Chorley Council

Report of	Meeting	Date
Director of Transformation (Introduced by the Executive Member for Transformation)	Executive Cabinet	23 June 2011

TREASURY MANAGEMENT ANNUAL REPORT 2010/11

PURPOSE OF REPORT

1. One of the changes in the regulatory environment concerning treasury management is that a greater onus is placed on members to scrutinise treasury policy and activity. To enable that, each year the Council is required to consider three treasury reports. These consist of an annual strategy statement in advance of the year (Council 2/3/10), a mid year review of that strategy (Executive Cabinet 11/11/2010), and finally this out-turn report. An additional report on quarter 1 activity was submitted to Executive Cabinet on August 12.

RECOMMENDATION(S)

2. Members are asked to note the report

EXECUTIVE SUMMARY OF REPORT

3. The report advises that Prudential and Treasury Indicators were complied with and that the return on investments totalled 0.65% which exceeded the benchmark of 0.43%. Details of borrowings are given and the situation with regard to the Icelandic investments is updated.

REASONS FOR RECOMMENDATION(S)
(If the recommendations are accepted)

4. No action is necessary

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

5. None

CORPORATE PRIORITIES

6. This report relates to the following Strategic Objectives:

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighbourhoods	
Safe Respectful Communities		Quality Community Services and Spaces	
Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			X

DETAIL

Prudential Indicator Capital Expenditure and Financing 2010/11

A comprehensive report on the capital out-turn has been separately submitted to Executive Cabinet. Expenditure in the year was significantly less than that originally estimated, a fact which has had important consequences for cash balances and investments. These are commented on below.

7. Prudential Indicator The Capital Financing Requirement (CFR)
The CFR is a measure of the capital expenditure of the Council which is still to be paid for. Such expenditure will currently be met by borrowing or by temporarily using internal cash balances. Ultimately however it has to be paid for and will be a charge to Council tax payers.

	Original estimate	Actual
Capital Financing Requirement at 1 April 2010	9,823	9,674
Change in year – prudential borrowing	613	62
- MRP	(457)	(412)
- Voluntary MRP		(719)
CFR at 31 March 2011	9,979	8,605

It will be seen that the CFR has reduced as a result of the reduced prudential borrowing and the voluntary set aside of MRP under the Council's debt reduction strategy.

8. Prudential Indicator The CFR and Borrowing
The Prudential Code requires that borrowing, net of investments, should be compared to the CFR, and should not exceed not only the current years CFR but also the anticipated increase in the next two years. As at 31 March 2011net borrowing is a negative figure (i.e invested cash exceeds borrowing by £0.303m) and is thus well below the CFR.

9. Compliance with Borrowing Limits
The Prudential Indicators include two borrowing limits.
The Operational Boundary is the expected borrowing position. This was set at £9.4m and has not been exceeded.
The Authorised Limit is the limit, set by the Council itself, required by Section 3 of the Local Government Act 2003. The Council does not have power to exceed it. This was set at £9.979m and has not been exceeded.

10. Prudential Indicator Ratio of Financing Costs to the Revenue Stream
This indicator shows what percentage of the Council's income from Government grants and council tax has been used to meet interest costs and debt repayment.
As a result of the increase in MRP reported above, this has increased from 3.93% to an out-turn figure of 7.55%.

11. Prudential Indicator Incremental impact of capital investment decisions
This indicator seeks to assess the impact on Council Tax payers of changes in the capital programme. The original estimated impact on Band D charges was £3.49 pa. The reduced programme has reduced this to £0.99

12. Treasury Position as at 31 March 2011

	Estimated value as at 31 March 2011	Actual value as at 31 March 2011
Borrowing at period start	2,266	2,266
Borrowing repaid in year	(1,366)	(1,541)
Borrowing in year	8,500	8,146
Interest accrued		52
Total borrowing at period end	9,400	8,923
Investments excluding Iceland deposit	Nil	9.226
Icelandic investment		

13. Borrowings
During the year two borrowings were made, £5m in May 2010 and £3.146m in August. The amount taken was less than that estimated to avoid temporarily exceeding the approved treasury limit. The second borrowing is repayable by instalments rather than on maturity, hence the fact that repayments exceeded the estimate

14. Treasury Indicator Upper limit on fixed rate exposure
The Council is exposed to fixed interest rates on its borrowings. The indicator for 2010/11 was £9.9m and has not been breached.

15. Investments
There has been a significant increase in the value of investments. It was anticipated that these would have reduced to nil by year end, but in fact they totalled £9.23m. The reasons for this are as follows:

	£m
Reduced capital expenditure, from an estimated £8.64m to £2.29m	6.35
Movements in debtor and creditor balances	1.48
General Fund surplus for the year	0.74
Other – including receipts of grants and contributions	0.66
Total movement	9.23

Consistent with this the average amount invested significantly exceeded the forecast position (see below).

Throughout the year bank rate remained at its historical low of 0.5%, although growing market expectations of imminent monetary tightening saw 6 to 12 month rates picking up.

The following table summarises investment activity and returns in 2010/11

Details	Average daily Investment £'000	Interest Earned £	Average Rate %
Money Market Funds	1,686	9,384	0.56
Short Term deposits	0.825	12,015	1.46
Call accounts	5,933	45,685	0.77
Debt Management Office (DMO)	3,175	7,936	0.25
Total	11,619	75,020	0.65

The performance benchmark is the London 7 day Inter-Bank Bid Rate (LIBID). This averaged 0.43% over the year

16. Treasury Indicator Upper limit on exposure to variable interest rates
The Council is exposed to variable interest rates only on its invested cash. Consistent with the expectation that the amounts available for investment would reduce to nil over the year, this limit was set at £10m, being 100% of the anticipated peak level of investments. In fact investments averaged £11.6m and peaked at £19.6m. In cash terms the limit was exceeded, but not in percentage terms.

17. Icelandic Investments
In April the long awaited judgement of the Icelandic courts was delivered, upholding the priority status of Local Authority deposits. This is still subject to further challenge in the Icelandic Supreme Court, and repayments are frozen until this is resolved (expected late autumn).
The book value of the Council's investment at 31/3/2011 was £1.57m. This was after the following in year transactions.

	£'000
Balance as at 1 April 2010	1.489
Interest accrued during the year	0.088
Additional impairment	(0.007)
Total	1.570

18. The economy and Interest rates
The review of the year provided by the Council's consultant is at appendix A

19. Treasury Advisors
2010/11 was the first of the three years covered by the contract with Sector Treasury Services. The significant event in the year was the merger between Sector and its biggest competitor, Butlers.

IMPLICATIONS OF REPORT

20. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	X	Customer Services	
Human Resources		Equality and Diversity	
Legal		No significant implications in this area	

COMMENTS OF THE STATUTORY FINANCE OFFICER

21. This report meets statutory requirements. Its statistical content is consistent with the Council's financial accounts for the year 2010/11

GARY HALL
DIRECTOR OF TRANSFORMATION

Report Author	Ext	Date	Doc ID
G Whitehead	5485	May 2011	***

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Treasury Management Strategy Treasury monitoring report Treasury mid year review	2/3/10 12/8/10 11/11/10		Town Hall

Appendix A - The Economy and Interest Rates

2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on Public Works Loan Board (PWLB) lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.

UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although the economy slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being decidedly downbeat over the short to medium term while the Japanese disasters in March, and the Arab Spring, especially the crisis in Libya, caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

The change in the UK political background was a major factor behind weaker domestic growth expectations. The new coalition Government struck an aggressive fiscal policy stance, evidenced through heavy spending cuts announced in the October Comprehensive Spending Review, and the lack of any “giveaway” in the March 2011 Budget. Although the main aim was to reduce the national debt burden to a sustainable level, the measures are also expected to act as a significant drag on growth.

Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government’s debt reduction plans, especially in the light of Euro zone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected (during February / March 2011) to cause the Monetary Policy Committee to start raising Bank Rate earlier than previously expected.

The developing Euro zone peripheral sovereign debt crisis caused considerable concerns in financial markets. First Greece (May), then Ireland (December), were forced to accept assistance from a combined EU / IMF rescue package. Subsequently, fears steadily grew about Portugal, although it managed to put off accepting assistance till after the year end. These worries caused international investors to seek safe havens in investing in non-Euro zone government bonds.

Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in Bank Rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate in a band from May 2011 through to early 2013. This sharp disparity was also seen in MPC voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at ultra low levels.

Risk premiums were also a constant factor in raising money market deposit rates beyond 3 months. Although market sentiment has improved, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, mean that investors remain cautious of longer-term commitment. The European Commission did try to address market concerns through a stress test of major financial institutions in July 2010. Although only a small minority of banks “failed” the test, investors were highly sceptical as to the robustness of the tests, as they also are over further tests now taking place with results due in mid-2011.