

Report of:	Meeting	Date	Item No.
Cllr. Alan Vincent, Resources Portfolio Holder and Philippa Davies, Director of Resources	Council	14 July, 2011	12

<b>TREASURY MANAGEMENT ACTIVITY 2010/11</b>
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## 1. Purpose of Report

- 1.1 To report on the overall position and activities in respect of Treasury Management for the financial year 2010/11.

## 2. Outcomes

- 2.1 An informed Council who have an understanding of Treasury Management activity, in line with the approved Treasury Management Policy and Strategy Statements and Treasury Management Practices.

## 3. Recommendations

- 3.1 That the Annual Report on Treasury Management Activity for the 2010/11 financial year be approved.

## 4. Background

- 4.1 In order to demonstrate compliance with the CIPFA Code of Practice for Treasury Management a review of the Treasury Management Policy Statement, Treasury Management Practices, Strategy and Minimum Revenue Provision Policy Statement is undertaken each year and reported to Cabinet in March. The Council, in accordance with legislation is also formally required to approve the formulation of the plan or strategy for the control of the authority's borrowing, investments or capital expenditure and for the determination of the authority's minimum revenue provision. This was agreed by Council at their meeting on 7 April 2011.
- 4.2 A requirement of the Treasury Management Code of Practice is the reporting of the results of treasury management activity twice a year. Cabinet considered the results for the six months ending 30 September

at their meeting on 6 December 2010 and this report covers the 2010/11 financial year in its entirety.

**4.3** The annual report is presented to Council at the earliest practicable meeting after the end of the financial year. The report should include the following issues, where relevant:

- a) total debt and investments at the beginning and close of the financial year and average interest rates
- b) explanations for variance between original strategies and actual
- c) debt rescheduling done in the year
- d) actual borrowing and investment rates achieved through the year
- e) comparison of return on investments to the investment benchmark
- f) compliance with Prudential and Treasury Indicators

## 5. Key Issues and Proposals

**5.1** The table below illustrates the Council's debt and investment position at the beginning and end of the 2010/11 financial year:

	1 April 2010 £	31 March 2011 £
Loans - Temporary	1,500,000	0
- Cash Overdrawn	399,141	1,199,851
<b>Total Short term Debt</b>	<b>1,899,141</b>	<b>1,199,851</b>
Loans - Long Term Borrowing	3,552,000	2,552,000
<b>Total Long term Debt</b>	<b>3,552,000</b>	<b>2,552,000</b>
Investments - Temporary	0	3,900,000
Internal - Cash/Bank	119,033	3,090
<b>Total Short term Investments</b>	<b>119,033</b>	<b>3,903,090</b>

**5.2** In respect of the 2010/11 financial year, the Council has complied with approved policy, practice and statutory and regulatory requirements.

**5.3** The Prudential Code for Capital Finance aims to ensure, within a clear framework, that the capital investment plans of local authorities are affordable prudent and sustainable. The code sets out indicators that must be used and requires local authorities to set relevant limits and ratios. The indicators for the 2010/11 financial year were originally agreed at Council on 4<sup>th</sup> March 2010. During the financial year the Council operated within these treasury limits and Prudential Indicators.

**5.4** During 2010/11 one long term loan with a value of £1,000,000 advanced by the Public Works Loan Board in March 2008 has matured (Loan ref 494403) for which there has been no replacement borrowing. There has been no new long term borrowing undertaken during 2010/11 as the capital financing requirement has been met by capital receipts and

earmarked reserves rather than from external borrowing.

- 5.5** The short-term borrowing transactions (i.e. less than 365 days) that occurred during the 2009/10 and 2010/11 years can be summarised as follows:

	2009/10	2010/11
No. of transactions	2	0
Total value of borrowing	£2.5m	N/A
Maximum single value borrowed	£1.5m	N/A
Highest rate	0.48%	N/A
Lowest rate	0.45%	N/A
Average borrowing rate	0.47%	N/A
Average amount of loan	£1.25m	N/A
Average period of loan	7 days	N/A

- 5.6** The 2010/11 final accounts (approved by Audit Committee on 28 June 2011 but subject to external audit) include interest payments in respect of long term borrowing of £157,239 compared to a budgeted figure of £166,980 inclusive of miscellaneous interest payments. Interest payments were less than anticipated as alternative sources of finance were used.

- 5.7** In view of the volatility in the financial markets in the 2010/11 financial year and following recommendations from our Treasury Management advisors, the Council invested any surplus balances in 'on call deposits' using the Clydesdale Bank (trading as Yorkshire Bank), Santander UK and the Natwest Base Rate Tracker accounts and with money market funds with instant access facilities, namely Prime Rate Capital Management. The equated investments for 2010/11 were as follows:

	Equated Investment Principal £	Interest Received £	Equated Rate of Return	Benchmark Return
Base Rate Tracker Call A/c's	5,745,128	42,158	0.73%	0.45%
Prime Rate Money Market Fund	136,986	1,022	0.75%	0.45%
Lancashire CC	747,945	5,236	0.70%	0.45%
<b>TOTAL</b>	<b>6,630,059</b>	<b>48,416</b>	<b>0.73%</b>	<b>0.45%</b>

Note: the benchmark is the 7-day LIBID rate.(London Interbank Bid rate)

- 5.8** The table reflects that investments earned an average return of 0.73% against a benchmark 7-day average of 0.45%. As the Bank of England base rate has remained at 0.5% Natwest Overnight Deposits have yielded minimum returns and consequently have not been used. Both Lancashire County Council and Primerate Money Market Fund have been used instead which has earned an average return of 0.73% and 0.70% respectively.
- 5.9** The 2010/11 final accounts reflect overall interest receivable of £452,528 compared to a budgeted figure of £428,800 inclusive of amounts due from HMRC for interest on a backdated VAT claim (£399,394) and other miscellaneous interest receipts. Interest received during 2010/11 exceeded the budget and was higher than that received in 2009/10 mainly due to an increase in the cash available for investment. The continued use of the Nat West deposit account enabled the Council to place surplus funds on deposit for short periods without incurring bank charges for electronic transfers, which is the case when depositing funds with other call accounts. In addition significant levels of capital expenditure occurred later in the year than programmed with some schemes slipping to 2011/12 increasing the value of surplus funds available to invest.

<b>IMPLICATIONS</b>	
Finance	Considered in detail in the report above
Legal	The approval of the recommendation will ensure that the statutory requirements have been complied with.
Community Safety	None arising from this report.
Equality and Diversity	None arising from this report.
Sustainability	None arising from this report.
Health and Safety	None arising from this report.
Risk Management	The Treasury Management Policy Statement and Treasury Management Practices are important controls against risk to Council's funds. These policies are reviewed annually in March.
Asset Management	None arising from this report.
Climate Change	None arising from this report.

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<b>List of Background Papers:</b>		
<b>Name of Document</b>	<b>Date</b>	<b>Where available for inspection</b>
CIPFA Code of Practice for Treasury Management 2009	2009	Financial Services/ CIPFA Website
Revenue Budget, Council Tax and Capital Programme (including CIPFA Prudential Code for Capital Finance in Local Authorities)	3 March 2011	Intranet/Financial Services
Treasury Management Activity Report April 2010 to September 2010	6 December 2010	Intranet/Financial Services
Treasury Management Policy Statement and Practices. Report to Council.	7 April 2011	Intranet/Financial Services

### **LIST OF APPENDICES**

None

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