

AGENDA ITEM NO. 11	
COUNCIL	
Date	26 JULY 2012
Title	TREASURY MANAGEMENT ANNUAL REPORT 2011/12

<p>1. PURPOSE/SUMMARY</p> <p>The purpose of this report is to provide members with information relating to the Treasury Management activities of the Council for 2011/12.</p>
<p>2. KEY ISSUES</p> <ul style="list-style-type: none"> • In accordance with the Treasury Management Strategy approved in March 2012, Council receives an annual report after the financial year-end, on its treasury management activities. • The Treasury Management Annual Report 2011/12 as considered by Cabinet on 21 June 2012 and Corporate Governance Committee on 10 July 2012 is attached. • The report highlights all the key activities carried out within the Treasury Management function during 2011/12. All activities have been conducted in accordance with the approved strategy and policies. • 2011/12 has been a challenging year and the report highlights the success in maximising investment income whilst ensuring the security and liquidity of the Council's investments.
<p>3. RECOMMENDATION</p> <p>It is recommended that members note the report.</p>

Wards Affected	All
Forward Plan Reference No. (if applicable)	
Portfolio Holder(s)	Councillor Alan Melton, Leader and Finance Portfolio Holder, Policy and Resources Cllr John Clark, Portfolio Holder, Quality Organisation
Report Originator	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant

AGENDA ITEM NO.	
CORPORATE GOVERNANCE COMMITTEE	
Date	10 JULY 2012
Title	TREASURY MANAGEMENT ANNUAL REPORT 2011/12

1. PURPOSE/SUMMARY

The purpose of this report is to consider the overall financial and operational performance of the Council's treasury management activity for 2011/12. This report has been considered by Cabinet on 21 June 2012 and will be presented to Council on 26 July 2012.

- 3. KEY ISSUES**
- The Council complied with its legislative and regulatory treasury management requirements in 2011/12.
 - Amount received from external investments £345,060.
 - Turnover on temporary investments £196,900,000 (relating to 136 transactions).
 - No new borrowing was undertaken and the authorised limit was not breached during 2011/12.
 - Overall interest rate achieved from investments 1.36% (7 day LIBID uncompounded rate for 2011/12 0.48%).
 - The average rate on the long term external debt portfolio was 6.07% at 31 March 2012.
 - Outstanding loans and finance lease liabilities of £8,825,000 and temporary investments of £17,600,000 as at 31.03.12.

4. RECOMMENDATIONS

It is recommended that members note the report.

Wards Affected	All
Forward Plan Reference No. (if applicable)	
Portfolio Holder(s)	Cllr Alan Melton, Leader and Portfolio Holder, Policy and Resources Cllr John Clark, Portfolio Holder, Quality Organisation
Report Originator(s)	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Treasury Management and Annual Investment Strategy 2011/12

1. INTRODUCTION

- 1.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2011/12. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 Treasury Management includes managing the Authority's daily cashflow, which means investing any daily surplus cash and recalling investments when there is forecast to be a deficit, the effective control of the risks associated with those activities and aiming for maximum performance consistent with those risks.
- 1.3 During 2011/12 the Council complied with its legislative and regulatory requirements. Actual prudential and treasury indicators are reported at appendix A.
- 1.4 The Corporate Director & Chief Finance Officer confirms no new borrowing was undertaken and the authorised limit was not breached.

2. CONTENT OF THIS REPORT

- The economy and interest rates
- Overall treasury position as at 31 March 2012
- The strategy for 2011/12
- The borrowing requirement
- Borrowing outturn
- Investment outturn

3. THE ECONOMY AND INTEREST RATES

- 3.1 The financial year 2011/12 continued the challenging investment environment of the previous years, namely low investment returns and continued heightened levels of counterparty risk. The original expectation for 2011/12 was that the bank rate would start gently rising from quarter 4 2011. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence/spending and a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market – the European Union (EU).
- 3.2 The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit ratings agencies that the UK could lose its AAA credit rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. The USA and France lost their AAA credit ratings from one rating agency during the year.
- 3.3 Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October and another £50bn in February. The bank rate therefore ended the year unchanged at 0.5% while Consumer Price Index (CPI) inflation peaked in September at 5.2%, finishing at 3.5% in March, with further falls expected to below 2% over the next two years. The EU sovereign debt crisis grew in intensity during the year until February when a second bailout package was eventually agreed for Greece.
- 3.4 Gilt yields fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which,

together with the two UK packages of quantitative easing during the year, combined to depress Public Works Loan Board (PWLB) rates to historically low levels.

- 3.5 Risk premiums were also a constant factor in raising money market deposit rates for periods longer than one month. Widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Eurozone concerns and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of the longer term commitment.

4. OVERALL TREASURY POSITION AS AT 31 MARCH 2012

- 4.1 At the beginning and end of 2011/12 the Council's treasury position was as follows.

	31 March 2012 Principal £000	Rate/ Return	Average Life years	31 March 2011 Principal £000	Rate/ Return	Average Life years
Fixed rate funding						
• PWLB	5,000	6.98%	12.57 yrs	5,000	6.98%	13.66 yrs
• LOBO	3,300	4.70%	42.00 yrs	3,300	4.70%	43.00 yrs
• Finance Leases	525	5.95%	2.75 yrs	701	5.97%	3.32 yrs
Total debt	8,825			9,001		
CFR	531			859		
Investments	(17,600)	1.36%		(19,600)	1.25%	
Net debt /(Investments)	(8,775)			(10,599)		

5. THE STRATEGY FOR 2011/12

- 5.1 The expectation for interest rates within the strategy for 2011/12 anticipated low but rising bank rate (starting in quarter 4 of 2011) with similar gradual rises in medium and longer term fixed interest rates over 2011/12. Variable or short term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

6. THE BORROWING REQUIREMENT

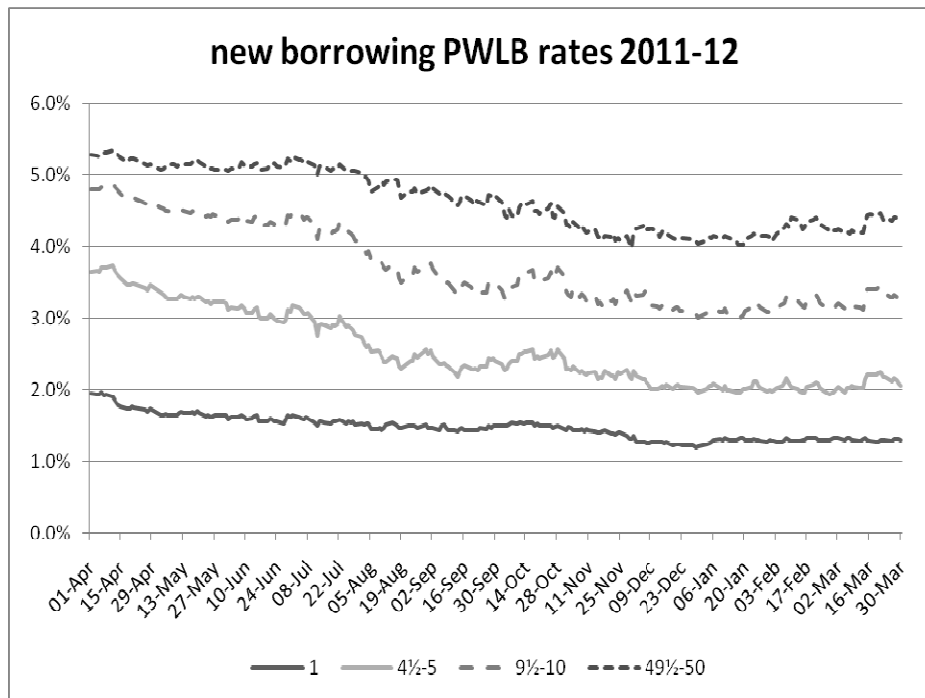
- 6.1 The Council's Capital Financing Requirement (CFR) for the year is shown below and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

	31 March 2012 Actual £000	31 March 2012 Estimate £000	31 March 2011 Actual £000
CFR opening balance	859	859	1,044
Less finance lease repayments	(175)	(175)	(185)
Less voluntary revenue provision	(153)	(159)	0
CFR Closing balance	531	525	859

- 6.2 Borrowing activity is constrained by prudential indicators for net borrowing and the CFR and by the authorised limit. In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/12 plus the expected changes to the CFR over 2012/13 and 2013/14 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital need in 2011/12. Appendix A highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator in 2011/12.
- 6.3 The authorised limit is the "affordable borrowing limit" required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. The authorised limit was not breached during 2011/12.

7. BORROWING OUTTURN

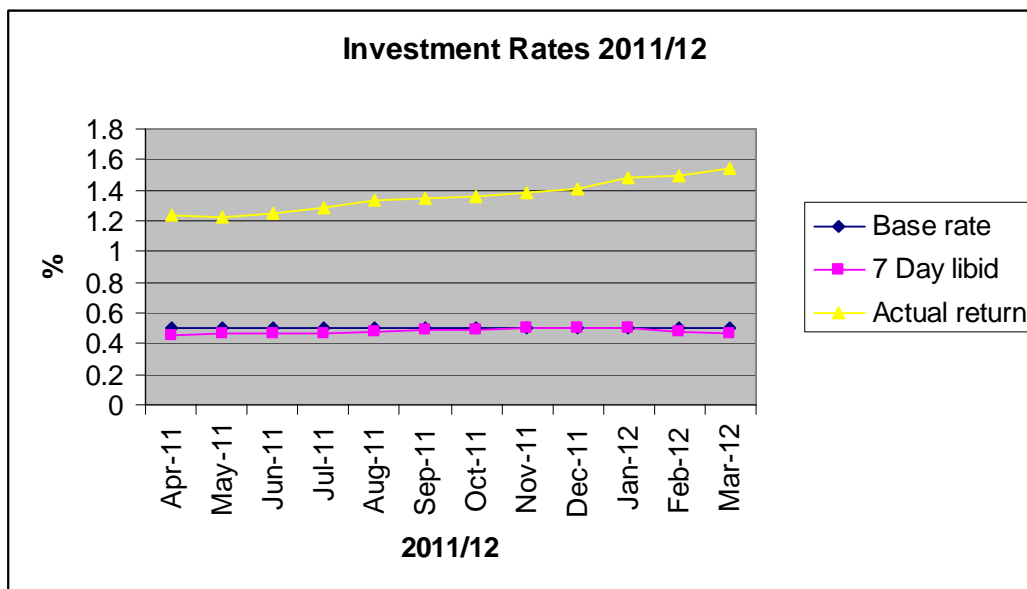
- 7.1 The graph below shows how PWLB rates fell to historically very low levels during the year.



- 7.2 No long term or temporary borrowing was required. The approach during the year was to use cash balances to finance new capital expenditure, so as to run down cash balances and minimise counterparty risk incurred on investments.
- 7.3 No rescheduling was completed during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates and the penalty position which can arise from early repayment of debt, made rescheduling unviable.

8. INVESTMENT OUTTURN

- 8.1 The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. Bank rate remained at its historic low of 0.5% throughout the year while market expectations of the start of monetary tightening were gradually pushed further and further back during the year to the second half of 2013 at the earliest.
- 8.2 Overlaying the relatively poor investment returns was the continued counterparty concerns generated by the Eurozone sovereign debt crisis.
- 8.3 The Council's investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by Council on 24 February 2011. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps and bank share price).
- 8.4 The investment activity (Appendix B) during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- 8.5 The Council maintained an average balance of £24.175m of internally managed funds. The internally managed funds earned an average rate of return of 1.35% (£345,060). The comparable performance indicator is the average 7-day LIBID rate, which was 0.48%.



PRUDENTIAL INDICATORS**APPENDIX A**

Prudential Indicators	2010/11 Actual £000	2011/12 Estimate £000	2011/12 Actual £000
1 Capital Expenditure	7,489	6,635	6,154
2 Ratio of Financing Costs to Net Revenue Stream (external interest – investment income)	1.58%	1.35%	1.29%
3 Net Borrowing and the Capital Financing Requirement			
Capital Financing Requirement	859	525	531
Net Debt / (Investments)	(10,599)	(7,175)	(8,775)

Treasury Management Indicators	2010/11 Actual £000	2011/12 Estimate £000	2011/12 Actual £000
4 Authorised Limit for External Debt			
Borrowing	30,000	15,000	15,000
Other Long Term Liabilities	0	2,000	2,000
Total	30,000	17,000	17,000
5 Operational Boundary for External debt			
Borrowing	25,000	10,000	10,000
Other Long Term Liabilities	0	2,000	2,000
Total	25,000	12,000	12,000
6 Actual External debt (as at 31 March)			
Borrowing	8,300	8,300	8,300
Other Long Term Liabilities	525	525	364
Total	8,825	8,825	8,664
7 Interest Rate Exposures			
Total projected principal outstanding on :			
Borrowing	8,300	8,825	8,825
Investments	(19,600)	(15,000)	(17,600)
Net Principal Outstanding/Investments	(11,300)	(6,175)	(8,775)
Upper Limit - Fixed Rates	(6,700)	(1,700)	(1,175)
Upper Limit - Variable Rates	(4,600)	(12,000)	(7,600)
8 Upper Limit for Total Principal Sums Invested for Periods Longer than 364 Days	5,000	7,000	8,000

TEMPORARY INVESTMENTS

2011/2012

Month	INVESTMENTS		REPAYMENT		Net Cumulative Balance
	No.	Amount	No.	Amount	
		£000		£000	£000
b/f					19,600
April	7	11,450	7	9,750	21,300
May	5	8,700	3	3,900	26,100
June	4	7,000	9	7,900	25,200
July	8	16,400	9	15,850	25,750
August	3	4,550	4	5,150	25,150
September	5	7,550	6	8,100	24,600
October	4	6,400	6	6,750	24,250
November	4	7,150	6	7,150	24,250
December	6	14,000	8	11,150	27,100
January	5	7,400	8	9,000	25,500
February	1	3,000	6	6,200	23,300
March	2	3,850	10	8,550	17,600
TOTAL	54	97,450	82	99,450	

Note 1:

The average individual value of investments in 2011/12 was £1,804,630 for 54 investments (2010/11 - £1,623,559 for 59 investments).