Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET
18 July 2012

REPORT OF FINANCE & ASSET MANAGEMENT PORTFOLIO HOLDER

A.2 TREASURY MANAGEMENT PERFORMANCE 2011/12

(Report prepared by Richard Barrett and Jo Baines)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To report on the Council's treasury management activities and Prudential Indicators for 2011/12.

EXECUTIVE SUMMARY

Borrowing and investments were undertaken in accordance with the Annual Treasury Strategy approved by Council on 29 March 2011 along with approved amendments in response to the move to Housing Revenue Account Self Financing from 1 April 2012.

Although no General Fund (GF) external borrowing was undertaken in 2011/12, **£35.979m** was borrowed to fund the debt settlement associated with the Housing Revenue Account self financing reforms which was a statutory requirement as part of the Localism Act 2011.

The amount of interest earned from investments remained low because of the continuing unprecedented low interest rates existing throughout the year. However due to maximising investment opportunities and cash flow advantages during the year interest returns were greater than the amount budgeted.

The outturn for the Prudential Indicators is attached as **Appendix B.**

RECOMMENDATION(S)

That Cabinet considers and notes the Treasury Management performance position and Prudential and Treasury Indicators for 2011/12.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Good and effective Treasury Management supports the Council in delivery against its corporate goals and objectives.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Key treasury management performance data is set out in **Appendix A**.

Risk

Risk is inherent in all treasury management activities. Such risks are set out, together with the management actions necessary to mitigate those risks, in the Council's Treasury Management Practices.

LEGAL

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance which this Council has adopted.

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 direct implications in respect of the above areas.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Services. The main reporting elements to comply with this code include:

- An Annual Treasury Strategy approved by Cabinet after consultation with the Corporate Management Committee for recommending to the Full Council.
- Regular monitoring reports that form part of the Council's Corporate Budget Monitoring arrangements during the year.
- An annual treasury performance or outturn report for the preceding year that is presented to Cabinet.

This report sets out the necessary information in response to the third bullet point above and provides a summary of the treasury activities undertaken in 2011/12 **(Appendix A)** and final Prudential and Treasury Indicators at the end of 2011/12 **(Appendix B)**.

BORROWING AND INVESTMENTS 2011/12

Borrowing

The year saw the continuation of the challenging investment environment of low investment returns and continuing heightened levels of counterparty risk. The original expectation had been that the Bank Rate would start rising gently from quarter 4 of 2011 but weak UK growth meant that the rate remained unchanged throughout the year.

The on-going financial problems in Europe has resulted in safe haven flows into UK gilts which, together with two packages of further quantitative easing during the year, combined to depress Public Works Loan Board (PWLB) rates to historically low levels.

The strategy for 2011/12 assumed that in general no external borrowing would be undertaken unless it was considered that it would be in the Council's interests to borrow such as borrowing in advance of future requirements. 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 for GF purposes in 2011/12.

£35.979m was borrowed from the PWLB in March at rates of between 0.70% and 3.03%

to fund the statutory settlement payment in respect of HRA self-financing as approved by Council on 7 February 2012 as part of the HRA budget setting process.

The figures for GF and HRA are shown as a combined amount in **Appendix A,** but from 2012/13 will be shown separately to reflect the move to self financing.

There were no favourable conditions to undertake any debt restructuring during the year as there remained an average 1% differential between PWLB new borrowing rates and premature repayment rates.

No temporary borrowing from the markets was required during the year. The use of an overdraft facility was utilised as part of the management of the Council's daily cash flow position, but this was not significant 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 **£0.161m**.

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy. The outturn for the Prudential Indicators is shown in **Appendix B.** This Appendix also sets out the amounts for 2012/13 as agreed by Council on 27 March 2012 along with any amendments required to reflect changes since that time.

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 whilst balancing various risks such as interest rate risk.

The tight monetary conditions have continued throughout the year with little material movement in the shorter term deposit rates and continue to be influenced by the prevailing economic conditions and the troubles in Europe.

With relatively poor investment returns available along with the continuing counterparty concerns generated by the Eurozone sovereign debt crisis the Council's treasury advisors recommended limiting investments in banks to a maximum of three months. The increased average level of investments throughout the year and reduction in available counterparties meant that it was necessary to place a significant proportion of the Council's investments with the UK Government in the form of Treasury Bills in the early part of the year. The second half of the year saw the emergence of other local authorities back to the market which has provided a modest increase in returns compared to Treasury Bills. The interest rates paid by local authorities are generally lower than that on the financial markets but they do provide a secure and a realistic alternative under current market conditions. Both government and local authority investments fit well with the Council's low appetite for risk with the security and liquidity of the investment the prime concern.

The total invested in Treasury Bills and local authorities at 31 March 2012 was **£7.000m** and **£18.000m** respectively out of a total investment of **£30.337m**. Other investments are held with UK banks with no amounts held with any European institutions.

Investigations into the use of Moneymarket Funds are currently underway with the aim of providing additional options for the placing of funds and to earn returns at slightly higher rates of interest without compromising the security of the investment.

A local performance target or benchmark maintained within Resource Management is investment returns measured against the 7 day LIBID rate (the rate that could be earned on the markets). This was exceeded during the year as highlighted in **Appendix A (2b).** The actual interest earned was higher than the budget as a result of both maximising investment opportunities and cash flow advantages during the year.

The Council receives regular credit rating updates during the year following which the appropriate action is taken as soon as practical where the credit rating falls below the minimum ratings which form part of the Council's Treasury Management Practices.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A Treasury Performance figures 2011/12
Appendix B Prudential and Treasury Indicators 2011/12

Appendix A

Key treasury management performance data for 2011-12

1 Borrowing

		£m	Average Interest Rate %
1a	***Long term debt***		
	Balance at 1 April 2011	22.138	4.937
	New borrowings	35.979	2.482
	Debt repaid	(0.210)	
	Balance at 31 March 2012	57.907	3.400
	Average debt over the year	22.477	4.890
	Interest paid relating to 2011-12	1.100	

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	22.477	4.890
	Interest paid relating to 2011-12	1.100	

This includes interest paid on temporary debt which in 2011-12 was approximately £300 and related solely to overdrawn bank balances throughout the year.

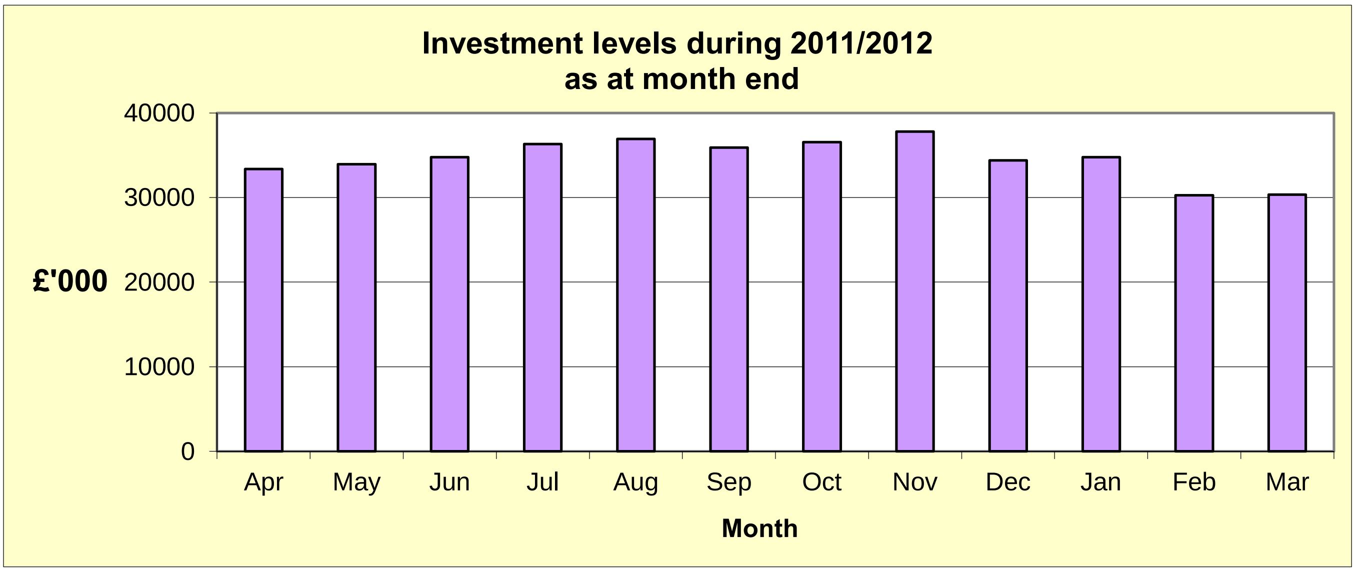
		£m
1c	***Budget for total interest paid***	
	Original estimate (a)	1.091
	Revised estimate (b)	1.091
	Outturn relating to 2011-12 (c)	1.100
	Variation from budget (c-b)	0.009

2 Investments

2a	***Temporary Investments***	£m	Average Interest Rate %
	Balance at 1 April 2011	24.298	0.656
	New investments	138.014	
	Investments repaid	(131.975)	
	Balance at 31 March 2012	30.337	0.509
	Average investments over the year	37.708	0.608

Appendix A

Key treasury management performance data for 2011-12



2b *Interest earned from investments*

Target return - Service Efficiency Statement	Average Interest Rate %
General benchmark	0.480
Rate of return achieved	0.662
Variation from target	0.182

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) was 0.61

2c *Budget for investment income*

	£m
Revised budget (a)	0.132
Outturn (b)	0.230
Variation from budget (b-a)	0.098

Key treasury management performance data for 2011-12

3 Base rates	%
At 1 April 2011	0.500
At 31 March 2012	0.500

The rate remained unchanged throughout 2011/12

PRUDENTIAL INDICATORS

	Actual 2010/11 £000	2011/12 Revised Estimate £000	Actual 2011/12 £000	Notes	2012/13 estimates: 2012/13 as agreed by Council March 2012 £000	2012/13 estimates: Amended 2012/13 £000
Capital Expenditure						
Non -HRA	5,388	7,093	3,112		1,345	1,345
HRA	3,094	3,835	4,383		3,242	3,242
TOTAL	**8,482**	**10,928**	**7,495**		**4,587**	**4,587**
Ratio of Financing Costs to Net Revenue Stream						
Non –HRA	2.18%	2.68%	2.07%		2.71%	2.71%
HRA	28.33%	25.99%	26.47%		30.49%	30.49%
TOTAL	**30.51%**	**28.67%**	**28.54%**		**33.20%**	**33.20%**
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	£0.00	n/a	*(1)*	£0.00	£0.00
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	7,867	7,552	7,552		7,250	7,250
HRA	18,941	54,920	54,920		53,008	53,008
TOTAL	**26,808**	**62,472**	**62,472**		**60,258**	**60,258**
Net borrowing and the Capital Financing Requirement				*(2)*		
Capital Financing Requirement	26,808	62,472	62,472		60,258	60,258
Net debt	(2,160)	43,232	27,570		40,789	40,789

TREASURY INDICATORS

	Actual 2010/11 £000	2011/12 Revised Estimate £000	Actual 2011/12 £000	Notes	2012/13 as agreed by Council March 2012 £000	Amended 2012/13 £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	27,269	77,216	57,907	*(3)*	76,911	76,911
Other Long – Term liabilities	0	0	0		0	0
TOTAL	**27,269**	**77,216**	**57,907**		**76,911**	**76,911**

	Actual 2010/11 £000	2011/12 Revised Estimate £000	Actual 2011/12 £000	*Notes*	2012/13 as agreed by Council March 2012 £000	Amended 2012/13 £000
Operational Boundary for external debt						
Borrowing	27,269	68,451	57,907	*(3)*	68,241	68,241
Other Long – Term Liabilities	0	0	0		0	0
TOTAL	**27,269**	**68,451**	**57,907**		**68,241**	**68,241**
Interest Rate Exposures				*(2)*		
Upper limit for fixed interest rates	21,928	62,472	57,907		60,258	60,258
Upper limit for variable interest rates	(24,088)	(18,742)	(28,168)		18,078	(18,078)
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 2010/11	2011/12 Revised Estimate	Actual 2011/12	*Notes*	2012/13 as agreed by Council March 2012	Amended 2012/13
Upper Limit				*(2)*		
Under 12 months	0.95%	25%	3.75%		25%	25%
12 months and within 24 months	0.93%	30%	5.50%		30%	30%
24 months and within 5 years	7.80%	60%	11.54%		60%	60%
5 years and within 10 years	4.08%	75%	15.45%		75%	75%
10 years and above	86.24%	95%	63.76%		95%	95%
Lower Limit						
Under 12 months	0.95%	0%	3.75%		0%	0%
12 months and within 24 months	0.93%	0%	5.50%		0%	0%
24 months and within 5 years	7.80%	0%	11.54%		0%	0%
5 years and within 10 years	4.08%	0%	15.45%		0%	0%
10 years and above	86.24%	25%	63.76%		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.