REPORT TO	DATE OF MEETING
Governance Committee	27 June 2012

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SOUTH RIBBLE BOROUGH COUNCIL
forward with South Ribble

SUBJECT	PORTFOLIO	AUTHOR	ITEM
Treasury Management Out-turn 2011/12	Finance & Resources	G Whitehead	6

SUMMARY AND LINK TO CORPORATE PRIORITIES

1. The current regulatory environment concerning treasury management places a greater onus on members to scrutinise treasury policy and activity. To enable that, each year the Council is required to consider, as a minimum, three treasury reports. These consist of an annual strategy statement in advance of the year (Council 2/3/11), a mid year review of that strategy (Governance Committee 28/09/2011), and finally this out-turn report.

2. The key messages within this report are that Prudential and Treasury Indicators were complied with and that the return on investments totalled 1.07% which exceeded the benchmark of 0.48%. It also provides updated information regarding the Icelandic investments.

RECOMMENDATIONS

3. Members are asked to note the report.

DETAILS AND REASONING

4. **Prudential Indicator Capital Expenditure and Financing 2011/12**

A comprehensive report on the capital out-turn has been separately submitted to Governance Committee on this agenda.

5. **Prudential Indicator The Capital Financing Requirement (CFR)**

The CFR is a measure of the capital expenditure of the Council which is still to be paid for. Such expenditure will currently be met by borrowing or by temporarily using internal cash balances. Ultimately however it has to be paid for and will be a charge to Council Tax payers.

	Original Estimate £000	Actual £000
Capital Financing Requirement at 1 April 2011	6,152	5,919
Change in year – prudential borrowing	0	155
- Deferred purchase liability	33	52
- MRP	(387)	(415)
- Voluntary MRP	(255)	(255)
CFR at 31 March 2012	**5,543**	**5,456**

6. **Prudential Indicator The CFR and Borrowing**

In order to ensure that Authorities only borrow for capital purposes the Prudential Code requires that borrowing, net of investments, should not exceed the CFR for the preceding year plus any anticipated increase in the current and next two years. As at 31 March 2012 net borrowing is a negative figure (para 10 below) and is thus well below the CFR.

7. **Compliance with Borrowing Limits**

The Prudential Indicators include two borrowing limits:

- The **Operational Boundary** - This is the probable, expected limit on external debt. “Debt” consists of both borrowings and other long term liabilities (finance leases, and deferred purchase liabilities incurred under the Leisure Partnership). This was set at £1.4m and the limit has not been exceeded. As at 31/3/12 the Council has no external borrowings and leasing liabilities stand at £1.23m

- The **Authorised Limit** - This reflects a level of debt which the code defines as, “while not desired, could be afforded but may not be sustainable”. In determining this limit for South Ribble the judgement was made that the maximum indebtedness of the Council should not exceed the Capital Financing Limit since this is a measure of the need for debt. The limit was therefore £5.543m, and has not been exceeded.

8. **Prudential Indicator Ratio of Financing Costs to the Revenue Stream**

This indicator shows what percentage of the Council’s income from Government grants and Council Tax has been used to meet interest costs and debt repayment. The indicator as per the Treasury Strategy data was 3.82%. The reduction in impairment charges on Icelandic debt, and the inclusion of income from capital grants and contributions, has caused the out-turn figure to fall to 2.00%.

9. **Prudential Indicator Incremental impact of capital investment decisions**

This indicator is concerned with capital expenditure over a period of years, and reports its cumulative impact on the revenue account. It is not possible to meaningfully make comparison against this indicator, other than when it is restated each year when the Treasury Strategy is produced

10. **Treasury Position as at 31 March 2012**

	31 March 2012 estimate per Treasury Strategy £000	Actual value as at 31 March 2012 £000
Total borrowings at period end	**0**	**0**
Cash & investments (exc Icelandic)	**7,736**	**9,908**
Icelandic investment	1,771	2,120

The increase of £2.2m in balances available for investment is caused by the following changes:-

- Reductions in capital expenditure and additional capital income.
- The revenue underspend during the year.
- Other balance sheet movements in debtors.

The following table summarises investments activity and returns during the year:-

Details	**Average daily Investment £'000**	**Interest Earned £**	**Average Rate %**
Money Market Funds	761	6,082	0.80
Short Term deposits	6,202	97,246	1.57
Call accounts	6,254	40,834	0.65
HSBC	0.057	0	0
Debt Management Office (DMO)	151	379	0.25
Total	**13,425**	**144,541**	**1.07**

The performance benchmark is the London 7 day Inter-Bank Bid Rate (LIBID). This averaged 0.48% over the year, therefore the benchmark has been exceeded. To achieve a return rate 10% greater than LIBID is a key performance indicator for Shared Financial Services.

11. **Treasury Indicator Upper limit on exposure to variable interest rates**

The authority is exposed to variable interest rates on all its invested cash. Setting a limit is of no real effect, since whatever cash the Council has is invested at variable rates. An expected maximum of £20m was quoted in the Treasury Strategy. If Icelandic debt is excluded this limit was not reached.

12. **Icelandic Investment**

The Landsbanki court proceedings in Iceland were successfully concluded during the year with the confirmation of the priority status of the Council's debt and a first repayment of £979k received in February.

Repayment of the Heritable investments continued to be made during the year.

The following table summarises the transactions up to 31 March 2012:-

Icelandic Investment	Heritable £'000	Landsbanki £'000
Original investment	2,000	3,000
- impairment to 31/3/2011	(457)	(1,114)
- interest to 31/3/2012	217	822
- cash received	(1,368)	(979)
Owing as at 31/3/2012	**392**	**1,729**

Interest continues to accrue and over time this will substantially reverse the impairment loss. Since year end a further £76k repayment has been received on Heritable and £412k on Landsbanki.

It is now expected that 100% of the Landsbanki claimed amount (£3.364m) will be recovered, but over a timescale extending to 2018. Furthermore there remains the exchange rate risk since repayments will be made in dollars and euros, with a small amount in Icelandic Krona in addition to sterling.

Up to 88% of the Heritable claim (£2.014m) is expected to be recovered.

13. **The economy and Interest rates**

The review of the year provided by the Council's consultant is at Appendix A

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	As set out in the report and its appendices.
LEGAL	Compliance with various Regulations and Statutory Codes of Practice.
RISK	The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.
OTHER (see below)	

Asset Management	*Corporate Plans and Policies*	*Crime and Disorder*	*Efficiency Savings/Value for Money*
Equality, Diversity and Community Cohesion	*Freedom of Information/ Data Protection*	*Health and Safety*	*Health Inequalities*
Human Rights Act 1998	*Implementing Electronic Government*	*Staffing, Training and Development*	*Sustainability*

BACKGROUND DOCUMENTS

Treasury Management Strategy 2011/12 Treasury Management - mid year review	02/03/2011 28/09/2011

APPENDIX A

The Economy and Interest Rates – Sector commentary

The financial year 2011/12 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2011-12 was that Bank Rate would start gently rising from quarter 4 2011. However, GDP growth in the UK was disappointing during the year under the weight of the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the EU. The EU sovereign debt crisis grew in intensity during the year until February when a second bailout package was eventually agreed for Greece. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October and another £50bn in February. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September at 5.2% but then fell to 3.4% in February, with further falls expected to below 2% over the next two years.

Gilt yields fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of quantitative easing during the year, combined to depress PWLB rates to historically low levels.

Investment rates. Risk premiums were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.