OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

RYEDALE
DISTRICT
COUNCIL

REPORT TO:	**COUNCIL**
DATE:	**4 JULY 2013**
REPORT OF THE:	**CORPORATE DIRECTOR (s151) PAUL CRESSWELL**
TITLE OF REPORT:	**TREASURY MANAGEMENT ANNUAL REPORT 2012-13**
WARDS AFFECTED:	**ALL**

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2012/13. 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 2012/13; and

(ii) Approve the actual 2012/13 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.

5.0 POLICY CONTEXT AND CONSULTATION

5.1 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.

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

REPORT

6.0 REPORT DETAILS

6.1 During 2012/13 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 20 February 2012)
- A mid year (minimum) treasury update report (Council 10 January 2013)
- An annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, treasury management update reports were received by the Policy and Resources Committee.

6.2 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.

6.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 5 October 2011 in order to support Members' scrutiny role.

6.4 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.

The Council's Capital Expenditure and Financing 2012/13.

6.5 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.

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

	2012/13 Actual (£)	**2011/12 Actual (£)**
Total Capital Expenditure	**1,968,149**	**4,478,225**
Resourced by:		
Capital receipts	0	2,560,996
Capital grants and contributions	532,034	469,935
Capital reserves	1,436,115	1,447,294
Total	1,968,149	4,478,225

Treasury Position as at 31 March 2013

6.7 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 2012/13 the Council's treasury position was as follows:

	31 March 2013 (£)	**31 March 2012 (£)**
Internally Managed Investments	5,750,000	5,570,000
Externally Managed Investments	0	0
Total	5,750,000	5,570,000

6.8 The maturity of the investment portfolio was as follows;

	31 March 2013 (£)	**31 March 2012 (£)**
On-call Investments	50,000	70,000
Fixed Term Deposits:		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	3,200,000	3,000,000
Repayable 3 months to 6 months	1,500,000	0
Repayable 6 months to 12 months	1,000,000	2,500,000
Repayable 12 months to 24 months	0	0
Total	5,750,000	5,570,000

6.9 Investments were placed with the following institutions:

Type of Institution	**31 March 2013 (£)**	**31 March 2012 (£)**
UK Clearing Banks	5,750,000	3,070,000
Foreign Banks	0	0
Building Societies	0	1,500,000
Local Authorities	0	1,000,000
Total	5,750,000	5,570,000

The Strategy for 2012/13

6.10 The Treasury Management Strategy for 2012/13 was approved by members at full Council on 20 February 2012.

6.11 The expectation for interest rates within the strategy for 2012/13 anticipated no movement in the Bank rate within the year, the first anticipated increase being in Q3 of 2013. 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 compared to borrowing rates.

The Economy and Interest rates

6.12 The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counter party risk.

6.13 Economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, 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. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch after the budget statement in March. Key to retaining the AAA rating from Fitch and S&P will be a return to a strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe.

6.14 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 of 2016.

6.15 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.

Compliance with Treasury Limits

6.16 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).

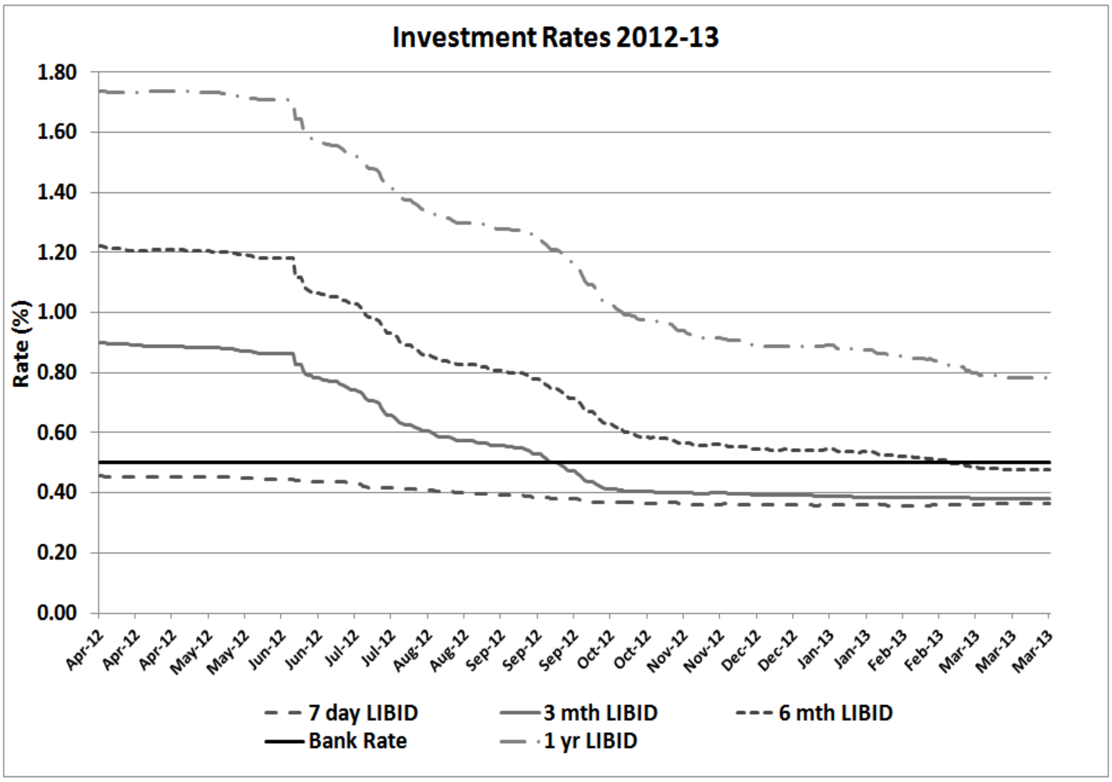
6.17 The Council has no long-term borrowing and there were no temporary borrowing transactions in the year. However, the Council has a number of lease agreements that were initially entered into as operating leases but following the implementation of International Financial Reporting Standards (IFRS)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

Investment Rates in 2012/13

6.18 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.

6.19 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 borrowing.

6.20 The summary below shows the movement of investment rates in 2012/13:



Investment Outturn for 2012/13

6.21 The Council's investment policy is governed by CLG guidance, which was been implemented in the Annual Investment Strategy approved by the Council on 20 February 2012. 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).

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

6.23 The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the internally managed funds against the 7-day LIBID uncompounded rate bench mark:

	Average Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary & On-Call Investments	3,281,929	0.74%	n/a	n/a
Fixed Term Deposits	1,050,841	1.29%	n/a	0.39%

6.24 The interest received by the Council from investments and loans in 2012/13 totalled £111k; this compares to an original estimate of £100k.

7.0 IMPLICATIONS

7.1 The following implications have been identified:

a) Financial

The results of the investment strategy effect the funding of the capital programme. As expected the level of return was low and in line with the capital plan.

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:
None