RYEDALE
DISTRICT
COUNCIL

REPORT TO:	**COUNCIL**
DATE:	**18 JULY 2011**
REPORT OF THE:	**CORPORATE DIRECTOR (s151)** **PAUL CRESSWELL**
TITLE OF REPORT:	**TREASURY MANAGEMENT ANNUAL REPORT 2010-2011**
WARDS AFFECTED:	**ALL**

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 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 (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.0 RECOMMENDATIONS

2.1 That Council is recommended to:

(i) Note the annual treasury management report for 2010/11; and

(ii) Approve the actual 2010/11 prudential and treasury indicators in this report

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

REPORT

5.0 BACKGROUND AND INTRODUCTION

5.1 During 2010/11 the minimum reporting requirements were that the Full Council should receive the following reports:

- An annual treasury strategy in advance of the year
- A mid year treasury update report
- An annual report following the year describing the activity compared to the strategy (this report).

5.2 In addition, members have received treasury management update reports at meetings of the Policy and Resources Committee.

5.3 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.

5.4 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 Overview and Scrutiny Committee before they were reported to the Full Council.

5.5 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position and the impact on investment balances;
- Summary of interest rate movement in the year
- Detailed investment activity.

6.0 POLICY CONTEXT

6.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.

7.0 CONSULTATION

7.1 The Council uses the services of Sector Treasury Services Limited to provide treasury management information and advice.

8.0 REPORT DETAILS

The Council's Capital Expenditure and Financing 2010/11

8.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available or a decision is taken not to apply resources

the capital expenditure will give rise to a borrowing need.

8.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2010/11 Actual (£)	2009/10 Actual (£)
Total Capital Expenditure	**3,569,072**	**1,588,702**
Resourced by:		
Capital receipts	2,529,287	0
Capital grants	703,436	627,712
Capital reserves	336,349	960,990
Total	3,569,072	1,588,702

Treasury Position as at 31 March 2011

8.3 The Council's treasury management and investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Treasury Management Practices. At the beginning and the end of 2010/11 the Council's treasury position was as follows:

	31 March 2011 (£)	31 March 2010 (£)
Internally managed	4,540,000	5,370,000
Externally managed	5,000,000	5,000,000
Total	9,540,000	10,370,000

8.4 The maturity of the investment portfolio was as follows;

	31 March 2011 (£)	31 March 2010 (£)
On-call Investments	40,000	370,0000
Fixed Term Deposits:		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	3,000,000	2,500,000
Repayable 3 months to 6 months	2,500,000	5,000,000
Repayable 6 months to 12 months	4,000,000	1,500,000
Repayable 12 months to 24 months	0	1,000,000
Total	9,540,000	10,370,000

8.5 Investments were placed with the following institutions:

Type of Institution	31 March 2011(£)	31 March 2010(£)
UK Clearing Banks	4,540,000	5,370,000
Foreign Banks	3,500,000	3,500,000
Building Societies	1,500,000	1,500,000
Total	9,540,000	10,370,000

The Strategy for 2010/11

8.6 The Treasury Management Strategy for 2010/11 was approved by members at full

Council on 22 February 2010.

8.7 The expectation for interest rates within the strategy for 2010/11 anticipated low but rising Bank rate (starting in quarter 4 of 2011) with similar gradual rises in medium term and long term fixed interest rates over 2010/11. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns.

8.8 The actual movement in interest rates broadly followed the expectations in the strategy, as detailed in the following section. For cash flow generated balances the Council continued to utilise its business reserve account and short dated deposits to benefit from the compounding of interest.

The Economy and Interest rates

8.9 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.

8.10 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 economic prospects.

8.11 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.

Compliance with Treasury Limits

8.12 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (annex B).

8.13 The Council has no long-term borrowing and there were no temporary borrowing transactions in the year. However, the Council has a number of lease agreements that were initially entered into as operating leases but following the implementation of International Financial Reporting Standards (IFRS) is now reclassified as finance leases. As a consequence the Council do not have a nil Capital Finance Requirement.

Investment Rates in 2010/11

8.14 The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material improvement in the shorter term deposit rates. Bank Rate remained at its historic low of 0.5% throughout the year, although growing market expectations of the imminence of the start of monetary tightening saw 6 and 12

month rates pick up.

8.15 Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and latterly Portugal. Concerns extended to the European banking industry with an initial stress testing of banks failing to calm counterparty fears, resulting in a second round of testing currently in train. This highlighted the ongoing need to caution in treasury investment activity.

8.16 The summary below shows the movement of investment rates in 2010/11:

	Overnight	7 day LIBID	1 Month	3 Month	6 Month	1 Year
01 April 10	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
31 March 11	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
High	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
Low	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
Average	0.43%	0.43%	0.45%	0.61%	0.90%	1.35%
Spread	0.03%	0.04%	0.07%	0.17%	0.24%	0.28%
High Date	31/12/2010	30/03/2011	31/03/2011	31/03/2011	31/03/2011	31/03/2011
Low Date	01/04/2010	01/04/2010	01/04/2010	01/04/2010	01/04/2010	01/04/2010

Investment Outturn for 2010/11

8.17 The Council's investment policy is governed by CLG guidance, which was been implemented in the Annual Investment Strategy approved by the Council on 22 February 2010. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

8.18 The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.

8.19 Throughout 2010/11 the Council continued to use a cash manager, Tradition, to invest part of its cash balances. The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the cash manager and internally managed funds against the 7-day LIBID bench mark:

	Average Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary & On-Call Investments	1,373,063	0.57%	n/a	n/a
Fixed Term Deposits	1,240,246	1.00%	n/a	n/a
Externally Managed	1,250,000	1.06%	1.00%	0.43%

8.20 The interest received by the Council from investments and loans in 2010/11 totalled £128k; this compares to an original estimate of £230k.

9.0 IMPLICATIONS

9.1 The following implications have been identified:

a) Financial

The results of the investment strategy affect the funding of the capital programme. The investment return for 2010/11 was £102k lower than the original budget. Allowance was made for this anticipated shortfall when the revised

capital programme was agreed by members in February 2011.

b) Legal
There are no legal implications within this report.

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no additional implications within this report

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Background Papers:
Include any referenced papers

Background Papers are available for inspection at:
None