

# OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

**RYEDALE  
DISTRICT  
COUNCIL**



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**REPORT TO:** COUNCIL

**DATE:** 12 JANUARY 2012

**REPORT OF THE:** CORPORATE DIRECTOR (s151)  
PAUL CRESSWELL

**TITLE OF REPORT:** TREASURY MANAGEMENT MID-YEAR REVIEW

**WARDS AFFECTED:** ALL

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

1.1 To report on the treasury management activities to date for the financial year 2011/12 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 in-house and externally managed funds to date 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 2009 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 2011/12;
  - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
  - A review of the Council's investment portfolio for 2011/12;
  - A review of compliance with Treasury and Prudential Limits for 2011/12.

## **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 The Euro zone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response, left commentators concerned over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the £440bn bail out fund in September has brought temporary relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.
- 8.2 With regard to the UK economy, following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.2% in the first quarter of 2011/12 and in the second quarter at its slowest quarterly pace (revised down to 0.1%) since Q4 2010. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over unemployment are likely to weigh heavily on consumers into the future.
- 8.3 Inflation remains stubbornly high, although the expectation of future falls, the external nature of the price increases (energy, oil, food etc.) and the negative impact a rate rise would have on the UK economy, is likely to stop the Monetary Policy Committee from raising the Bank Rate for some considerable time to come. An indicator of the worsening position arose from the Monetary Policy Committee minutes recently signalling a greater willingness to expand the quantitative easing programme.
- 8.4 With regard to interest rates, Sector's view is that there is unlikely to be any increase in Bank Rate until the third quarter of 2013. Sectors latest forecast for the Bank Rate is as follows:

Dec-2011	Mar-2012	Jun-2012	Sep-2012	Dec-2012	Mar-2013	Jun-2013	Sep-2013	Dec-2013	Mar-2014
0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%

### Treasury Management Strategy Statement and Annual Investment Strategy Update

- 8.5 The Treasury Management Strategy (TMSS) for 2011/12 was approved by this Council on 21 February 2011. 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
- 8.6 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.

- 8.7 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.
- 8.8 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 21 February 2011 is still fit for purpose in the current economic climate.

**Investment Portfolio 2011/12**

- 8.9 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.
- 8.10 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.
- 8.11 The Council's investment position at the beginning of the financial year was as follows:

Type of Institution	Investments (£)
UK Clearing Banks	4,540,000
Foreign Banks	3,500,000
Building Societies	1,500,000
Total	9,540,000

- 8.12 A full list of investments held as at 31 October 2011, compared to Sectors counterparty list and changes to Fitch, Moodys and S&P's credit ratings during the first seven months of 2011/12 is shown in annex B and summarised below:

Type of Institution	Investments (£)
UK Clearing Banks	8,420,000
Foreign Banks	2,000,000
Building Societies	1,500,000
Local Authorities	1,000,000
Total	12,920,000

- 8.13 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 2011/12 was £14.4m. 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.
- 8.14 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 0.47%.

	Average Investment	Average Gross	Net Rate of	Benchmark Return	Interest Earned

	(£)	Rate of Return	Return		(£)
Cash Equivalents	1,623,987	0.60%	n/a	n/a	16,777
Fixed Term Deposits	1,092,593	1.19%	n/a	0.47%	67,509

- 8.15 The Council's budgeted investment for 2011/12 is £130k and performance during the financial year to 31 October 2011 is £84k, which is £7k above the profiled budget.
- 8.16 Following the termination of the agreement with Tradition for cash manager services on the 30 June 2011 all investments are now administered internally.
- 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 2011 was £84k, marginally 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

	2010/11	2011/12	2012/13	2013/14
Extract from budget setting report	Actual	Estimate	Estimate	Estimate
Capital Expenditure	£3.822m	£5.802m	£2.425m	£0.680m
Ratio of financing costs to net revenue stream	0.95%	1.11%	1.58%	0.72%
Net borrowing requirement	-£8.901m	-£3.640m	-£1.589m	-£1.427m
Capital Financing Requirement as at 31 March	£0.639	£1.383	£2.346m	£2.138m
Annual change in Capital Financing Requirement	£0.083	£0.744	£0.963m	-£0.208m
Incremental impact of capital investment decisions Increase in council tax (band D) per annum	N/a	£6.99	£10.85	£12.76

## Treasury Management Indicators

	2010/11	2011/12	2012/13	2013/14
	Actual	Estimate	Estimate	Estimate
<b>Authorised Limit for external debt -</b>				
Borrowing	N/a	£20.0m	£20.0m	£20.0m
Other long term liabilities	N/a	£0	£0	£0
<b>Total</b>	N/a	£20.0m	£20.0m	£20.0m
<b>Operational Boundary for external debt -</b>				
Borrowing	N/a	£5.0m	£5.0m	£5.0m
Other long term liabilities	N/a	£0	£0	£0
<b>Total</b>	N/a	£5.0m	£5.0m	£5.0m
<b>Actual external debt</b>	£0.639m	£1.383m	£2.346m	£2.138m
<b>Upper limit for fixed interest rate exposure</b>				
Net principal re fixed rate borrowing / investments	N/a	100%	100%	100%
<b>Upper limit for variable rate exposure</b>				
Net principal re variable rate borrowing / investments	N/a	20%	20%	20%
<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	N/a	£1.0m	£1.0m	£1.0m

## ANNEX B

## Investment Portfolio as at 31 October 2011

Investment by Institution	Investment £	Duration of Investment	Latest Sector Duration Band Rating	Sovereignty Rating
<b>UK Clearing Banks</b>				
National Westminster Bank	2,420,000	On Call	12 Months	AAA
Santander UK plc	1,500,000	3 Months	3 Months	AAA
Bank of Scotland	1,500,000	12 Months	12 Months	AAA
Yorkshire Bank (Clydesdale Bank)	1,000,000	15 Day Notice	3 Months	AAA
Yorkshire Bank (Clydesdale Bank)	1,000,000	15 Day Notice	3 Months	AAA
Bank of Scotland	500,000	3 Months	12 Months	AAA
Santander UK plc	500,000	3 Months	3 Months	AAA
	<b>8,420,000</b>			
<b>Foreign Banks</b>				
DBS Bank	1,000,000	9 Months	3 Months	AAA
DBS Bank	1,000,000	9 Months	3 Months	AAA
	<b>2,000,000</b>			
<b>Building Societies</b>				
Nationwide Building Society	1,500,000	6 Months	3 Months	AAA
	<b>1,500,000</b>			
<b>Local Authorities</b>				
Newcastle City Council	1,000,000	12 Months	5 Years	AAA
	<b>1,000,000</b>			
<b>Grand Total</b>	<b>12,920,000</b>			

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