

FULL COUNCIL

18 JULY 2012

REPORT OF HEAD OF CENTRAL SERVICES

ANNUAL REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND ACTUAL PRUDENTIAL INDICATORS 2011-12

1.0 PURPOSE

- 1.1 The Annual Treasury Report is a requirement of the Council's reporting procedures and provides a summary of the Treasury activities in 2011-12. The report also covers the actual position on the Prudential Indicators in accordance with the Prudential Code.
- 1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

2.0 RECOMMENDATIONS

2.1 It is recommended that:

- (a) The Treasury Management Annual Report for 2011-12 be approved and;
- (b) The actual position on Prudential Indicators for 2011-12 is noted.

3.0 KEY ISSUES

- 3.1 The Treasury Management Code of Practice is reviewed and the Strategy is approved at the start of each financial year. These documents in respect of the 2011/12 financial year were approved by Full Council as part of the budget setting process on 2 February 2011:-
 - 1. Borrowing and Investment Objectives.
 - 2. Capital Finance Objectives.
 - 3. Investment and Borrowing Strategies.
 - 4. Borrowing limits.
- 3.2 Updates are currently provided to Members on a quarterly basis through the Members Newsletter
- 3.3 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 year end position for treasury activities and highlights compliance with the Council's policies previously approved by members. The Council has complied with the requirement of the Code to give prior scrutiny to all of the above treasury management reports by the Budget & Strategic Planning Working Group before they were reported to the Full Council.

- 3.4 During 2011-12 the Council complied with the legislation and regulatory requirements which limit the levels of risk associated with its Treasury Management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure was prudent, affordable and sustainable and its treasury practices demonstrated a low risk approach. The key prudential indicators for the year, with comparators, are as follows:

Prudential and treasury indicators	2010/11 Actual £m	2011/12 Original £m	2011/12 Actual £m
Capital expenditure	5.169	5.726	4.585
Capital Financing Requirement:			
• Non-HRA	5.297	5.406	0.189
• HRA	4.296	4.282	4.282
• HRA due to housing finance reform	0	0	27.622
• Total	9.593	9.688	32.093
Net borrowing	3.838	8.873	16.961
External debt	6.988	6.988	31.861
Investments			
• Longer than 1 year	All investments- £3.15m are less than one year	N/A	All investments £14.9m are less than one year
• Under 1 year			
• Total			

Housing finance reform

The implementation of housing finance reform at the end of 2011-12 abolished the housing subsidy system financed by central government and, consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council made a capital payment to the Department of Communities and Local Government of £27.622m. This resulted in an increase in the CFR (Capital Financing Requirement) and total borrowing of £31.861m for the HRA at the end of the year which was financed by existing borrowing and new external borrowing of £26.323m. There has been no impact on HRA (Housing Revenue Account) finances in 2011/12 due to compensating adjustments being made in the HRA determination.

No borrowing was undertaken for any further purpose and the Council's maximum actual borrowing position of £31.861m was within its Statutory Borrowing Limit and the Authorised Limit of £47m.

The Council repaid its General Fund (GF) CFR debt of £4.88m in 2011-12 by using part of the capital receipt received from the sale of land on Nottingham Road. A residual debt premium of £0.17m was also repaid from the receipt. The outstanding loans were transferred to the HRA thereby resulting in annual revenue budget savings to the GF of £0.4m from 2012-13 in relation to MRP and interest. The remaining CFR liability of £0.19m relates to the Registrar's credit arrangement.

At 31 March 2012, the Council's external debt was £31.861m (£6.988m at 31 March 2011) and its investments totalled £14.9m (£3.15m at 31 March 2011).

- 3.5 The Annual Report provides comprehensive detail of the activities undertaken on treasury management during the last financial year. It provides, at Appendix A, the performance of the prudential indicators against the indices set by the Council as part of the budget setting process.

The key areas to note are:

- a) The ratio of the financing costs to the net revenue stream has decreased (see Appendix A), which means that less of the budget is being taken up by financing costs. This reduction is due to net financing costs (net of investment income) having decreased, primarily as a result of lower debt charges and an increase in the level of investment income, the Council's net revenue stream has marginally decreased as would be expected with any budget but the proportion remains similar between the two years. The Council actually under borrowed during the year reflecting a continuing policy of using internal borrowing where it is considered financially prudent to do so. This ratio should improve further for the GF in 2012-13 as a result of the GF CFR debt repayment discussed in paragraph 3.4 above.
- b) The net borrowing except in the short term should not exceed the CFR and at the 31 March 2012 was below that figure, primarily due to the use of internal borrowing. The Council was increasing its use of internal borrowing due to low investment returns compared to the rate at which the PWLB is lending at over the long term. This is to ensure that borrowing levels are prudent and over the medium term the Council's external borrowing, net of investments, is only for a capital purpose.
- c) The Council, on 28 October 2011 repaid loans borrowed from the Public Works Loan Board of £1.45m. Management of the debt portfolio resulted in a fall in the amount of interest paid of approx. £60k.
- d) The overall investment rate was 0.62% when compared to 0.34% in the previous year.

3.6 The 2011-12 financial year has featured one of the most testing and difficult economic and investment environments since the 1930's. It has featured a number of very significant changes in the performance of the UK as well as the global economy. Beneath all of this has been the undercurrent of uncertainty and mistrust in the financial markets. This was not an easy backdrop in which to undertake treasury management activities, particularly investments.

4.0 **POLICY AND CORPORATE IMPLICATIONS**

4.1 The Treasury Management Strategy and Policy is a corporate document which links to the Medium Term Financial Strategy. The Annual Report provides details of all the Treasury Management activities undertaken during the year.

5.0 **FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

5.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.

6.0 **LEGAL IMPLICATIONS/POWERS**

6.1 The Local Government Act 2003 provides the powers to invest and borrow as well as providing controls and limits on the activity.

7.0 **COMMUNITY SAFETY**

7.1 There are no direct links to community safety arising from this report.

8.0 **EQUALITIES**

8.1 There are no direct equality issues arising from this report.

9.0 **RISKS**

9.1 These are assessed as part of the Central Services Service Plan. The Treasury Management Policy has various limits in place in order to mitigate any likelihood of loss to the Council.

10.0 **CLIMATE CHANGE**

10.1 There are no climate change issues arising from this report.

11.0 **CONSULTATION**

11.1 Consultation takes place with the Council's treasury consultants at regular intervals throughout the year.

12.0 **WARDS AFFECTED**

12.1 To varying degrees, all wards are affected indirectly.

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Date: 11 June 2012

Appendices: Appendix A – Annual Report on Treasury Management & Prudential Indicators

Background Papers: Statement of Accounts
Final Accounts Working Papers

Reference: X: C'tees, Council & Sub-C'tees/Full Council/2012-13/18-07-12/RC –
Treasury Management Annual Report 2011-12