

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 19 APRIL 2011

Title of report	TREASURY MANAGEMENT STEWARDSHIP REPORT 2010/11
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Purpose of report	To inform Members of the Council's Treasury Management activity undertaken during the financial year 2010/11.
Reason for Decision	To ensure that Members are informed of the Council's Treasury Management activity during the financial year and have the opportunity to scrutinise that activity.
Strategic aims	Organisational Development
Implications:	
Financial/Staff	Not applicable
Link to relevant CAT	Could impact upon all CAT's.
Risk Management	Borrowing and investment both carry an element of risk. This risk is moderated through the adoption of Treasury and Investment Strategies, adoption of and compliance with the current CIPFA code of Treasury Management and the retention of Treasury Management Consultants (Arlingclose) to proffer expert advice.
Equalities Impact Assessment	Not applicable
Human Rights	Not applicable
Transformational Government	Not applicable

Consultees	None
Background papers	The CIPFA Code of Practice on Treasury Management The Council's Treasury Management Strategy The Council's Borrowing and Debt Rescheduling Strategies The Council's Investment Policy and Strategy These documents are located in Room 35.
Recommendations	THAT MEMBERS NOTE THIS REPORT, COMMENT AS APPROPRIATE AND RECOMMEND TO CABINET FOR APPROVAL.

1.0 BACKGROUND.

- 1.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is defined as, "the management of the organisation'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."
This Council adopted the CIPFA Code on 2 July 2002, re-affirmed the adoption on 16 June 2009, and **complies with its requirements.**

The Council adopted a Treasury Management Policy Statement on 24 August 2004 and re-affirmed the adoption on 16 June 2009. The Council's Treasury Management Strategy Statement 2010/11, including the Annual Investment Strategy, Borrowing Strategy, Debt Rescheduling Strategy and Prudential Indicators were approved by Council on 30 March 2010.

- 1.2 This Treasury Management Stewardship Report is supplemented by two in-year reports to this Committee on 30 September 2010 and 3 February 2011.
- 1.3 This report, together with Members comments, will be presented to Cabinet on 14 June 2011.

2.0 SCOPE.

- 2.1 This report has been:
- (a) prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
 - (b) presents details of capital financing, borrowing, debt rescheduling and investment transactions;
 - (c) gives details of the outturn position on treasury management transactions during the period.

3.0 THE U.K. ECONOMY AND EVENTS.

- The underlying momentum in the economy is weak and recovery in growth is likely to be slow and uneven.
- The UK Bank Rate was maintained at 0.5% throughout the financial year.

- The housing market was broadly stable and hampered by the lack of credit to prospective buyers.
- Consumer confidence and spending continues to be affected by modest wage increases, weak house price growth and a dearth of cheap credit.
- Consumer Price Inflation stood at 4.4% in February 2011.
- Unemployment currently stands at just over 2.5 million and average earnings remained in a range around 2%.
- Companies and households continued to reduce their levels of debt during the period.

4.0 THE COUNCIL'S TREASURY POSITION.

4.1 The Council's gross / net debt and investment positions are as follows:

DEBT	Balance at 01/4/2010 £m	%	Maturing loans £m	Premature redemptions £m	New Borrowing £m	Balance at 31/3/2011 £m	%
Long-term fixed rate	£15.440m	100	£0m	£2.75mm	£0m	£12.69m	100
Long-term variable rate	£0m	0	£0m	£0m	£0m	£0m	0
Temporary Borrowing	£0m	0	£11.665m	£0m	£11.665m	£0m	0
Total borrowing	£15.440m	100	£0m	£0m	£0m	£12.69m	100
Other long-term liabilities	£0.185m		£0.012m	£0m	£0m	£0.173m	
TOTAL EXTERNAL DEBT	£15.625m		£11.677m	£2.75mm	£11.665m	£12.863m	
INVESTMENTS	Balance at 01/4/2010 £m	%	Maturities £m	Sales £m	New Investments £m	Balance at 31/3/2011 £m	%
Internally Managed	£4.653m	100	£749.277m	£0m	£748.074m	£3.45m	100
Investments with maturities up to 1 year,	£4.653m	100	£749.277m	£0m	£748.074m	£3.45m	100
Investments with maturities in excess of 1 year	£0m	0	£0m	£0m	£0m	£0m	0
Externally Managed Investments	£0m	0	£0m	£0m	£0m	£0m	0
TOTAL INVESTMENTS	£4.653m		£749.277m	£0m	£748.074m	£3.45m	
NET DEBT	£10.972m					£9.413m	

5.0 BORROWING ACTIVITY.

- 5.1 The Council's Borrowing Strategy 2010/11, approved by Council on 30 March 2010, incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.
- 5.2 The Council's estimated borrowing requirement for the current financial year was a net repayment of £26k and for the two subsequent financial years was to repay £509k in 2011/12 and £992k in 2012/13.
- 5.3 Against the above backdrop of prevailing PWLB rates, the Council's minimal borrowing requirement and existing debt maturity profile, no new long term loans were raised during the period. Additionally, no existing loans requiring replacement matured during the period.

5.4 The Council did not undertake any new long-term borrowing during the year and **interest payments totalling £747,303 were made in respect of existing debt.**

5.5 The Council's cash flow remained mostly positive during the period. However, the Council did borrow fifteen temporary overnight loans, totalling £11.665m, at an average rate of 0.51%. **Total interest paid on temporary debt for the year was £288.**

6.0 DEBT RESCHEDULING ACTIVITY.

6.1 The Council's Debt Rescheduling Strategy 2010/11, which was approved by Council on 30 March 2010, establishes a flexible approach where the rationale for rescheduling could be one or more of the following:

- Savings in interest costs with minimal risk.
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

All rescheduling activity will comply with the accounting requirements of the local authority SORP and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573 as amended by SI 2008/414).

6.2 No opportunities for debt rescheduling were identified which conformed to the above rationale. Accordingly, the Council undertook no debt rescheduling activity during the year.

6.3 In November 2010, the Council repaid two PWLB loans, shown below, totalling £2.75m and financed this from monies that would otherwise have been available for investment.

PWLB LOAN REFERENCE	PRINCIPAL	INTEREST RATE (%)
614 05213 490890	£1,000,000	4.15
614 05213 492774	£1,750,000	4.35

6.4 As Members will note, the rate of interest payable on both loans is considerably higher than can currently be achieved from investment returns.

6.5 The Council's portfolio of six loans, two PWLB loans and four market loans, will continue to be monitored for debt rescheduling opportunities that comply with the Council's Policy and rationale.

7.0 INVESTMENT POLICY AND ACTIVITY.

7.1 The Council's Investment Policy and Strategy 2010/11, which was approved by Council on 30 March 2010, establishes the major policy objective is to invest its surplus funds prudently.

The Council's investment priorities are:

- security of the invested capital;

- sufficient liquidity to permit investments; and,
- an optimum yield which is commensurate with security and liquidity.

The revised counterparty list, approved by Council on 30 March 2010, restricted new deposits to the following:

- the Debt Management Office
- Other local authorities
- AAA-rated Stable Net Asset Value Money Market Funds
- Banks / Building Societies which have, as a minimum, **all** of the following credit ratings

Fitch short term credit rating of F1+

Moody's short term credit rating of P-1

Standard & Poors short term credit rating of A-1+

AND / OR

UK incorporated institutions who can participate in the UK Government 2008 Credit Guarantee Scheme (CGS).

The CGS was announced in October 2008 to stabilise the UK banking system and provide solvency support for the "systemically critical" banking institutions in the UK. The government's CGS is not an explicit guarantee for deposits but it is the main platform to maintain the solvency of institutions critical to the UK's financial stability.

Whilst strengthening still further the previous counterparty credit quality requirements, the current investment criteria further reduced the number of banks and building societies with which the Council could place its investments.

7.2 The Council invested average daily cash balances of £11.029m during the year. These represent working cash balances / capital receipts and the Council's reserves. Their security is the overriding feature of the Council's investment activities. The investment returns generated from those balances are important since they make a significant contribution to the Council's overall financial position.

7.3 **There were 274 investments during the year, totalling £748.074m**, of which the following contributed most to the overall rate of return.

PRINCIPAL	PERIOD	RATE	COUNTERPARTY
£5M	1/4/2010-30/3/2011	1.7%	NATIONWIDE B.S.
£3M	8/6/2010-8/3/2011	1.5%	LLOYDS TSB
£2M	23/8/2010-3/2/2011	1.2%	LLOYDS TSB
TOTAL - £10m	WEIGHTED AVERAGE RATE	1.54%	

The remaining investments were placed in call account facilities with the Alliance & Leicester Commercial Bank (Santander), Royal Bank of Scotland and Bank of Scotland. Both accounts provide for daily deposits / withdrawals at competitive interest rates, whilst incurring minimal administration costs.

7.4 **The total interest earned on investments during the financial year was £152,390.** The average rate of return on the Council's investment balances during the year was **1.38%**. For comparison purposes, the benchmark return (average 7-day BID/BOR rate) for the same period was **0.51%**. **This equates to a return above benchmark of 0.87% or £96,142.**

All investments made during the year complied with the Council's agreed Investment Policy and Strategy, Prudential Indicators, Treasury Management Practices and prescribed limits.

ALL MATURING INVESTMENTS, INCLUDING INTEREST, WERE REPAYED TO THE COUNCIL IN FULL ON THE DUE DATES.