Report of	Meeting	Date
Chief Executive	Governance Committee	28 June 2012

TREASURY MANAGEMENT ANNUAL REPORT 2011/12

PURPOSE OF REPORT

1. The current regulatory environment concerning treasury management places a greater onus on members to scrutinise treasury policy and activity. To enable that, each year the Council is required to consider, as a minimum, three treasury reports. These consist of an annual strategy statement in advance of the year (Council 1/3/11), a mid year review of that strategy (Audit Committee 29/09/2011), and finally this out-turn report.

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 1.07% which exceeded the benchmark of 0.48%. Details of borrowings are given and the situation with regard to the Icelandic investments is updated

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

4. 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

5. **<u>Prudential Indicator Capital Expenditure and Financing 2011/12</u>**

A comprehensive report on the capital out-turn has been separately submitted to Executive Cabinet on 21 June 2012.

6. **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 £000	Actual £000
Capital Financing Requirement at 1 April 2011	9,224	8,605
Change in year – prudential borrowing	526	203
- MRP	(336)	(322)
- Voluntary MRP		(414)
CFR at 31 March 2012	**9,414**	**8,072**

The Capital Financing Requirement is significantly below that estimated in the Treasury Strategy. The reason for this is that since the 2011/12 estimate was produced (February 2011), voluntary provision for debt repayment totalling £1.133m has been made as part of the budget strategy (£0.719m in 2010/11 and £0.414m in 2011/12)

7. **Prudential Indicator The CFR and Borrowing**

In order to ensure that Authorities only borrow for capital purposes the Prudential Code requires that borrowing, net of investments, should not exceed the CFR for the preceding year plus any anticipated increase in the current and next two years. As at 31 March 2012 net borrowing is a negative figure (i.e invested cash exceeds borrowing by £2.412m) and is thus well below the CFR.

8. **Compliance with Borrowing Limits**

The Prudential Indicators include two borrowing limits.

- The **Operational Boundary** is the expected borrowing position. This was set at £10.0m to allow for any temporary borrowings that might have been required to cover temporary cash shortages. These did not materialise and the limit has not been exceeded. Borrowing as at 31/3/12 is £7.870m

- 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 £12.0m and has not been exceeded.

9. **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.
The indicator as per the Treasury Strategy data was 2.97%. This has increased to 3.49% because of the additional voluntary provision for debt repayment.

10. **Prudential Indicator Incremental impact of capital investment decisions**

This indicator is concerned with capital expenditure over a period of years, and reports its cumulative impact on the revenue account. It is not possible to meaningfully make comparison against this indicator, other than when it is restated each year when the Treasury Strategy is produced.

11. **Treasury Position as at 31 March 2012**

	31 March 2012 estimate per Treasury Strategy £000	Actual value as at 31 March 2012 £000
Borrowing at period start	8,872	8,872
Borrowing repaid in year	(1,050)	(1,050)
Borrowing in year	0	0
Interest accrued		48
Total borrowing at period end	**7,822**	**7,870**
Cash & investments (exc Icelandic)	**6,900**	**11,871**
Icelandic investment	1,070	1,065

12. **Borrowings**

No borrowings were made in the year and the year indebtedness is as forecast.

13. **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 £10.0m to match the Operational Boundary. It has not been breached.

14. **Investments**
The table in para 11 shows a significant increase in the value of investments. The reasons are:

	£'000
Expected cash & investments per Treasury Strategy 2011/12	6,900
Changes in 2011/12	
Capital programme, reduced expenditure, extra income	1,753
Changes in debtor and creditor balances	2,159
Additional revenue account surplus	864
Other	195
Cash & investments 31/3/12 (excluding Icelandic)	**11,871**

The following table summarises investment activity and returns during the year:

Details	**Average daily Investment £'000**	**Interest Earned £**	**Average Rate %**
Money Market Funds	458	3,161	0.69
Short Term deposits	6,092	112,765	1.85
Call accounts	4,683	35,895	0.76
Debt Management Office (DMO)	3,742	9,379	0.25
Total	**14,975**	**161,200**	**1.07**

The performance benchmark is the London 7 day Inter-Bank Bid Rate (LIBID). This averaged 0.48% over the year

15. **Treasury Indicator Upper limit on exposure to variable interest rates**

The Council is exposed to variable interest rates on all its invested cash. Setting a limit is of no real effect, since whatever cash the Council has is invested at variable rates. An expected maximum of £20m was quoted in the Treasury Strategy. On 22 days during the year this figure was exceeded, investments peaking at £22m

16. **Icelandic Investment**

The court proceedings in Iceland were successfully concluded during the year with the confirmation of the priority status of the Council's debt. A first repayment of £596k was received in February. The following table summarises the transactions up to 31 March 2012

Icelandic Investment	£'000
Original investment	2,000
Write down – impairment	(767)
Interest accrued @ 5.81%	428
Cash received	(596)
Owing as at 31/3/2012	**1,065**

Interest continues to accrue at 5.81%, and over time this will substantially reverse the impairment loss.
In May 2012 a further repayment of £248k was received. It is now expected that 100% of the claimed amount will be recovered, but over a timescale extending to 2018. Furthermore there remains the exchange rate risk since repayments will be made in dollars and euros, with a small amount in Icelandic Krona in addition to sterling

17. **<u>The economy and Interest rates</u>**
The review of the year provided by the Council's consultant is at Appendix A

IMPLICATIONS OF REPORT

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

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

19. This report meets statutory requirements. Its statistical content is consistent with the Council's financial accounts for the year 2011/12

GARY HALL
CHIEF EXECUTIVE

Report Author	Ext	Date	Doc ID
G Whitehead	5485	June 12 2012	

APPENDIX A

The Economy and Interest Rates – Sector commentary

The financial year 2011/12 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2011-12 was that Bank Rate would start gently rising from quarter 4 2011. However, GDP growth in the UK was disappointing during the year under the weight of the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the EU. The EU sovereign debt crisis grew in intensity during the year until February when a second bailout package was eventually agreed for Greece. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October and another £50bn in February. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September at 5.2% but then fell to 3.4% in February, with further falls expected to below 2% over the next two years.

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 PWLB rates to historically low levels.

Investment rates. Risk premiums were also a constant factor in raising money market deposit rates for periods longer than 1 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 longer-term commitment.