,808**		**27,181**	**26,480**
Net borrowing and the Capital Financing Requirement				*(2)*		
Capital Financing Requirement	26,431	26,808	26,808		27,181	26,480
External debt	22,331	22,138	22,138		21,928	21,928
Internal borrowing	4,100	4,670	4,670		5,253	4,552

TREASURY INDICATORS

	Actual 2009/10 £000	2010/11 Revised Estimate £000	Actual 2010/11 £000	Notes	2011/12 as agreed by Council March 2011 £000	Amended 2011/12 £000
Has the Authority adopted the *'CIPFA Code of practice for Treasury management in the public sector'*	Yes	Yes	Yes		Yes	Yes
Authorised limit for external debt						
Borrowing	22,914	33,597	27,269	*(3)*	35,419	
Other Long – Term liabilities	0	0	0		0	0
TOTAL	**22,914**	**33,597**	**27,269**		**35,419**	**0**

	Actual 2009/10 £000	2010/11 Revised Estimate £000	Actual 2010/11 £000	*Notes*	2011/12 as agreed by Council March 2011 £000	Amended 2011/12 £000
Operational Boundary for external debt						
Borrowing	22,914	27,885	27,269	*(3)*	27,691	27,691
Other Long – Term Liabilities	0	0	0		0	0
TOTAL	**22,914**	**27,885**	**27,269**		**27,691**	**27,691**
Interest Rate Exposures				*(2)*		
Upper limit for fixed interest rates	22,138	26,808	21,928		27,181	26,480
Upper limit for variable interest rates	(18,656)	8,042	(24,088)		8,154	7,944
Prudential limits for principal sums invested for periods longer than 364 days	Nil	3,500	Nil		3,500	3,500

MATURITY STRUCTURE OF FIXED RATE BORROWING

	Actual 2009/10	2010/11 Revised Estimate	Actual 2010/11	*Notes*	2011/12 as agreed by Council March 2011	Amended 2011/12
Upper Limit				*(2)*		
Under 12 months	0.87%	25%	0.95%		25%	25%
12 months and within 24 months	0.94%	30%	0.93%		30%	30%
24 months and within 5 years	7.48%	60%	7.80%		60%	60%
5 years and within 10 years	4.97%	75%	4.08%		75%	75%
10 years and above	85.74%	95%	86.24%		95%	95%
Lower Limit						
Under 12 months	0.87%	0%	0.95%		0%	0%
12 months and within 24 months	0.94%	0%	0.93%		0%	0%
24 months and within 5 years	7.48%	0%	7.80%		0%	0%
5 years and within 10 years	4.97%	0%	4.08%		0%	0%
10 years and above	85.74%	25%	86.24%		25%	25%

Notes

(1) These are not measurable indicators as they are intended to be a measure of the impact of investment proposals when the capital programme is agreed.
(2) Actual figures as at 31 March
(3) Actual figures are the maximum external debt occurring during the year.