OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

RYEDALE
DISTRICT
COUNCIL

REPORT TO:	**COUNCIL**
DATE:	**13 JANUARY 2013**
REPORT OF THE:	**CORPORATE DIRECTOR (s151)** **PAUL CRESSWELL**
TITLE OF REPORT:	**TREASURY MANAGEMENT MID-YEAR REVIEW**
WARDS AFFECTED:	**ALL**

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 To report on the treasury management activities to date for the financial year 2012/13 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code).

2.0 RECOMMENDATIONS

2.1 It is recommended that:
(i) Members receive this report; and
(ii) The mid-year performance of the Council's funds is noted.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that a mid-year review report must be made to the Full Council relating to the treasury activities of the current 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 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

5.2 The second major function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide towards whether the Council has a borrowing need, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses.

5.3 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 market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5.4 The CIPFA Code of Practice on Treasury Management was adopted by this Council on 22 February 2010 and this Council fully complies with its requirements.

5.5 The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full Council of an annual Treasury Management Strategy Statement (including the Annual Investment Strategy and Minimum Revenue Provision Policy) for the year ahead, a Mid-Year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Overview and Scrutiny Committee.

5.6 This mid-year report has been prepared in compliance with CIPFA's Code of Practice and covers the following:

- An economic update for the first seven months of 2012/13;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2012/13;
- A review of compliance with Treasury and Prudential Limits for 2012/13.

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

Economic Update

8.1 Economic sentiment, in respect of the prospects for the UK economy to recover swiftly from recession, suffered a major blow in August when the Bank of England substantially lowered its expectations for the speed of recovery and rate of growth over the coming months and materially amended its forecasts for 2012 and 2013. It was noted that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that on-going negative sentiment in that area would inevitably permeate into the UK's economic performance.

8.2 With regard to the Eurozone, investor confidence remains weak because successive "rescue packages" have first raised, and then disappointed, market expectations. However, the uncertainty created by the continuing Eurozone debt crisis is having a major effect in undermining business and consumer confidence not only in Europe and the UK, but also in America and the Far East/China.

8.3 In the UK, consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. Whilst inflation has fallen considerably (CPI at 2.6% in July), UK GDP fell by 0.5% in the quarter to 30 June, the third quarterly fall in succession. This means that the UK's recovery from the initial 2008 recession has been the worst and slowest of any G7 country apart from Italy (G7 = US, Japan, Germany, France, Canada, Italy and UK). It is also the slowest recovery from a recession of any of the five UK recessions since 1930 and total GDP is still 4.5% below its peak in 2008.

8.4 On a positive note, despite all the bad news on the economic front, the UK's sovereign debt remains one of the first ports of call for surplus cash to be invested in and gilt yields, prior to the ECB bond buying announcement in early September, were close to zero for periods out to five years and not that much higher out to ten years.

8.5 With regard to interest rates, Sector's view is that there is unlikely to be any increase in Bank Rate until the first quarter of 2015 when an increase to 0.75% is anticipated, rising to 1.75% in the first quarter of 2016. Sectors latest forecast for the Bank Rate is as follows:

Dec-2012 to Dec-2014	Mar-2015	Jun-2015	Sep-2015	Dec-2015	Mar-2016
0.50%	0.75%	1.00%	1.25%	1.50%	1.75%

Treasury Management Strategy Statement and Annual Investment Strategy Update

8.6 The Treasury Management Strategy (TMSS) for 2012/13 was approved by this Council on 20 February 2012. There are no policy changes to the TMSS, the details in this report update the position in the light of the updated economic position and budgetary changes already approved. Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity

8.7 The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (maximum loan period of 12 months) and only invest with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign rating and credit default swap (CDS) overlay information provided by Sector. Because of the ongoing uncertainty within the money markets, a temporary restriction to Sectors Credit Methodology is in place. The restriction suggests a maximum investment duration of 3 months with the exception of UK Government and related entities such as local authorities, UK semi nationalised institutions such as Lloyds and RBS and Money Market Funds. New investments will be restricted to these limits until market circumstances begin to stabilise.

8.8 Investments during the first seven months of the year have been in line with the strategy and there have been no deviations from the strategy.

8.9 As outlined above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 20 February 2012 is still fit for purpose in the current economic climate.

Investment Portfolio 2012/13

8.10 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

8.11 As set out earlier in the report, it is a very difficult investment market in terms of earning the level of interest rate commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low.

8.12 The Council's investment position at the beginning of the financial year was as follows:

Type of Institution	Investments (£)
UK Clearing Banks	3,070,000
Local Authorities	1,000,000
Building Societies	1,500,000
Total	5,570,000

8.13 A full list of investments held as at 31 October 2012, compared to Sectors counterparty list and changes to Fitch, Moodys and S&P's credit ratings during the first seven months of 2012/13 is shown in annex B and summarised below:

Type of Institution	Investments (£)
UK Clearing Banks	8,300,000
Foreign Banks	0
Building Societies	0
Local Authorities	0
Total	8,300,000

8.14 As illustrated in the economic background section above, investment rates available in the market are at a historical low point. The average level of funds available for investment purposes in the first seven months of 2012/13 was £10.4m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

8.15 The table below compares the investment portfolio yield for the first seven months of the year against a benchmark of the average 7 day LIBID rate of 0.42%.

	Average Investment (£)	**Average Gross Rate of Return**	**Net Rate of Return**	**Benchmark Return**	**Interest Earned (£)**
Cash Equivalents	2,734,706	0.77%	n/a	n/a	15,610
Fixed Term Deposits	1,103,435	1.40%	n/a	0.42%	56,530

8.16 The Council's budgeted investment for 2012/13 is £100k and performance during the financial year to 31 October 2012 is £72k, which is £12k above the profiled budget.

8.17 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Compliance with Treasury and Prudential Limits

8.18 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement (TMSS).

8.19 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in annex A.

8.20 The Council has no long-term borrowing and retains its status as a debt-free authority. There have been no temporary borrowing transactions in the year.

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 income return to 31 October 2012 was £72k, slightly higher than estimated.

b) Legal
There are no additional 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:
None

Background Papers are available for inspection at:
N/a

PRUDENTIAL AND TREASURY INDICATORS

Prudential Indicators

Extract from budget setting report	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Capital Expenditure	**£4.478m**	**£1.434m**	**£2.270m**	**£0.700m**
Ratio of financing costs to net revenue stream	**0.89%**	**1.70%**	**2.21%**	**2.19%**
Net borrowing requirement	**-£5.097m**	**-£3.166m**	**-1.341m**	**-£0.633m**
Capital Financing Requirement as at 31 March	**£0.473m**	**£0.295m**	**£2.315m**	**£2.878m**
Annual change in Capital Financing Requirement	**-£0.166m**	**-£0.178m**	**£2.020m**	**£0.563m**
Incremental impact of capital investment decisions Increase in council tax (band D) per annum	**N/a**	**£3.76**	**£6.84**	**£7.94**

Treasury Management Indicators

	2011/12	2012/13	2013/14	2014/15
	Actual	**Estimate**	**Estimate**	**Estimate**
Authorised Limit for external debt -				
Borrowing	N/a	£20.0m	£20.0m	£20.0m
Other long term liabilities	N/a	£1.0m	£1.0m	£1.0m
Total	N/a	£21.0m	£21.0m	£21.0m
Operational Boundary for external debt -				
Borrowing	N/a	£5.0m	£5.0m	£5.0m
Other long term liabilities	N/a	£0.6m	£0.6m	£1.3m
Total	N/a	£5.6m	£5.6m	£6.3m
Actual external debt	£0.473m	£0.295m	£2.315m	£2.878m
Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	N/a	100%	100%	100%
Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	N/a	20%	20%	20%
Upper limit for total principal sums invested for over 364 days (per maturity date)	N/a	£1.0m	£1.0m	£1.0m

Investment Portfolio as at 31 October 2012

Investment by Institution	Investment £	Duration of Investment	Latest Sector Duration Band Rating	Sovereignty Rating
UK Clearing Banks				
National Westminster Bank	1,800,000	On Call	12 Months	AAA
Bank of Scotland	1,000,000	9 Months	12 Months	AAA
Barclays Bank	1,500,000	3 Months	3 Months	AAA
National Westminster Bank	1,000,000	95 Day Notice	12 Months	AAA
Bank of Scotland	500,000	3 Months	12 Months	AAA
National Westminster Bank	1,000,000	60 Day Notice	12 Months	AAA
Bank of Scotland	1,500,000	3 Months	12 Months	AAA
Grand Total	**8,300,000**			

All the above borrowers met the required credit rating at the time of investment.