Agenda Item No 10

Resources Board

11 July 2011

Report of the Deputy Chief Executive

Annual Treasury Report for 2010/11

1 **Summary**

1.1 This report shows the out-turn for 2010/11 and highlights any areas of significance.

Recommendation to the Board	
a	**That the Annual Treasury Report for 2010/11 be noted;**
b	**That the Prudential Indicators set out in Appendix A be noted; and**
c	**That the out-turn be noted by Council**.

2 **Report**

2.1 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 2010/11. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management 2009 (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.2 During 2010/11 the minimum reporting requirements were that the Resources Board and full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Resources Board February 2010)
- A mid year treasury update report (Resources Board 22 November 2010)
- An annual report following the year describing the activity compared to the strategy (this report)

2.3 In addition, a quarterly treasury management update report was submitted on 7 September 2010.

2.4 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

2.5 This Council also 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 Resources Board before they were reported to the full Council. Member training on treasury management issues was undertaken in March 2010 in order to support Members' scrutiny role. No further training took place in 2010/11.

2.6 Treasury Management in this context is defined as: *The management of the local authority's investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*

2.7 The Annual Treasury report covers:

- The Council's treasury position as at 31 March 2011
- Performance measurement
- The strategy for 2010/11
- The economy in 2010/11
- The Borrowing out-turn for 2010/11
- Compliance with treasury limits and Prudential Indicators
- Investment rates in 2010/11
- Investment out-turn for 2010/11

3 Current Treasury Position as at 31 March 2011

3.1 The Council's debt and investment position at the beginning and end of the year was as follows:

	31 March 2010 Principal £m	**Rate %**	**31 March 2011 Principal £m**	**Ave Rate %**
Fixed Rate Funding: PWLB	0	0	0	0
Short-term Funding	2	2	3	0.58
Total Debt	2	2	3	0.58
Investments	4.79	2.68	7.503	1.64

3.2 The level of net investments increased, due to spending below the budgeted level on both revenue and capital activities.

3.3 The investments held include £641,000 held on behalf of other organisations (£735,000 in 2009/10).

4 Performance Measurement

4.1 One of the key changes to the Code previously was the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed, this is still a difficult area for a small Authority with limited cash balances, as generally we are only able to place funds for short periods and consequently at lower rates. For this reason, we measure investment interest against the 7 day LIBID rate.

5 The Strategy for 2010/11

5.1 The expectation for interest rates within the strategy for 2010/11 anticipated low but rising Bank Rate later in the year, with similar gradual rises in medium and longer term fixed interest rates over 2010/11.

5.2 A strong theme has been the major emphasis on mitigating risk by giving heightened preference to security and liquidity at a time when the world banking system is still under stress. We have continued to invest in instruments with lower rates of return but higher security and liquidity. This has compounded the significant fall in total investment earnings compared to previous years.

6 Borrowing Out-Turn

6.1 The Council borrowed short term funds on twenty occasions to fund a cash-flow shortfall. The average borrowing period was 15 days and rates paid have varied between 0.28% and 0.6%.

6.2 No long term borrowing was taken out during the year. Cash balances were used to finance capital expenditure, so as to run down cash balances and minimise counterparty risk incurred on investments. This also maximised treasury management budget savings as investment rates were much lower than new PWLB borrowing rates.

7 Investment Out-Turn for 2010/11

7.1 The Council manages its investments in-house with the institutions which fulfil its requirements with regards to credit ratings and security. Investments were made for a range of periods, although predominantly in call accounts.

7.2 The Council invested with external bodies on 101 occasions when the bank accounts had a surplus of funds. Investments were made in a Call account on 24 occasions, and in a Money Market Fund 64 times. The remaining 13 investments were with Banks or Building Societies for a fixed term. Funds were invested over a range of periods to take advantage of favourable interest rates or to fund expenditure later in the year, e.g. payment of precepts. The average amount invested was £765,800. The average total investment held was £9.541 million, and the rate of return was 1.64%, compared with the average 7 day rate of 0.43%, earning a total of £156,763 in the year (net investment interest less loan interest paid). The higher interest rate was earned by placing investments for a longer period when rates were favourable.

8 Prudential Indicators

8.1 The 2003 Prudential Code for Capital Finance in Local Authorities introduced new requirements for the way in which capital spending plans are to be considered and approved. The prudential code was developed which requires the Council to consider the affordability of its proposals, their prudence and sustainability, value for money, asset management planning, practicality and service objectives

8.2 The Council is required to set and review regularly a range of indicators that have been developed as part of the Code, which will be used to support capital investment decision-making. In February 2010, the capital prudential indicators for 2010/11 were reported to the Executive Board as part of the 3-Year Capital programme and the treasury indicators were reported to the Resources Board as part of the Council's Treasury Policy Statement and Annual Treasury Strategy Statement.

8.3 During the financial year the Council operated within the treasury limits and Prudential Indicators and the out-turn for all the Prudential Indicators for 2010/11 is shown at Appendix A, which is attached to this report.

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8.4 In terms of the capital indicators shown in the Appendix, the actual spend in 2010/11 was less than the original budget and this was due to work progressing more slowly than expected on some schemes and delays on other schemes, where decisions were awaited on other projects. A report taken to the Executive Board in June explained these differences in detail.

8.5 The ratio of financing costs differs slightly from the original expectation as more investment income was received in the General Fund than expected, and less investment income was received in the Housing Revenue Account. The Housing Capital Financing Requirement is lower than expected as not all the prudential borrowing for the New Build scheme was needed in 2010/11, due to some slippage in the scheme. The General Fund Capital Financing Requirement increased as the reclassification of some leases as finance leases has increased the borrowing requirement. In addition capital creditors at the end of the year were higher than expected, giving an additional temporary increase in borrowing.

8.6 The change in the incremental impact on the General Fund is due to the use of internal reserves to fund the capital programme, where the cost is the loss of investment income. Interest rates have remained low, so less investment income has been lost.

9 **Lending List**

9.1 In 2009/10 the practice of naming specific financial institutions on the Council's lending list was amended. Dealing with named institutions became increasingly difficult, due to the constantly changing credit and support ratings, mergers and takeovers. It was therefore agreed that we should have an open list but apply a strict criteria for any investment.

10 **Report Implications**

10.1 **Finance and Value for Money Implications**

10.1.1 During 2010/11 the net interest earned on investments was £156,763.

10.2 **Environment and Sustainability Implications**

10.2.1 By having effective and prudent treasury management, this contributes towards sustainability and providing services that improve the quality of life for the communities of North Warwickshire.

10.3 **Risk Management Implications**

10.3.1 Credit ratings are used in assessing the institutions on the lending list and the maximum investment level permitted.

The Contact Officer for this report is Jackie Marshall (719379).

Background Papers

Local Government Act 1972 Section 100D, as substituted by the Local Government Act, 2000 Section 97

Background Paper No	Author	Nature of Background Paper	Date

Appendix A

TREASURY MANAGEMENT INDICATORS

	Original 2010/11 £000’s	Actual 2010/11 £000's	Forecast 2011/12 £000’s	Forecast 2012/13 £000’s	Forecast 2013/14 £000’s
Authorised Limit	27,966	3,000	28,931	29,358	28,838
Operational Boundary	10,366	3,000	10,587	10,411	10,683

	Original 2010/11 £000’s	Actual 2010/11 £000's	Forecast 2011/12 £000’s	Forecast 2012/13 £000’s	Forecast 2013/14 £000’s
Upper Limit for Fixed Interest Rate Exposure	9,600	-5,740	9,600	9,600	9,600
Upper Limit for Variable Interest Rate Exposure	10,100	-2,740	10,100	10,100	10,100
Upper Limit for total principal sums invested for over 364 days (per maturity date)	50%	15%	50%	50%	50%

Maturity structure of new fixed rate borrowing	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

CAPITAL EXPENDITURE INDICATORS

	Revised 2010/11 £000’s	Actual 2010/11 £000’s	Original 2011/12 £000’s	Forecast 2012/13 £000’s	Forecast 2013/14 £000’s
General Fund	1,784	1,328	770	523	654
Housing Revenue Account	3,937	3,179	2,018	2,058	2,132
Total	**5,721**	**4,507**	**2,788**	**2,581**	**2,786**

CAPITAL FINANCING REQUIREMENT INDICATORS

	Revised 2010/11 £000’s	Actual 2010/11 £000's	Original 2011/12 £000’s	Forecast 2012/13 £000’s	Forecast 2013/14 £000’s
General Fund	11,249	11,556	10,946	10,670	10,400
Housing Revenue Account	(119)	(288)	20	(21)	(63)
Total	**11,130**	**11,268**	**10,966**	**10,649**	**10,337**

CAPITAL FINANCING COST INDICATORS

	Revised 2010/11 £000’s	Actual 2010/11 £000's	Original 2011/12 £000’s	Forecast 2012/13 £000’s	Forecast 2013/14 £000’s
General Fund	1.91%	1.80%	2.33%	1.68%	1.14%
Housing Revenue Account	(0.12)%	0.45%	0.33%	0.40%	0.36%

INCREMENTAL IMPACT INDICATORS

General Fund	Revised 2010/11 £000’s	Actual 2010/11 £000's	Original 2011/12 £000’s	Forecast 2012/13 £000’s	Forecast 2013/14 £000’s
Council Tax at Band D	0.84	0.49	1.38	2.20	4.13
Council Tax at Band D - aggregate	-	0.49	1.87	4.07	8.20

HRA	Revised 2010/11 £000’s	Actual 2010/11 £000's	Original 2011/12 £000’s	Forecast 2012/13 £000’s	Forecast 2013/14 £000’s
Average Weekly Rent	0.00	0.00	0.00	0.00	0.00
Average Weekly Rent - aggregate	0.00	0.00	0.00	0.00	0.00