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## TREASURY MANAGEMENT ANNUAL REVIEW REPORT 2011/12

### 1 SUMMARY

- 1.1 This is the annual report on treasury management for the financial year 1 April 2011 to 31 March 2012 (2011/12). The treasury management activities have been conducted during a year where interest rates have remained static and there has continued to be uncertainty in the financial markets. Income from investment remained consistent with the previous year; £102,700 in 2011/12 compared to £105,800 in 2010/11.

### 2 INTRODUCTION AND BACKGROUND

- 2.1 Treasury management is defined as “The management of the local authority’s investments, 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.”

- 2.2 For 2011/12, the primary requirements of the original Code, together with how the Council complies, are as follows:-

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities. This is contained within the Financial Regulations of the Council’s Constitution. The Financial Regulations are reviewed annually – the last review was in January 2012.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives. The Practices were last reviewed and updated in December 2011.
- The Council should receive an Annual Treasury Management Strategy Report (including the Annual Investment Strategy Report) for the year ahead and an Annual Review Report of the previous year. The Strategy for 2011/12 was agreed by Council in January 2011 and this report is the Annual Review Report.
- A mid year treasury report is required detailing the position to date, and any changes in practices. This was reported to the Executive as part of the Quarter 2 Financial Management report in November 2011.
- 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. All Executive decisions on borrowing, investment or financing are delegated to the Head of Finance as the Chief Finance Officer and this delegation is documented in the Financial Regulations.

- 2.3 The Council uses the services of treasury management advisors, Sector Treasury Services, to provide advice and expert analysis.

### 3 TREASURY POSITION AS AT 31 MARCH 2012

- 3.1 The Council's investment position at the beginning and the end of the year, as shown on the Council's Balance Sheet, was as follows:-

Balance as at 31 March 2011            £3.837m

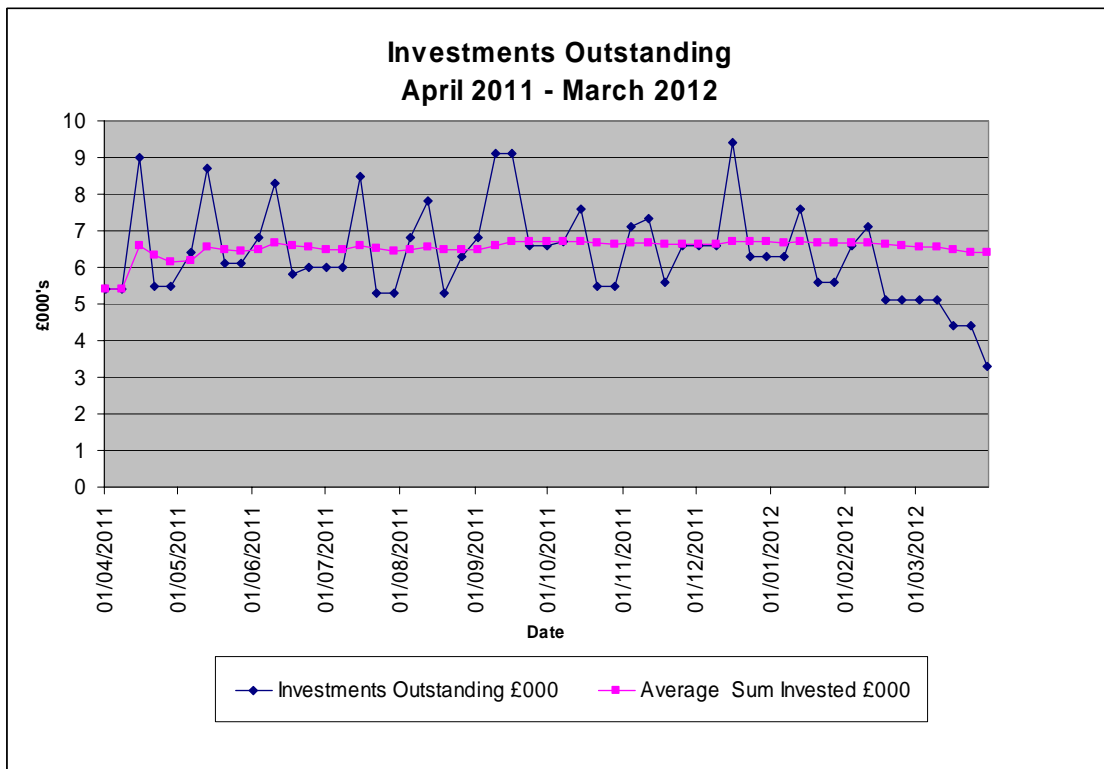
Balance as at 31 March 2012            £3.328m

These balances include the interest earned as at 31 March 2012, even though the interest is not actually received until the investment matures. On the following outstanding investments, £28,000 interest had been earned as at 31 March 2012.

Ref	Borrower	£000s	Date Invested	Maturity Date	Interest Rate
1838	Lloyds TSB	1,800	02/09/11	31/08/12	2.05%
1839	Lloyds TSB	500	12/12/11	12/04/12	1.70%
1842	Lloyds TSB	1,000	14/02/12	13/02/13	3.10%

### 4 INVESTMENT PERFORMANCE FOR 2011/12

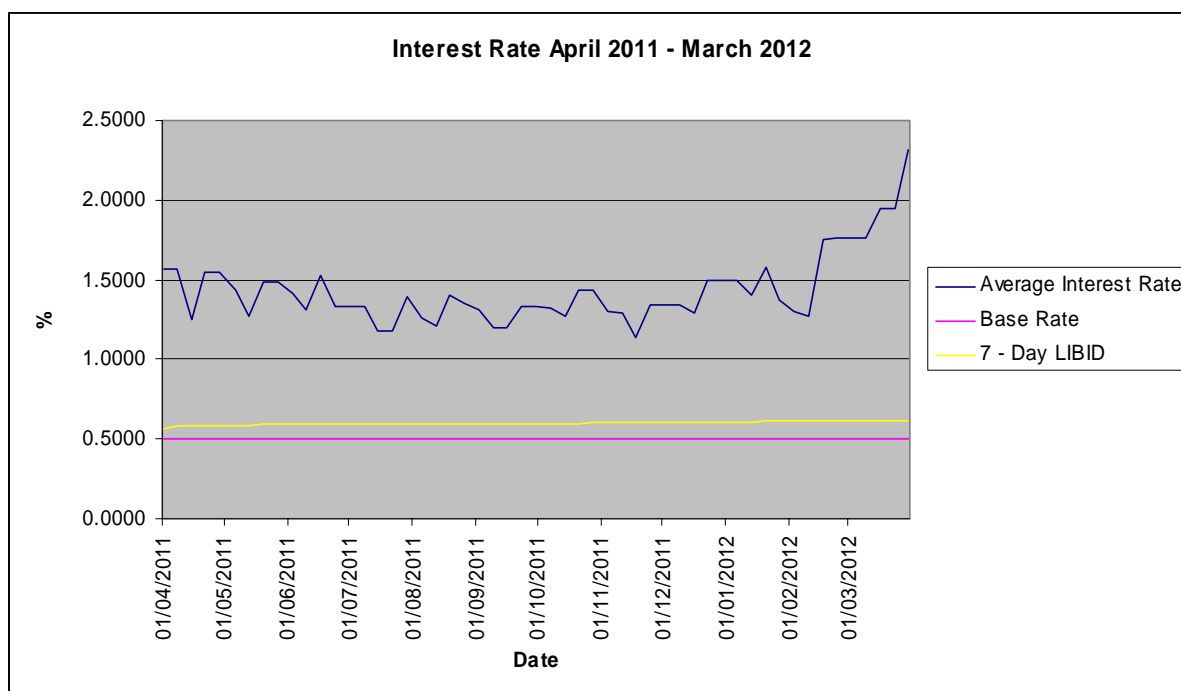
- 4.1 The Investment Strategy for 2011/12 was based on expectations that the bank rate would remain at 0.5%, which proved to be the case. As forecast the bank rate did not rise during 2011/12. Current forecasts are for the bank rate to remain at 0.50% until March 2014 when a rise to 0.75% is expected.
- 4.2 The majority of investments have been made for cashflow requirements but, where the market has given slightly higher rates in anticipation at the time of future rate increases, the opportunity was also taken to benefit from these.
- 4.3 The graph below, of total investments and the average sum invested, shows an increase in average balances from £5.4m to £6.4m at the end of the year. This happened despite the drop in sum invested from £5.4m to £3.3m. The reason for this was the placing of a large investment of £1.8m in the middle of the year, being placed on a 1 year fixed term.



4.4 Total external interest earned was £102,700, compared to £105,800 in 2010/11. The revised estimate for 2011/12 was £96,000 this represents a 7% over achievement. Performance for 2011/12 compared to 2010/11 is summarised below based on investments held during the year:

	2010/11		2011/12	
	Performance	Benchmark	Performance	Benchmark
Interest return	£105,800	n/a	£102,700	n/a
Average rate	1.31%	0.42%	1.43%	0.43%
Average balance	£7.56m	n/a	£6.52m	n/a

The following graph shows a comparison of average rate of interest earned, Bank base rate and the benchmark (7-day London Interbank Bid rate):-



- 4.5 The improved performance against the benchmark of the 7-day London Interbank Bid rate is equivalent to an additional £63,600. This was due to placing three long term investments at rates between 1.70% and 3.10%. In addition the use of Money Market Funds which provide rates on average 0.30% above base rate.
- 4.6 The table below lists the current UK approved institutions that we can deposit funds with.

COUNTERPARTIES WEF 1ST APRIL 2012 - COUNCIL 31ST JANUARY 2013

Counterparties:-

Sector Colour Coding	Maximum Duration	Maximum Investment
Purple	2 years	£3m
Blue (nationalised or semi nationalised UK Banks)	1 year	£4m
Orange	1 year	£1m
Red	6 months	£3m
Green	3 months	£6m
No Colour	not to be used	N/A

In addition:-

Organisation	Maximum Duration	Maximum Investment
Debt Management Office (Government Body)	3 months	£14m
Co-operative Bank – Reserve account. The Council's main banker	On call (can be withdrawn immediately)	£2m
Money Market Funds – AAA long-term credit rating	On call (can be withdrawn immediately)	£3m per fund
CDs & Treasury Bills	As per Sector Ratings	As per above

• U.K.

Bank of New York Mellon (International) Ltd	3 months	£6m
Barclays Bank plc	3 months	£6m
Credit Suisse International	3 months	£6m
HSBC Bank plc	3 months	£6m
MBNA Europe Bank	3 months	£6m
Standard Chartered Bank	3 months	£6m
Sumitomo Mitsui Banking Corporation Europe Ltd	3 months	£6m
UBS Ltd	3 months	£6m
Nationwide BS	3 months	£6m
Bank of Scotland Plc	1 year	£4m
Lloyds TSB Bank Plc	1 year	
National Westminster Bank Plc	1 year	£4m
The Royal Bank of Scotland Plc	1 year	
Ulster Bank Ltd	1 year	

4.7 The Authority uses a combination of credit ratings, credit default swaps and market intelligence to decide which banks and financial institutions it will deposit funds with. During 2011/12, the following organisations were taken off the list of approved institutions:

4.8 Santander UK plc

Cater Allen

Clydesdale Bank

## 5 COMPLIANCE WITH TREASURY LIMITS

5.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators, compared to the estimates made in January 2011, is shown below:-

PRUDENTIAL INDICATOR	2010/11	2011/12	2011/12
	actual	Original estimate	actual outturn
Capital Expenditure      £000s	1,753	1,985	1,214
Ratio of Financing Costs to Net Revenue Stream	(0.7%)	(0.6%)	(0.8%)
Capital Financing Requirement as at 31 March      £000s	2,130	2,130	1,729
Incremental Impact of Capital Investment Decisions - (Reduction) in Council Tax (band D) per annum      £	0.22	0.00	(0.37)

## 6 RESOURCE IMPLICATIONS

- 6.1 Investment income used to be an important source of income to the General Fund but that is no longer the case and is unlikely to recover in the medium term. The Sector contract costs £6,000 per year. This represents good value for money for the Authority as we have achieved better returns than we might have. The advice service frees up officer time from researching the money markets and means that investment decisions are made in a timely fashion.
- 6.2 All interest received is accounted for within the General Fund. The Authority had no borrowings during the year, so no interest was paid out. External borrowing costs are shown in the Council's Financial Statements because of the new accounting requirements for embedded leases – these are situations where contracts include the use and control of assets. Those assets (street cleansing and recycling vehicles) have to be treated as Finance Leases with an interest element.

## 7 RISK IMPLICATIONS

- 7.1 The Treasury Management Strategy discusses in detail the risks involved in making investments and in particular the risk that a building society or bank may fail during the duration of an investment. The Authority is responsible for managing the investment of public funds and must be seen to be adopting a prudent approach. No institutions, in which investments were made during 2011/12, had any difficulty in repaying investments and interest in full during the year.

**8 RECOMMENDATION**

- 8.1 It is proposed that Council **RESOLVES** to note the contents of this Annual Report.

Yvonne Woodward  
Head of Finance

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**Background Papers:-**

None.

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