

Key Decision Required:	Yes	In the Forward Plan:	Yes
-------------------------------	------------	-----------------------------	------------

CABINET

12 JULY 2013

REPORT OF FINANCE & ASSET MANAGEMENT PORTFOLIO HOLDER

A.7 TREASURY MANAGEMENT PERFORMANCE 2012/13

(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 2012/13.

EXECUTIVE SUMMARY

- Borrowing and investments have been undertaken in accordance with the 2012/13 Annual Treasury Strategy that was approved by Council on 27 March 2012.
- No external borrowing was undertaken in 2012/13 for either the General Fund (GF) or Housing Revenue Account (HRA).
- 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 2012/13.

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 considered within the Treasury Strategy with management actions necessary to mitigate the risks set out 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 2012/13 (**Appendix A**) and final Prudential and Treasury Indicators at the end of 2012/13 (**Appendix B**).

BORROWING AND INVESTMENTS 2012/13

Borrowing

The Base Rate has remained at the same level throughout the year and the Council's treasury advisors are forecasting that there is unlikely to be any change until March 2015. Public Works Loan Board (PWLB) rates also remained low although these are predicted to rise earlier (in March 2014) as a result of an increase in confidence in equity markets anticipating stronger economic recovery in the United States supported by growth in the Far East.

The strategy for 2012/13 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 or HRA purposes in 2012/13.

The figures for GF and HRA are shown separately in **Appendix A** to reflect the move to self-financing. Principal has been paid on HRA debt in line with the 30 year business plan.

Debt rescheduling opportunities are limited in the current economic climate and with the structure of interest rates following increases in the PWLB new borrowing rates in October 2010, hence no debt rescheduling has been undertaken.

No temporary borrowing from the markets was required during the year. The use of an overdraft facility of up to £300,000 was utilised as part of the management of the Council's daily cash flow position, but this was generally not significant so there is only a slight difference shown between long term and total debt in **Appendix A** (1a and 1b). For one day during the year the Council had a debit bank balance of **£1.882m** as a result of a counterparty not being able to repay an investment on the date requested.

Investments

The year saw the continuation of the challenging investment environment of low investment returns and heightened levels of counterparty risk. The tight monetary conditions remain and shorter term deposit rates have decreased gradually throughout the year.

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.

With relatively poor investment returns available along with the continuing counterparty concerns a significant proportion of the Council's investments were made with other local authorities. 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. The use of Treasury Bills declined as the rates fell but that of the UK Debt Management Office (DMO) increased as the rates offered were similar and deposits could be timed to mature at any time without any risk to capital. 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 the DMO and local authorities at 31 March 2013 was **£1.000m** and **£24.500m** respectively out of a total investment of **£33.744m**. Other investments were held with UK banks and one UK building society with no amounts held with non-UK institutions or in Treasury Bills.

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.

The UK still holds an AAA rating with one rating agency, with the recent downgrade by the other two rating agencies not having a specific adverse impact on the Council's treasury activities at the present time.

The ratings of The CO-Operative Bank have also recently been downgraded, but the bank provides the Council's day to day banking requirements rather than just being a potential counterparty for investments. However at the present time the Council is maintaining a position of only having limited amounts held with the bank to support the management of daily cash flow requirements.

Compliance with Treasury and Prudential Limits

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**.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A Treasury Performance figures 2012/13

Appendix B Prudential and Treasury Indicators 2012/13

Key treasury management performance data for 2012-13

1 Borrowing

1a Long Term Debt

Principal	Opening Balance 1 April 2012 £'000	New Borrowing £'000	Principal Repaid £'000	Balance at 31 March 2013 £'000	Average Debt for Year £'000
Long Term Borrowing					
PWLB - General Fund	2,987	0	205	2,782	2,933
PWLB - Housing Revenue Account	54,920	0	1,964	52,956	53,921
Total Long Term Borrowing	57,907	0	2,169	55,738	56,854

Average Interest Rates	Average Interest Rate 1 April %	New Borrowing %	Principal Repaid %	Average Interest Rate 31 March %	Average Interest Rate for Year %
Long Term Borrowing					
PWLB - General Fund	8.651	0.000	8.362	8.672	8.655
PWLB - Housing Revenue Account	3.114	0.000	2.116	3.151	3.121
Overall Long Term Borrowing	3.400	0.000	2.706	3.427	3.406

Interest paid relating to 2012-13

General Fund	£254
Housing Revenue Account	£1,683
	<u>£1,937</u>

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

1b Total debt

Average debt over the year	£56,854
Interest paid relating to 2012-13	£1,937
Average interest rate for year	3.406%

This includes interest paid on temporary debt

1c Budget for Total Interest Paid

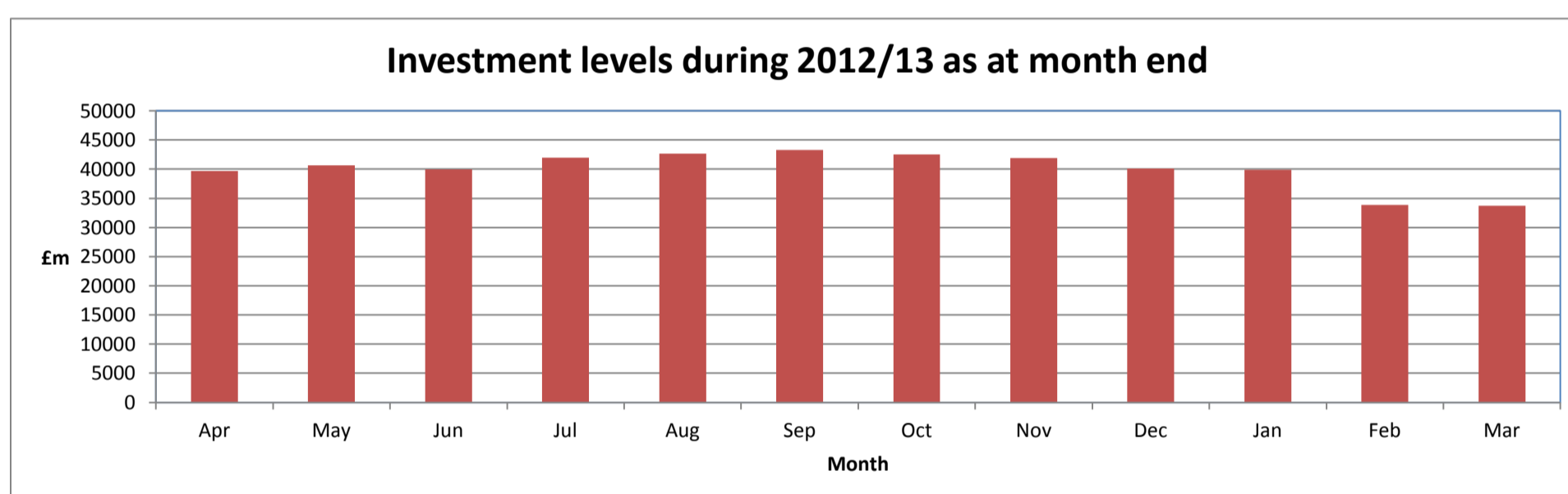
	Original Estimate £'000	Revised Estimate £'000	Out-turn £'000	Variation from Revised Budget £'000
General Fund	270	254	254	0.000
Housing Revenue Account	817	1,683	1,683	0.000
Total Interest Paid	1,087	1,937	1,937	0.000

Key treasury management performance data for 2012-13

2 Investments

2a Temporary Investments

Principal	Opening Balance 1 April 2012 £'000	New Investments £'000	Investments Repaid £'000	Balance at 31 March 2013 £'000	Average Investments for Year £'000
Investments less than a year					
Investments with UK Government via Treasury Bills, DMO, Local Authorities and other public bodies	25,000	94,400	93,900	25,500	
Investments with UK Financial Institutions (including Money Market Funds)	5,337	51,097	48,190	8,244	
Investments with non-UK Financial Institutions	0	14,000	14,000	0	
Total Temporary Investments	30,337	159,497	156,090	33,744	43,209



Average Interest Rates	Average Interest Rate 1 April %	Average Interest Rate 31 March %	Average Interest Rate for Year %
Temporary Investments	0.509	0.354	0.456

2b Budget for Total Interest Earned

	Original Estimate £'000	Revised Estimate £'000	Out-turn £'000	Variation from Revised Budget £'000
Total Interest Earned	132	132	197	65

3 Base rates

%

At 1 April 2012 0.500

At 31 March 2013 0.500

The rate remained unchanged throughout 2012/13

PRUDENTIAL INDICATORS

					2013/14 estimates	
	Actual 2011/12	2012/13 Estimate	Actual 2012/13	Notes	2013/14 as agreed by Council March 2013	Amended 2013/14
	£000	£000	£000		£000	£000
Capital Expenditure						
Non -HRA	3,112	6,000	1,052		1,889	6,261
HRA	4,383	4,361	2,414		4,242	5,306
TOTAL	7,495	10,361	3,466		6,131	11,567
Ratio of Financing Costs to Net Revenue Stream						
Non -HRA	2.07%	2.41%	2.06%		2.09%	2.09%
HRA	26.47%	55.08%	46.67%		55.62%	55.62%
TOTAL	28.54%	57.49%	48.73%		57.71%	57.71%
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	n/a	n/a	(1)	£0.00	£0.00
Estimate of the Incremental Impact of Capital Investment Decisions on Housing Rents	n/a	n/a	n/a	(1)	£5.98	Nil
Capital Financing Requirement				(2)		
Non -HRA	7,552	7,251	7,250		6,961	6,961
HRA	54,920	52,956	52,956		50,992	50,992
TOTAL	62,472	60,207	60,206		57,953	57,953
Net borrowing and the Capital Financing Requirement				(2)		
Capital Financing Requirement	62,472	60,207	60,206		57,953	57,953
External debt	57,907	55,738	55,737		53,551	53,551
Internal borrowing	4,565	4,469	4,469		4,402	4,402
Debt Cap (Housing Revenue Account)						
Debt cap amount as determined by CLG		60,285	60,285		60,285	60,285
TREASURY INDICATORS						
	Actual 2011/12	2012/13 Estimate	Actual 2012/13	Notes	2013/14 as agreed by Council March 2013	Amended 2013/14
	£000	£000	£000		£000	£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	57,907	76,758	58,804	(3)	77,159	78,790

	Actual 2011/12	2012/13 Estimate	Actual 2012/13	Notes	2013/14 as agreed by Council March 2013	Amended 2013/14
	£000	£000	£000		£000	£000
Other Long – Term liabilities	0	0	0		0	0
TOTAL	57,907	76,758	58,804		77,159	78,790

	Actual 2011/12	2012/13 Estimate	Actual 2012/13	Notes	2013/14 as agreed by Council March 2013	Amended 2013/14
	£000	£000	£000		£000	£000
Operational Boundary for external debt						
Borrowing	57,907	68,138	58,804	(3)	68,932	68,932
Other Long – Term Liabilities	0	0	0		0	0
TOTAL	57,907	68,138	58,804		68,932	68,932
Interest Rate Exposures						
Upper limit for fixed interest rates	57,907	60,207	52,550	(2)	57,953	57,953
Upper limit for variable interest rates	28,168	18,062	30,557		17,386	17,386
Gross and Net Debt						
Upper limit on the proportion of net debt compared to gross debt		100.00%			100.00%	100.00%
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 2011/12	2012/13 Estimate	Actual 2012/13	Notes	2013/14 as agreed by Council March 2013	Amended 2013/14
Upper Limit						
Under 12 months	3.75%	25%	5.72%	(2)	25%	25%
12 months and within 24 months	5.50%	30%	3.96%		30%	30%
24 months and within 5 years	11.54%	60%	11.57%		60%	60%
5 years and within 10 years	15.45%	75%	16.50%		75%	75%
10 years and above	63.76%	95%	62.25%		95%	95%
Lower Limit						
Under 12 months	3.75%	0%	5.72%		0%	0%
12 months and within 24 months	5.50%	0%	3.96%		0%	0%
24 months and within 5 years	11.54%	0%	11.57%		0%	0%
5 years and within 10 years	15.45%	0%	16.50%		0%	0%
10 years and above	63.76%	25%	62.25%		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.