	AGENDA ITEM NO. 10
	COUNCIL
Date	**25 JULY 2013**
Title	**TREASURY MANAGEMENT ANNUAL REPORT 2012/13**

1. PURPOSE/SUMMARY

The purpose of this report is to provide members with information relating to the Treasury Management activities of the Council for 2012/13.

2. KEY ISSUES

- In accordance with the Treasury Management Strategy approved in February 2013, Council receives an annual report after the financial year-end, on its treasury management activities.
- The Treasury Management Annual Report 2012/13 as considered by Cabinet on 20 June 2013 and Corporate Governance Committee on 9 July 2013 is attached.
- The report highlights all the key activities carried out within the Treasury Management function during 2012/13. All activities have been conducted in accordance with the approved strategy and policies.
- 2012/13 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.

3. RECOMMENDATION

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 and Strategic Finance Cllr John Clark, Portfolio Holder, Finance and 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. 9

CORPORATE GOVERNANCE COMMITTEE

Date	**9 JULY 2013**
Title	**TREASURY MANAGEMENT ANNUAL REPORT 2012/13**

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 2012/13. This report has been considered by Cabinet on 20 June 2013 and will be presented to Council on 25 July 2013.

3. KEY ISSUES

- The Council complied with its legislative and regulatory treasury management requirements in 2012/13.
- Amount received from external investments £345,168.
- Turnover on temporary investments £169,650,000 (relating to 107 transactions).
- No new borrowing was undertaken and the authorised limit was not breached during 2012/13.
- Overall interest rate achieved from investments 1.65% (7 day LIBID uncompounded rate for 2012/13 0.39%).
- The average rate on the long term external debt portfolio was 6.06% at 31 March 2013.
- Outstanding loans and finance lease liabilities of £8,323,267 and temporary investments of £14,850,000 as at 31 March 2013.

4. RECOMMENDATION

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 and Strategic Finance Cllr John Clark, Portfolio Holder, Finance and 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 2012/13

1. INTRODUCTION

1.1 The 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 2012/13. 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 During 2012/13 the minimum reporting requirements were that Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 01/03/2012);
- a mid-year treasury update report (Council 20/12/2012);
- an annual review following the end of the year, describing the activity compared to the strategy (this report).

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 The Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Corporate Governance Committee before they were reported to Council.

2. THE ECONOMY AND INTEREST RATES

2.1 The financial year 2012/13 continued the challenging investment environment of the previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that the bank rate would start gently rising from quarter 3 2013. 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).

2.2 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. This warning became reality in the latter part of 2012/13 and beginning of 2013/14, no further downgrades are anticipated in the near future.

2.3 Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing (QE) by £50bn in July to a total of £375bn. The bank rate therefore ended the year unchanged at 0.5% while Consumer Price Index (CPI) inflation fell from 3% at the start of the year to end at 2.8% in March, with a fall back to below 2% pushed back to quarter 1 2016. The EU sovereign debt crisis was an ongoing issue during the year with first Greece and then Cyprus experiencing crises which were met with bailouts after difficult and fraught negotiations.

2.4 Gilt yields oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep Public Works Loan Board (PWLB) rates depressed for much of the year at historically very low levels.

2.5 The Funding for Lending Scheme announced in July resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do “whatever it takes” to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

3. OVERALL TREASURY POSITION AS AT 31 MARCH 2013

3.1 At the beginning and end of 2012/13 the Council’s treasury position was as follows.

	31 March 2013 Principal £000	Rate/ Return	Average Life years	31 March 2012 Principal £000	Rate/ Return	Average Life years
Fixed rate funding						
• PWLB	4,500	7.00%	17.40 yrs	5,000	6.98%	12.57 yrs
• LOBO	3,300	4.70%	41.00 yrs	3,300	4.70%	42.00 yrs
• Finance Leases	523	5.64%	2.65 yrs	525	5.95%	2.75 yrs
Total debt	8,323			8,825		
CFR	529			531		
Investments	(14,850)	1.65%		(17,600)	1.36%	
Net debt /(Investments)	(6,527)			(8,775)		

4. THE STRATEGY FOR 2012/13

4.1 The expectation for interest rates within the strategy for 2012/13 anticipated low but rising bank rate (starting in quarter 3 of 2013) with similar gradual rises in medium and longer term fixed interest rates over 2012/13. (The bank rate is now not expected to start rising until the first quarter of 2015). 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 counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5. THE BORROWING REQUIREMENT

5.1 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.

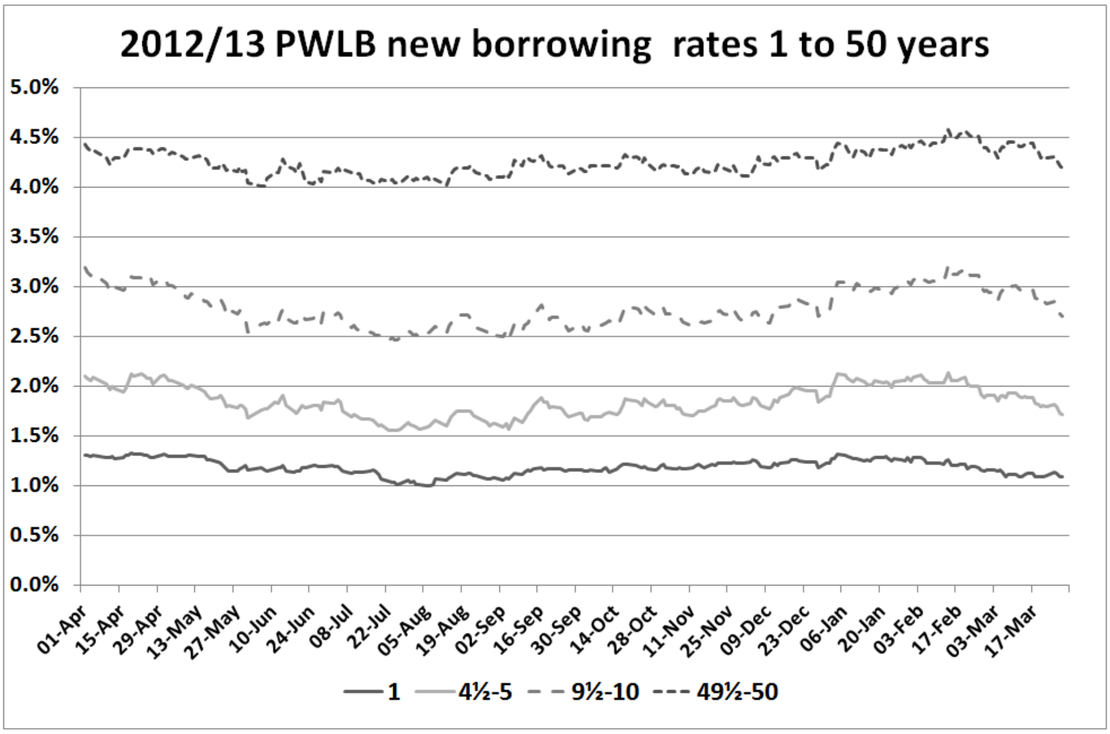
	31 March 2013 Actual £000	31 March 2013 Estimate £000	31 March 2012 Actual £000
CFR opening balance	531	531	859
Capital expenditure on finance leases	164	165	0
Less finance lease repayments	(166)	(162)	(175)
Less voluntary revenue provision	0	0	(153)
CFR Closing balance	529	534	531

5.2 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 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital need in 2012/13. Appendix A highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator in 2012/13.

5.3 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 2012/13.

6. BORROWING OUTTURN

6.1 The graph below shows how PWLB rates remained close to historically very low levels during the year.



6.2 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.

6.3 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.

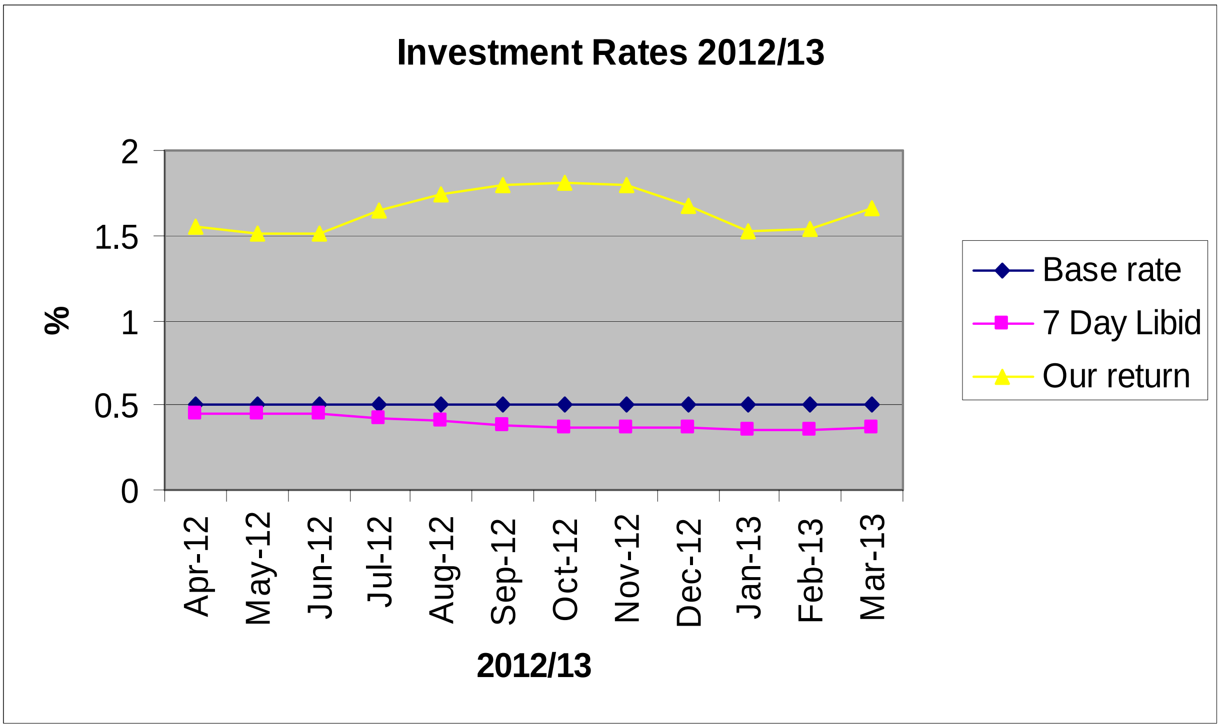
7. INVESTMENT OUTTURN

7.1 Bank rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for four years. Market expectations of the start of monetary tightening were pushed back during the year to early 2015 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.

7.2 The Council's investment policy is governed by Communities and Local Government guidance, which has been implemented in the annual investment strategy approved by Council on 1 March 2012. 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).

7.3 The investment activity (Appendix B) during the year conformed to the approved strategy and the Council had no liquidity difficulties.

7.4 The Council maintained an average balance of £20.692m of internally managed funds. The internally managed funds earned an average rate of return of 1.65% (£345,168). The comparable performance indicator is the average 7-day LIBID rate, which was 0.39%.



PRUDENTIAL INDICATORS

APPENDIX A

	Prudential Indicators	2011/12 Actual £000	2012/13 Estimate £000	**2012/13 Actual £000**
1	**Capital Expenditure**	6,154	3,918	**3,414**
2	**Ratio of Financing Costs to Net Revenue Stream (external interest – investment income)**	1.29%	1.40%	**1.29%**
3	**Net Borrowing and the Capital Financing Requirement**			
	Capital Financing Requirement	531	534	**529**
	Net Debt / (Investments)	(8,775)	(4,704)	**(6,527)**

	Treasury Management Indicators	2011/12 Actual £000	2012/13 Estimate £000	**2012/13 Actual £000**
4	**Authorised Limit for External Debt**			
	Borrowing	15,000	15,000	**15,000**
	Other Long Term Liabilities	2,000	2,000	**2,000**
	Total	**17,000**	**17,000**	**17,000**
5	**Operational Boundary for External debt**			
	Borrowing	10,000	10,000	**10,000**
	Other Long Term Liabilities	2,000	2,000	**2,000**
	Total	**12,000**	**12,000**	**12,000**
6	**Actual External debt (as at 31 March)**			
	Borrowing	8,300	7,800	**7,800**
	Other Long Term Liabilities	364	320	**340**
	Total	**8,664**	**8,120**	**8,140**
7	**Interest Rate Exposures**			
	Total projected principal outstanding on :			
	Borrowing	8,825	8,296	**8,323**
	Investments	(17,600)	(13,000)	**(14,850)**
	Net Principal Outstanding/Investments	**(8,775)**	**(4,704)**	**(6,527)**
	Upper Limit - Fixed Rates	(1,175)	(5,136)	**(2,977)**
	Upper Limit - Variable Rates	(7,600)	(4,700)	**(3,550)**
8	**Upper Limit for Total Principal Sums Invested for Periods Longer than 364 Days**	8,000	8,000	**5,000**

TEMPORARY INVESTMENTS

2012/2013

	INVESTMENTS		REPAYMENT		
Month	**No.**	**Amount**	**No.**	**Amount**	**Net Cumulative Balance**
		£000		**£000**	**£000**
b/f					17,600
April	5	7,900	5	6,100	19,400
May	4	6,850	4	7,100	19,150
June	3	7,550	4	3,650	23,050
July	6	10,350	7	10,800	22,600
August	3	8,200	7	8,350	22,450
September	6	10,250	7	10,200	22,500
October	3	6,300	5	7,300	21,500
November	4	6,500	5	7,750	20,250
December	6	6,600	5	7,950	18,900
January	5	6,800	2	2,350	23,350
February	1	2,800	3	5,850	20,300
March	1	3,350	6	8,800	14,850
TOTAL	47	83,450	60	86,200	

Note 1:

The average individual value of investments in 2012/13 was £1,775,532
for 47 investments (2011/12 - £1,804,630 for 54 investments).