Agenda Item No. 13

Governance, Audit and Scrutiny Committee 11 June 2013	Report by the Director of Finance and Assets/S.151 Officer

TREASURY MANAGEMENT ANNUAL REPORT 2012/13

REPORT EXECUTIVE SUMMARY

This report provides Members with a review of the Authority's treasury management activity and Prudential Indicators for the year 2012/13.

The report shows full compliance with the Authority's Prudential Indicators for 2012/13.

RECOMMENDATIONS

1. That Members take assurance from the treasury management activities undertaken during 2012/13 and the Prudential Indicators as outlined in paragraphs 15 and 16 and detailed in Appendix 1.

BACKGROUND

2. Treasury Management, as defined by the Chartered Institute of Public Finance and Accountancy (CIFPA) Code of Practice 2009 is:

   ‘‘The management of the organisation’s investments and cash-flows, its banking and money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of the optimum performance consistent with those risks.’’

3. One of the main requirements of the CIPFA Code is that Members receive an annual report detailing treasury management activities within the year and compliance with the annual Treasury Management Policy.

4. This report provides Members with details of the Authority’s treasury management activities and Prudential Indicators for the 2012/13 financial year in line with the requirements of the Code.

ECONOMIC BACKDROP 2012/13

5. The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that Bank Rate would start gently rising from quarter 4 2014. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market – the European Union (EU). The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate therefore ended the year unchanged at 0.5% while 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 saga during the year with first Greece and then Cyprus experiencing crises which were met with bailouts after difficult and fraught negotiations.

6. **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 PWLB rates depressed for much of the year at historically very low levels.

7. **Deposit rates**. 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.

INVESTMENT ACTIVITY

8. The Authority's temporary investments totalled £24m as at 31 March 2013 with a further £735k in the Authority's Special Interest Bearing Account (SIBA). £6.6m of the Authority's investments relates to money held by the Authority on behalf of the East Coast and Hertfordshire Control Project.

Table 1 – Investment income earned 2012/13

Interest Earned 2012/13	Rate of return 2012/13	Benchmark return 2012/13*	Difference
£120,255	0.559%	0.396%	+0.163%

* Benchmark set as 7 day compounded LIBID

9. Interest earned during 2012/13 was £70k higher than originally budgeted for in respect of investment activity for the year, partly as a result of the interest accrued on the balance held on behalf of the East Coast and Hertfordshire Control Project which contributed £38k to the interest total. Pleasingly, the overall rate of return was marginally above the benchmark rate of return.

BORROWING

Short-Term Borrowing

10. The Authority seeks to minimise the use of short-term borrowing to fund temporary cash shortfalls. The Authority undertook short-term borrowing during the course of the year on two occasions.

Long-Term Borrowing

11. Long-term loans are taken out either to replace existing loans which have matured or to fund capital expenditure. Under the Prudential Regime there are no longer centrally imposed limits on borrowing, but individual Authorities are required to determine themselves what is a sustainable and affordable level of borrowing as an integral part of their Medium-Term Financial Planning processes.

12. The Authority's average level of borrowing was £19.114m for 2012/13, on which £972k of interest was payable. The Authority repaid £1m of PWLB debt upon maturity. Closing PWLB debt at 31 March 2013 was £18.614m.

PRUDENTIAL INDICATORS

13. Appendix 1 details the agreed Prudential Indicators for 2012/13 and the actual figures for 2012/13.

14. During the financial year the Authority operated wholly within the limits approved.

Capital Expenditure

15. The S.151 Officer considers the current capital programme to be affordable and sustainable with the revenue effects of capital investment built into the Medium-Term Financial Plan. Through the Service and Finance Planning Process, the Authority has aligned its resources to key strategic priorities.

Treasury Management

16. Based on the Operational Boundary definition, external debt at 31 March 2013 was £1.2m below the agreed Operational Boundary for 2012/13 and the maturity structure for both borrowing and investments remain within the approved upper and lower limits. Subsequent borrowing or re-scheduling during 2013/14 will take in to account prevailing interest rates on offer from the Public Works Loans Board, the current maturity structure of loans, balanced with the need to reduce capital risk by keeping down cash-balances.

STRATEGIC PLAN COMPATIBILITY

17. Treasury management is an integral part of the financial management of the Authority. Utilising approved borrowing and investment strategies will maximise investment income whilst minimising exposure to liquidity and market risks.

FINANCIAL/RESOURCES/VALUE FOR MONEY IMPLICATIONS

18. The continued approach to investment of surplus funds is designed to further mitigate against potential losses as a consequence of counterparty failure and reflects a prudent approach to treasury management activity.

LEGAL IMPLICATIONS

19. The Authority must comply with the requirements of the CIPFA Code of Practice on Treasury Management and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. This report ensures such compliance.

EQUALITY IMPACT ASSESSMENT/HR IMPLICATIONS

20. No direct issues arise from this report.

CORPORATE RISK MANAGEMENT IMPLICATIONS

21. The application of and regular monitoring thereafter of a prudent Treasury Management Policy and related Prudential Indicators ensures that the Authority effectively manages financial risks whilst minimising borrowing costs and maximising investment income. It is therefore key to good financial management and an important element of the Medium Term Financial Planning Process.

HEALTH AND SAFETY IMPLICATIONS

22. No issues arising.

COMMUNICATIONS ACTIONS ARISING

23. No direct issues arising.

DETAILS OF CONSULTATION

24. The Authority's treasury management strategy has been developed using market information and specialist advice supplied by the Authority's treasury management advisors.

BACKGROUND PAPERS

25. 'Treasury Management and Capital Expenditure Prudential Indicators, Treasury Management Policy Statement 2012/13 and Minimum Revenue Provision (MRP) for 2012/13' – Report to Fire Authority 13 February 2012.
CIPFA Code of Practice on Treasury Management 2009

RECOMMENDATION RESTATED

26. That Members take assurance from the treasury management activities undertaken during 2012/13 and the Prudential Indicators as outlined in paragraphs 15 and 16 and detailed in Appendix 1.

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