

RESOURCES OVERVIEW AND SCRUTINY PANEL

Panel Report

Public

Date of Meeting: 14 June 2012

Title: **TREASURY MANAGEMENT OUTTURN 2011/12**

Report of: **Director of Resources**

Report reference: **RD12/12**

Summary:

This report provides the annual report on Treasury Management (Appendix A), as required under both the Financial Procedure rules and the CIPFA Code of Practice on Treasury Management. Also included is the regular report on Treasury Transactions (Appendix B) that was considered by Executive on 1 June 2012.

Questions for / input required from Scrutiny:

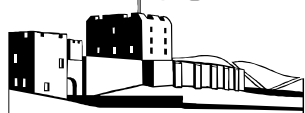
Members are asked to scrutinise the outturn position for Treasury Management in 2011/12.

Recommendations:

Members of the Resources Overview and Scrutiny Panel are asked to consider this report.

Contact Officer: Steven Tickner

Ext: 7280



REPORT TO EXECUTIVE

PORTFOLIO AREA: FINANCE, RESOURCES & GOVERNANCE

Date of Meeting: 1 June 2012

Public

Key Decision:	Yes	Recorded in Forward Plan:	Yes
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Inside Policy Framework

Title: TREASURY MANAGEMENT OUTTURN 2011/12

Report of: Director of Resources

Report reference: RD12/12

Summary:

This report provides the annual report on Treasury Management (Appendix A), as required under both the Financial Procedure rules and the CIPFA Code of Practice on Treasury Management. Also included is the regular report on Treasury Transactions (Appendix B).

Recommendations:

- 1 That this report be received and recommended to Council for approval.

Contact Officer: Steven Tickner

Tel: 7280

To: The Executive
1 June 2012

RD12/12

TREASURY MANAGEMENT OUTTURN 2011/12

1. INTRODUCTION

- 1.1 The purpose of this report is to inform Members on various Treasury Management issues.
- 1.2 Appendix A1 to this report sets out a final report on Treasury Management in 2011/12 as required by the CIPFA Code of Practice on Treasury Management. Appendix A2 highlights some performance measures and Appendix A3 shows the final prudential indicators for 2012/13.
- 1.3 Appendices B1-B3 details the schedule of Treasury Transactions for the period 1 January 2012 – 31 March 2012.

2. CONSULTATION

- 2.1 Consultation to Date.
None
- 2.2 Consultation proposed.
Resources Overview and Scrutiny Panel will consider the report on 14 June 2012 and the Audit Committee will do so on 12 July 2012.

3 RECOMMENDATIONS

- 3.1 That this report be received and recommended to Council for approval.

4 REASONS FOR RECOMMENDATIONS

- 4.1 As per the report.

5. IMPLICATIONS

- Staffing/Resources – Not applicable.
- Financial – Included in the report.
- Legal – Not applicable.

- Corporate – Not applicable.

- Risk Management – Risk Management of all kinds is a key component in the performance of the treasury management function.
- Equality Issues – Not applicable.
- Environmental – Not applicable.
- Crime and Disorder – Not applicable.
- Impact on Customers – None.
- Equality and Diversity – Not applicable

Impact assessments

Does the change have an impact on the following?

Equality Impact Screening	Impact Yes/No?	Is the impact positive or negative?
Does the policy/service impact on the following?		
Age	No	
Disability	No	
Race	No	
Gender/ Transgender	No	
Sexual Orientation	No	
Religion or belief	No	
Human Rights	No	
Social exclusion	No	
Health inequalities	No	
Rurality	No	

If you consider there is either no impact or no negative impact, please give reasons:

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If an equality Impact is necessary, please contact the P&P team.

P MASON
Director of Resources

Contact: Steven Tickner

Tel: 7280

TREASURY MANAGEMENT 2011/12

1. INTRODUCTION

- 1.1 The CIPFA Code of Practice on Treasury Management (2011) now requires that full Council should receive both a mid term and an annual report on treasury management activities during the year. This report on the treasury function during 2011/12, while being first presented to the Executive, is therefore required to have the approval of full Council in order to comply with the CIPFA Code.
- 1.2 Regular reports on treasury transactions are presented to the Executive while an interim report on treasury management in 2011/12 was presented in November 2011 (RD67/11). The purpose of this report is to complete the process of accounting for the treasury function in the last financial year in compliance with the Code. Any funding and other financing transactions will be detailed and placed in the context of money market conditions in 2011/12 while the City Council's investment activities will also be discussed. Separate papers (A2 and A3) provide information on performance in 2011/12 and on the Prudential Code on local authority borrowing.

2. MONEY MARKET CONDITIONS

- 2.1 The following table sets out the levels of bank base rate in 2011/12.

	%	
1 April 2011	0.50	Average = 0.50%
31 March 2012	0.50	(2010/11 = 0.50%)

- 2.2 The financial year began with bank rate remaining at 0.50% and this rate, remained constant for the whole of 2011/12.
- 2.3 The pattern of long term borrowing rates in 2011/12 can be gauged by the following table of Public Works Loans Board (PWLB) fixed rate maturity loans during the year. These are the rates cited in the regular Treasury Transactions reports and relate to the type of loan that historically has most usually been taken up by the City Council.

	1 Yr %	10 Yr %	25 Yr %
1 April 2011	1.95	4.80	5.36
31 March 2012	1.28	3.21	4.32
Highest Rate in 2011/12	1.97	4.89	5.44
Lowest Rate in 2011/12	1.19	2.98	3.91
Span of Rates	0.78	1.91	1.53

3. LONG TERM FUNDING

- 3.1 The Prudential Code on local authority borrowing came into operation on 1 April 2004. The principal effect of the Code was to abolish most central government control of local authority borrowing, a principle that has been a cornerstone of local government finance for over a century. Instead, authorities must follow the guidance laid down in the Code and they will be expected to comply with its requirements. These cover not just borrowing but any decision that determines whether the capital investment plans of an authority are affordable, prudent and sustainable. The Code is discussed in more detail in Appendix A3.
- 3.2 The revenue support grant system still provides for an element of support towards each authority's estimated borrowing needs. It may be noted that the Council does still receive an element of revenue grant support for the costs of its borrowing in previous years.
- 3.3 The City Council did not, therefore, draw down any external long term loans in 2011/12. The capital programme was funded internally by drawing from the authority's own resources, principally its stock of capital receipts, and from external grants and contributions.

4. DEBT RESCHEDULING

- 4.1 The City Council's long-term loans portfolio now consists entirely of the £15m stock issue, placed in 1995 and not due to mature until 2020. While there is a possibility that these funds could be repaid prior to that date, this is unlikely to be in the near future although the issue is regularly reviewed in conjunction with our treasury advisers. In the current financial climate, the cost of the premium that would be required to effect the early repayment remains prohibitive.

5. LOANS OUTSTANDING

5.1 Set out below is a schedule of outstanding external loans as at 31 March 2012.

	£
Public Works Loans Board	NIL
Secured Loan Stock	15,000,000
Short Term Loans	<u>13,300</u>
Total Loans Outstanding	<u>£15,013,300</u>

6. INVESTMENT TRANSACTIONS

6.1 As is apparent from the regular 'Treasury Transactions' reports, the City Council continues to be a frequent investor in the short-term money market and the interest earned from these transactions makes a valuable contribution to the overall level of the Council's revenue budget. Investments are placed only with the institutions that fall within the guidelines of the Council's approved Investment Strategy and a full schedule of investments at 31 March 2012 is set out in Appendix B3. It should be noted that the Council's level of short term investment reaches its lowest point each year on 31 March when any benefits accruing from positive annual cash flow are, by definition, extinguished.

6.2 The total at that date (£16.8) can be compared with an average figure in 2011/12 of over £24.2 and a peak amount of over £30m. The closing balance in 2010/11 was £20.7m. The decrease is due to utilising more capital resources and not receiving as much income from capital grants.

6.3 The Investment Strategy for 2011/12 embraced a mixture of longer term investments and monies lent out for shorter periods to meet anticipated cash flow needs e.g. grant and precept payment dates. Investment limits with both Lloyds Group and RBS Group banks were kept at £8million as these institutions are currently Government backed and therefore seen as a safer investment opportunity.

6.4 Investment income in 2011/12 at £377,000 was above the original estimate of £253,900. Actual investment rates obtained in 2011/12 were generally above expectations when the budget was framed although this factor was mitigated to some extent by the outturn on cash flow being slightly worse than expected. The average yield on the Council's investments in 2011/12 was 1.55%. This good performance was assisted by a significant proportion of investments being placed for longer terms of up to a year and the use of Money Market Funds for shorter dated cash requirements.

7 INVESTMENT STRATEGY 2012/13

7.1 The Investment Strategy must be agreed before the start of each financial year and the 2012/13 Strategy was approved by Council on 7 February 2012. While the principles of the Strategy remain fundamentally sound, any amendments to the current schedule of investments, if agreed by the Executive, must be approved by Council.

8. PERFORMANCE MANAGEMENT

- 8.1 The CIPFA Code places an increased emphasis on performance monitoring in an attempt to measure the efficiency of the treasury function. With treasury management, the difficulty in assessing performance arises from the very different circumstances of each authority and the fact that, for example, a long term borrowing decision can affect an authority's measured performance for many years to come. In the case of the City Council, this is particularly the case with the £15m stock issue which will affect our average borrowing rate until 2020. Equally, borrowing decisions invariably impact on investment decisions since, in cash flow terms, one can be the mirror image of the other.
- 8.2 Appendix A2 sets out some performance indicators in respect of both loans and investments outturn for 2011/12 and 2010/11.

9. TREASURY CONSULTANCY SERVICE (TCS)

- 9.1 The City Council continues to employ Sector Treasury Services as its treasury management consultants. Sector provide daily bulletins on both borrowing and investment issues and these help advise both the investment and funding decisions that are taken by the Council.

10 CONCLUSIONS

- 10.1 The City Council has only one substantial long term loan i.e. the £15m stock issue, which is likely to remain on the books for some time yet as the cost of making a premature repayment would be very prohibitive in the present climate, particularly with interest rates being at such depressed levels. In addition, there are no plans to undertake any prudential or other borrowing in this financial year. The focus of the authority's treasury management activities therefore remains very much on the investment aspect of the function.
- 10.2 Investment conditions were, in one sense, as exceptional in 2011/12 as they were the previous year. But they were also very different as investors coped with some of the lowest interest rates ever seen in the world economy. Although the effect on the City Council's investment interest was slightly down on the previous year, the performance achieved was significantly better than was originally budgeted and has helped to counteract some of the other budgetary pressures seen in the year. For this authority, as indeed for most others, the reduction in investment income poses a very significant financial challenge.
- 10.3 The outlook for interest rates in the UK remains uncertain but there is a general expectation that rates will not start to rise again until well into 2013.

CITY OF CARLISLEPERFORMANCE MEASUREMENT STATISTICS1. LOANS MANAGEMENT

	2011/12 %	2010/11 %
Average External Debt Rate - Carlisle	8.74	8.74

Comment

Average loan debt statistics tend to reflect borrowing decisions taken over a period of many years. The City Council's only substantial remaining external debt is the £15m stock issue which carries a high coupon (8.75%).

2. INVESTMENT MANAGEMENT

	2011/12 %	2010/11 %
Average Return in Year - Carlisle	1.55	1.53
Average Bank Base Rate in Year	0.50	0.50
Average 7 Day LIBID Rate	0.48	0.45

Comment

The City Council's return in 2011/12 on its investments was slightly above that obtained in 2010/11 and was better than anticipated when the budget was originally set.

THE PRUDENTIAL CODE AND PRUDENTIAL BORROWING

1. Introduction

- 1.1 The Local Government Act 2003 brought about a new borrowing system for local authorities known as the Prudential Code (the Code). This gives to Councils much greater freedom and flexibility to borrow without government consent so long as they can afford to repay the amount borrowed.
- 1.2 The aim of the Code is to support local authorities when making capital investment decisions. These decisions should also be in line with the objectives and priorities as set out in the Council's Corporate Plan.
- 1.3 The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable, or if appropriate to demonstrate that they may not be. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. These objectives are consistent with and support local strategic planning, local asset management planning and proper option appraisal. They also encourage sound treasury management decisions.

2. Prudential Indicators

- 2.1 To demonstrate that the Council has fulfilled these objectives, the Code sets out indicators that must be used. It is for the Council itself to set any indicative limits or ratios. It is also important to note that these indicators are not designed to be comparative performance figures indicators but to support and record the Council's decision making process.
- 2.2 The final performance indicators for the current year, as compared to those reported in during the budget cycle are set out below. The compilation and monitoring of these indicators is central to the operation of the Code.

	2011/12 Provisional Outturn £	2010/11 Outturn £
(i) Capital Expenditure	5,317,353	9,675,700
(ii) Financing Costs		
Interest Payable - Re Borrowing	1,322,100	1,322,000
Minimum Revenue Provision	278,100	184,000
Investment Income	(377,000)	(444,000)
Total Financing Costs	1,223,200	1,062,000
(iii) Net Revenue Stream		
Funding from Govt Grants/Local Taxpayers	13,904,000	17,047,000
(iv) Ratio of Financing Costs to Net Revenue Stream	8.80%	6.23%
The figures monitor financing costs as a proportion of the total revenue stream from government grants and local taxpayers. The increase in the ratio of financing costs is mainly attributable to the forecast reduction in investment income.		
(v) Incremental Impact on Council Tax	N/A	6.08
This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.		
(vi) Authorised Borrowing Limit	37,600,000	37,600,000
Maximum Level of Borrowing and Other Long term Liabilities	15,013,300	
The authorised borrowing limit is determined by Council prior to the start of the financial year. The limit must not be altered without agreement by Council and should not be exceeded under any foreseeable circumstances.		

	2011/12 Provisional Outturn £	2010/11 Outturn £
(vii) Operational Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities The operational borrowing limit is also determined by Council prior to the start of the financial year. Unlike the authorised limit, it may be breached temporarily due to cashflow variations but it should not be exceeded on a regular basis.	32,600,000	32,600,000
	15,013,300	
(viii) Capital Financing Requirement (CFR) As at 31 March The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.	7,421,000	6,954,000

(a) Prudence and Sustainability

	2011/12 £
(i) Target New Borrowing to Date No Long Term Borrowing has been taken in 2011/12	0 0
(ii) Target Percentage of Fixed Rate Long Term Borrowing Actual as at 31 March 2012	100% 100%
(iii) Target Percentage of Variable Rate Long Term Borrowing Actual as at 31 March 2012 Prudent limits for both fixed and variable rate exposure have been set at 100%. This is due to the limited flexibility available to the authority in the context of its overall outstanding borrowing requirement.	100% 0%
(iv) Target Minimum Level of Investments Classified as Specified Actual Level of Specified Investments as at 31 March 2012 As part of the Investment Strategy for 2011/12, the Council set a minimum level of 50% for its specified as opposed to non specified investments. The two categories of investment were defined as part of the Strategy but for the City Council non specified investments will presently refer mainly to either investments of over one year in duration or investments placed with building societies that do not possess an appropriate credit rating. These tend to be the smaller building societies.	50.00% 100.00%

TREASURY TRANSACTIONS
1 JANUARY 2012 TO 31 MARCH 2012

1. LOANS (DEBT)

1.1 Transactions 1 January 2012 to 31 March 2012

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0		0	0
Local Bonds	0		0	0
Short Term Loans	0		0	0
Overnight Borrowing	300,000	0.50	300,009	0.50
	300,000		300,009	

This provides a summary of loans that have been raised or repaid, analysed by type, since the previous report.

1.2 Loans (Debt) Outstanding at 31 March 2012

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	13,300
	15,013,300

1.3 Loans Due for Repayment

	PWLB £	Overnight £	Total £
Short Term Debt at 31 March 2012	0	0	0
			0

Shown here is a calendar of future loan repayments which can be a useful aid to cash flow management. Following the repayment of the City Council's remaining PWLB debt in July 2004, no major debt repayments are anticipated.

1.4 Interest Rates

Date	PWLB Maturity		
	1 Year %	10 Years %	25 Years %
06 January 2012	1.30	3.12	4.05
13 January 2012	1.30	3.05	4.01
20 January 2012	1.30	3.13	4.04
27 January 2012	1.28	3.13	4.08
03 February 2012	1.27	3.16	4.12
10 February 2012	1.26	3.20	4.29
17 February 2012	1.32	3.25	4.33
24 February 2012	1.30	3.15	4.23
02 March 2012	1.31	3.19	4.23
09 March 2012	1.29	3.17	4.20
16 March 2012	1.27	3.45	4.44
23 March 2012	1.27	3.29	4.33
30 March 2012	1.28	3.21	4.32

2. INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	27,479,000	0.79-3.10	32,354,000	0.79-2.05
	27,479,000		32,354,000	

A full schedule of investment transactions is set out in appendix B2. Appendix B3 shows outstanding investments at 31 March 2012.

3. REVENUES COLLECTED

To: 31 March 2012		Collected £	% of Amount Collectable %
2011/12	Council Tax NNDR	46,058,618 37,380,206	97.61 97.78
Total		83,438,824	97.68
2010/11	Council Tax NNDR	46,059,538 35,109,986	97.60 98.06
Total		81,169,524	97.80
2009/10	Council Tax NNDR	45,077,677 34,393,776	97.60 97.90
Total		79,471,453	97.70

Final collection levels were very similar to those of the previous two years.

4. BANK BALANCE

At 31 March 2012 £232,656.70

This simply records the Council's bank balance at the end of the last day covered by the report.

5. OUTTURN ON TREASURY MANAGEMENT IN 2011/12

	Revised Estimate £000	Actual £000	Variance £000
Interest Receivable	(374)	(377)	(3)
Interest Payable	1,322	1,334	12
Less Rechargeable	(27)	(22)	5
	1,295	1,312	17
Principal Repaid	278	278	0
Debt Management	14	14	0
NET BALANCE	1,213	1,227	14

INVESTMENT TRANSACTIONS 1 JANUARY 2012 TO 31 MARCH 2012

INVESTMENTS MADE		INVESTMENTS REPAYD	
	£		£
Ignis , Money Market	3,335,000.00	Ignis , Money Market	1,000,000.00
Royal Bank of Scotland	1,360,000.00	Bank Of Scotland	1,000,000.00
Royal Bank of Scotland	1,000,000.00	Ignis , Money Market	477,000.00
Bank Of Scotland	1,000,000.00	Royal Bank of Scotland	1,150,000.00
Santander	1,000,000.00	Ignis , Money Market	520,000.00
Bank Of Scotland	1,000,000.00	Royal Bank of Scotland	210,000.00
Royal Bank of Scotland	3,475,000.00	Bank Of Scotland	1,000,000.00
Ignis , Money Market	2,040,000.00	Royal Bank of Scotland	1,125,000.00
Ignis , Money Market	3,095,000.00	Royal Bank of Scotland	160,000.00
Royal Bank of Scotland	1,130,000.00	Royal Bank of Scotland	168,000.00
Royal Bank of Scotland	1,420,000.00	Ignis , Money Market	1,900,000.00
Bank Of Scotland	2,000,000.00	Royal Bank of Scotland	2,022,000.00
Santander	1,000,000.00	Nationwide B Soc	1,500,000.00
Royal Bank of Scotland	1,674,000.00	Ignis , Money Market	45,000.00
Santander	1,000,000.00	Ignis , Money Market	1,620,000.00
Santander	1,000,000.00	Ignis , Money Market	114,000.00
Royal Bank of Scotland	950,000.00	Ignis , Money Market	214,000.00
		Ignis , Money Market	202,000.00
		Ignis , Money Market	1,357,000.00
		Leeds B Soc	2,500,000.00
		Ignis , Money Market	521,000.00
		Cater Allen	1,000,000.00
		Bank Of Scotland	2,000,000.00
		Nationwide B Soc	1,000,000.00
		Clydesdale Bank	1,000,000.00
		Ignis , Money Market	340,000.00
		Ignis , Money Market	825,000.00
		Royal Bank of Scotland	876,000.00
		Santander	1,000,000.00
		Royal Bank of Scotland	70,000.00
		Royal Bank of Scotland	580,000.00
		Bank Of Scotland	1,000,000.00
		Bank Of Scotland	1,000,000.00
		Santander	1,000,000.00
		Royal Bank of Scotland	1,858,000.00
TOTAL	27,479,000		32,354,000
		Bfwd	21,665,000
		Paid	27,479,000
		Repaid	32,354,000
		Total	16,790,000

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Outstanding Investments as at 31 March 2012

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
B	Royal Bank of Scotland	1,790,000	0.80%		Call			
N/C	Santander	1,000,000	0.95%	27/03/2012	27/04/2012	27	31	807
B	Bank of Scotland	1,000,000	1.65%	27/09/2011	25/05/2012	55	241	10,895
N/C	Santander	1,000,000	1.63%	27/09/2011	25/05/2012	55	241	10,762
B	Bank of Scotland	1,000,000	1.60%	10/10/2011	31/05/2012	61	234	10,258
G	Barclays Bank	1,000,000	1.75%	04/06/2010	01/06/2012	62	728	34,904
N/C	Santander	1,000,000	1.35%	13/03/2012	13/06/2012	74	92	3,403
G	Barclays Bank	1,000,000	1.90%	16/06/2010	15/06/2012	76	730	38,000
N/C	Santander	1,000,000	1.48%	26/03/2012	26/06/2012	87	92	3,730
B	Royal Bank of Scotland	1,000,000	1.50%	03/01/2012	27/09/2012	180	268	11,014
B	Royal Bank of Scotland	1,000,000	2.22%	05/12/2011	30/11/2012	244	361	21,957
B	Royal Bank of Scotland	1,000,000	2.22%	07/12/2011	06/12/2012	250	365	22,200
B	Bank of Scotland	1,000,000	2.50%	05/01/2012	04/01/2013	279	365	25,000
B	Bank of Scotland	1,000,000	3.10%	13/01/2012	13/02/2013	319	397	33,718
B	Bank of Scotland	2,000,000	3.10%	01/03/2012	13/02/2013	319	349	59,282
Total Investments		£16,790,000	1.88%			149	321	£285,929

N.B Interest is recognised in the appropriate financial year in which it is due.

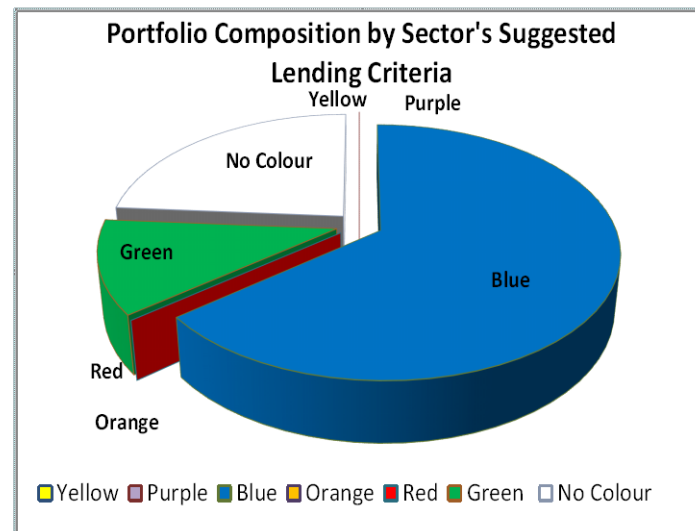
The category colour represents the duration of investment recommended by Sector, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investments Summary Sheet

						Weighted Average Rate of Return	Weighted Average Days to Maturity	Weighted Average Dats to Maturity from Execution
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution
Yellow	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Blue	64.26%	10,790,000	16.59%	1,790,000	10.66%	2.08%	188	271
Orange	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Red	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Green	11.91%	2,000,000	0.00%	-	0.00%	1.83%	69	729
No Colour	23.82%	4,000,000	0.00%	-	0.00%	1.35%	61	114
	100.00%	16,790,000	10.66%	1,790,000	10.66%	1.88%	143	288

Weighted Average Risk				
Risk Score for Colour (1 = Low, 7 = High)	Mar 2011	Dec 2011	June 2011	March 2011
1	0.0	0.0	0.1	0.1
2	0.0	0.0	0.0	0.0
3	1.9	1.9	1.0	1.0
4	0.0	0.0	0.0	0.0
5	0.0	0.0	0.6	0.6
6	0.7	0.7	1.2	1.2
7	1.7	1.7	1.4	2.0
	4.3	4.3	4.4	4.9

	Sector's Suggested Criteria
Y	Up to 5 Years
P	Up to 2 Years
B	Up to 1 Year
O	Up to 1 Year
R	Up to 6 months
G	Up to 3 months
N/C	No Colour



Normal Score	3.5	3.5	3.5	3.5
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