AGENDA ITEM: 14

SUMMARY

Report for:	**CABINET**
Date of meeting:	**17 September 2013**
PART:	**I**
If Part II, reason:	

Title of report:	**TREASURY MANAGEMENT OUTTURN AND PERFORMANCE INDICATORS 2012/13**
Contact:	Cllr Nicholas Tiley, Portfolio Holder for Finance and Resources Sally Marshall, Corporate Director (Finance and Governance)
Purpose of report:	To report upon the performance outturn for fund management in 2012/13.
Recommendations	**That Cabinet recommends to Council acceptance of the report on Treasury Management performance in 2012/13 and the Prudential Indicators 2012/13 actuals.**
Corporate objectives:	Optimising investment income for General Fund and Housing Revenue budgets whilst managing investment risk is fundamental to achieving the corporate objectives.
Financial Implications	<u>Financial</u> In accordance with Central Government Guidance on Local Government Investments, and the CIPFA Treasury Management Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector.
Risk Implications	Good corporate governance encompasses risk management and making sure that the Council makes decisions with the full knowledge of the associated risks and opportunities. The risk of not reviewing and updating our corporate governance arrangements have been addressed by this report.
Equalities Implications	None

Health And Safety Implications	None
Monitoring Officer / S151 Officer Comments	**Deputy Monitoring Officer-** No further comments to add to this report. **Deputy Section 151 officer-** This is a S151 Officer report
Consultees:	Sector Treasury Advisors
Background papers:	Cabinet 7 February 2012 – Treasury Management Strategy (Appendix D to Budget 2012/13 Report) Cabinet 24 July 2012 – Treasury Management Strategy Cabinet 22 January 2013 – Treasury Management Mid-Year Performance Report

1. Regulatory Background

1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2012/13. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 During 2012/13 the minimum reporting requirements were that Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 07/02/2012)
- a mid-year treasury update report (Council 22/01/2013)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

1.3 Recent changes in the regulatory environment place greater onus on Members for the review and scrutiny of treasury management policy and activities. This report provides the outturn position for the Council's treasury activities and highlights compliance with policies previously approved by Members. The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports before they were reported to the Full Council.

2. The Economy and Interest Rates

2.1 The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. At the time the 2012/13 budget was set, expectation was that the Bank Rate would not start to rise until quarter 4, 2014. However, economic growth in the UK has been disappointing during the year and the Governor of the Bank of England has recently indicated that, inflationary pressures permitting, the Bank Rate is unlikely to increase for three years.

2.2 In addition, longer-term interest rates fell sharply during the second half of the year after the Government introduced the Funding for Lending Scheme, which made cheap credit available to banks. This in turn reduced the investment rates available to the Council as the year progressed.

2.3 Low interest rates will continue to have an adverse effect on the Council's investment returns throughout 2013/14.

3. Overall Treasury Position as at 31 March 2012 and 2013

3.1 At the beginning and the end of 2012/13 the Council's treasury position was as follows:

	31 March 2012 Principal	Rate/ Return	Average Life years	31 March 2013 Principal	Rate/ Return	Average Life years
General Fund						
Total debt	-		-	-		-
Capital Financing Requirement	*(£20.1m)*			*(£10.5m)*		
Over / (under) borrowing	*(£20.1m)*			*(£10.5m)*		
Housing Revenue Account						
Total debt	*£346.7m*	*3.35%*	*24*	*£346.7m*	*3.35%*	*24*
Capital Financing Requirement	*£338.6m*			*£346.7m*		
Over / (under) borrowing	*£8.1m*			*0*		
Total investments	*£61.9m*	*1.03%*	0.33	*£64.7m*	*1.02%*	*0.14*
Net debt	**£284.8m**			**£282m**		

General Fund

3.2 A negative Capital Financing Requirement (CFR) indicates that the Council has capital funds available, and that it has no need to borrow. The negative CFR (capital balance) for the General Fund reduced by £9.6m in 2012/13, from £20.1m to £10.5m, to finance in-year expenditure on the Capital Programme. This left a capital closing balance of £10.5m as at March 2013, for the future financing of the Capital Programme.

Housing Revenue Account

3.3 In Local Authority accounting terms, the Housing Revenue Account (HRA) was considered over-borrowed by £8.1m as at March 2012. This £8.1m was the subject of ongoing work with auditors to identify whether historic capital balances from previous accounting regimes would still be available to the HRA within the new Self-Financing environment. Until investigations into this issue could be completed, the HRA borrowed the full amount of the Self-Financing debt, leading to the over-borrowed position. Early in 2012/13, officers were successfully able to demonstrate to auditors that the £8.1m should be carried forward and it was utilised in 2013/14, thereby eliminating the over-borrowing. HRA funds available for the future financing of the Capital Programme are held outside of the CFR in the Major Repairs Reserve and Earmarked Reserves.

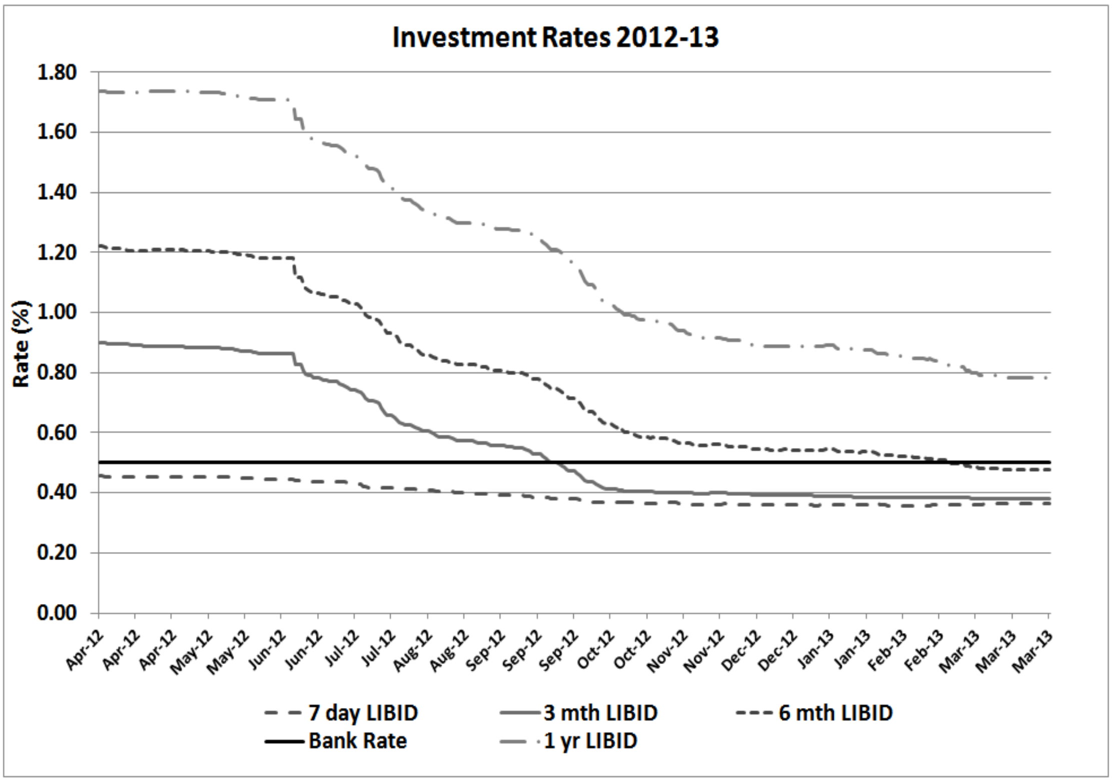
Borrowing

3.4 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). There was no new borrowing taken in 2012/13.

4. Investment Rates and Outturn in 2012/13

4.1 The 2012/13 Treasury Management Strategy anticipated that interest rates were unlikely to rise during the year, and that the Bank Rate would not begin to rise until quarter 4 of 2014. This proved to be the case, with the market remaining uncertain, and the Council's investment decisions continuing to be dominated by counterparty risk considerations. This resulted in a limited investment portfolio for the Council, and relatively low returns which the market now expects to continue into late 2016**.**

4.2 The Council's investment returns were further impacted by reducing interest rates on offer from available counterparties. As outlined in paragraph 2.2, interest rates fell sharply in year, demonstrated by the table below which shows reducing market rates throughout 2012/13:



4.3 The Council's investment policy, approved by Council in February 2012, sets out the approach for choosing investment counterparties. It is based on a system of credit ratings provided by the three main credit rating agencies, and supplemented by additional market data (such as rating outlooks, credit default swaps and bank share prices) provided by Sector, the Council's treasury advisors.

4.4 The Council maintained an average balance of £76.1m of internally managed funds throughout 2012/13, earning an average rate of return of 1.02%. This compared favourably with the budget assumption of average investment balances of £57.1m at 0.93% investment return.

4.5 The weighted average maturity (WAM) in 2012/13 for investments placed by the Council was 51 days. This compares to a weighted average maturity for 2011/12 of 100 days. The reduction in WAM between years reflects the use of Money Market Funds which was only introduced in the later part of 2011/12.

4.6 Generally a reduction in WAM would generate lower investment returns. However, by making use of Money Market Funds Dacorum has managed to reduce the WAM whilst maintaining similar levels of returns year on year.

4.7 Investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

5. Prudential and Treasury Indicators

5.1 During 2012/13, the Council complied with its legislative and regulatory requirements set out in the Treasury Management Strategy. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	**2011/12 Actual £000**	**2012/13 Original Budget Estimate £000**	**2012/13 Actual £000**
Capital expenditure			
• General Fund	3,739	19,030	10,029
• HRA	353,405	16,696	16,773
• **Total**	**357,144**	**35,726**	**26,802**
Capital Financing Requirement:			
• General Fund	(20,316)	(15,682)	(10,463)
• HRA	(8,114)	(8,114)	0
• HRA due to housing finance reform	346,739	355,276	346,739
• **Total**	**318,489**	**322,943**	**336,276**
External debt	346,739	355,276	346,739
Investments			
• Longer than 1 year	-	-	-
• Under 1 year	61,900	-	64,700
• Total	61,900	-	64,700

5.2 In order to ensure that borrowing levels are prudent over the medium term, Local Authority external borrowing can only be for capital purposes, i.e. it cannot be used to support revenue expenditure. Net borrowing should not, therefore, exceed the Capital Financing Requirement (CFR), i.e. the Council's need to borrow. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The advance borrowing shown above by external debt exceeding the CFR is due to the General Fund currently holding previously set aside capital receipts to support financing the future Capital Programme, instead of applying them to the HRA Self Financing transaction.

5.3 The **Authorised Limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2012/13 the Council has maintained gross borrowing within its authorised limit.

5.4 The **Operational Boundary** – the operational boundary reflects the current borrowing position with an allowance for additional borrowing for cash flow purposes during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2012/13
Authorised limit	£368.776m
Operational boundary	£363.276m

5.5 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Ratio of financing costs to net revenue stream	**31 March 2012 Actual**	**2012/13 original limits**	**31 March 2013 actual**
Non - HRA	(3.25%)	(0.76 %)	(0.97%)
HRA	(0.67%)	31.98%	23.10%

5.6 The increase in the negative ratio on the General Fund reflects the increased income received against budget. The decrease in the ratio on the HRA reflects the lower cost of borrowing against the original budget.

5.6 The following table shows the **incremental impact on Council Tax and Housing Rents** on capital decisions.

Incremental impact of capital investment decisions	**31 March 2012 Actual**	**2012/13 original limits**	**31 March 2013 Actual**
Increase in council tax (band D) per annum *	£2.59	£0.66	£0.57
Increase in average housing rent per week	£0.27	£12.12	£14.24

5.7 The reduced impact on the General Fund against original limits reflects the slippage on the Capital Programme. The increased impact on Housing Rents reflects the increased expenditure during the year on the New Build Programme.

5.8 The following table shows the **net debt position** for the Council. There has been no material change in net debt between years.

	31 March 2012 Principal	Rate/ Return	Average Life years	31 March 2013 Principal	Rate/ Return	Average Life years
Fixed rate funding:						
-PWLB	£346m	-%		£346m		
-Market	£346m	3.35%		£346m	3.35%	
Total debt	***£346m***	***3.35%***		***£346m***	***3.35%***	***24***
CFR	***£318m***	***-%***		***£336m***	***-%***	
Over/ (under) borrowing	***£28m***	***-%***		***£10m***	***-%***	
Total investments	***£61.9m***	***1.03%***	**0.33**	***£64.7m***	***1.03%***	
Net debt	**£284.8m**	**-%**		**£281.3m**		

5.9 The following table shows the **maturity structure of the debt portfolio**:

	31 March.2012 actual	31 March.2013 actual
Under 12 months	-	-
12 months and within 24 months	-	-
24 months and within 5 years	-	-
5 years and within 10 years	£14.3m	£14.3m
10 years and above	£332.4m	£332.4m

5.10 The following table shows the **maturity structure of the investment portfolio**:

	2011/12 Actual £	2012/13 Actual £
Investments		
Longer than 1 year	-	-
Under 1 year	61.9m	64.7m
Total	61.9m	64.7m

5.11 The following table shows the **exposure to fixed and variable rates on investments** at year end:

	31 March 2012 Actual	2012/13 Original Limits	31 March 2013 Actual
Fixed rate (principal or interest)	74%	100%	87%
Variable rate (principal or interest)	26%	40%	13%

Appendix A – External Borrowing

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£567,166	Fixed interest rate	1.50%	6 Years
PWLB	£2,068,572	Fixed interest rate	1.76%	7 Years
PWLB	£3,585,697	Fixed interest rate	1.99%	8 Years
PWLB	£4,590,217	Fixed interest rate	2.21%	9 Years
PWLB	£3,480,273	Fixed interest rate	2.40%	10 Years
PWLB	£1,370,129	Fixed interest rate	2.56%	11 Years
PWLB	£2,309,505	Fixed interest rate	2.70%	12 Years
PWLB	£3,334,576	Fixed interest rate	2.82%	13 Years
PWLB	£4,442,038	Fixed interest rate	2.92%	14 Years
PWLB	£5,637,006	Fixed interest rate	3.01%	15 Years
PWLB	£5,110,074	Fixed interest rate	3.08%	16 Years
PWLB	£6,339,797	Fixed interest rate	3.15%	17 Years
PWLB	£7,664,605	Fixed interest rate	3.21%	18 Years
PWLB	£9,089,448	Fixed interest rate	3.26%	19 Years
PWLB	£10,620,253	Fixed interest rate	3.30%	20 Years
PWLB	£12,546,288	Fixed interest rate	3.34%	21 Years
PWLB	£14,313,519	Fixed interest rate	3.37%	22 Years
PWLB	£16,205,585	Fixed interest rate	3.40%	23 Years
PWLB	£18,230,083	Fixed interest rate	3.42%	24 Years
PWLB	£20,394,596	Fixed interest rate	3.44%	25 Years
PWLB	£32,380,217	Fixed interest rate	3.46%	26Years
PWLB	£35,524,201	Fixed interest rate	3.47%	27 Years
PWLB	£38,864,428	Fixed interest rate	3.48%	28 Years
PWLB	£42,416,950	Fixed interest rate	3.49%	29 Years
PWLB	£45,654,253	Fixed interest rate	3.50%	30 Years