Agenda No 5

Overview and Scrutiny Board

25th January 2012

Treasury Management Monitoring Report

Recommendation

That the Overview and Scrutiny Board discuss and agree the report.

1.0 Introduction

1.1 Warwickshire County Council fully complies with the requirements of The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice (COP) on Treasury Management.

1.2 Under the CIPFA Code, the Cabinet is required to receive a report on the outturn of the annual treasury management activity for the authority. Monitoring reports regarding treasury management will be an agenda item for the Overview and Scrutiny Board throughout the year.

1.3 Treasury management in the context of this report is defined as:

"The management of the local authority's 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." *(CIPFA Code of Practice)*.

2.0 Investments

2.1 The Council has an investment portfolio consisting of reserves and cash arising from daily receipts being in excess of payments on a short term basis. This cash is invested partly by an in house treasury function and partly by an external cash manager, approximately on a 70/30 basis. Such investments earn investment income.

2.2 The Council's investment portfolio at the end of the first nine months of 2011/12 to 31st December 2011 was as follows:

Table 1: Investment Position at 31st December 2011

	Invested at 31st December 2011
	£m
In-house fixed term deposits	129.9
Santander Bank (instant access call account)	10.0
Total In-house	**139.9**
Aviva Investors	46.1
Total All Investments	**186.0**

2.3 The Council is currently investing according to a low risk, high quality lending list in line with the policy approved in the Treasury Management Strategy 2011/12 approved by Council on 15th February 2011. A significant aspect of this policy includes placing funds with the UK Government Debt Management Office for a period of up to three months.

2.4 All other counterparties (banks and other institutions to which we lend) have a time limit of one year. Higher minimum ratings for overseas institutions are currently imposed but at this time there are no deposits placed outside the UK.

2.5 Performance of the Council's investments versus the benchmark is:

Table 2: Investment Performance to 31 December 2011

	Average Interest rate year to date	Target rate: 7 day LIBID (+10% for the externally managed Aviva portfolio)	Variance
	%	%	%
In house	0.42	0.48	-0.06
Santander call account	0.80	0.48	0.32
Total In house	**0.45**	**0.48**	**-0.03**
Aviva Investors	1.14	0.53	0.61
Total All Investments	**0.63**	**0.49**	**0.14**

The London Interbank Bid Rate (**LIBID**) is the rate bid by banks on Eurocurrency deposits (i.e., the rate at which a bank is willing to borrow from other banks).

2.6 The in-house operation under-performed slightly, due to the very cautious Treasury Management Strategy now in place, whereby low risk results in a lower investment return. Investment target rates are set out in the Treasury Management Strategy.

Table 3: Interest Earned to 31 December 2011

	Year to date
	£000
In house	378.0
Santander	58.0
Total In house	**436.0**
Aviva Investors	390.0
Total All Investments	**826.0**

2.7 The table below details our consultant's view on interest rates. Based on this opinion, the money market will continue to be at current levels until late 2013 when rate rises are predicted.

Table 4: Interest Rate Forecast

	Mar 2012	Jun 2012	Sep 2012	Dec 2012	Mar 2013
Interest Rate Forecast	0.50%	0.50%	0.50%	0.50%	0.50%

Source: Sector Treasury Services

3.0 Borrowing

3.1 The Treasury Management Outturn Report for 2010/11 gave an overall outstanding Public Works Loans Board (PWLB) borrowing figure of £371.7m at 31st March 2011. Since this time, the Council has taken additional loans from the Public Works Loans Board totalling £20m. The table below details our performance against average rates to 31st December 2011.

Table 5: PWLB Average Rate versus WCC Loans to Date

Amount Borrowed	Average Rate
WCC Loans totalling £20m	3.76
PWLB Average Rate to Date (10-year)	3.96
Out/(Under) Performance	**0.20**

3.2 The Council has out-performed the PWLB average rate to date. There are no further borrowing requirements for 2011/12.

4.0 Compliance with Treasury Limits and Prudential Indicators

4.1 During the three quarters of 2011/12 to 31st December 2011, the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and Treasury Management Strategy. Full details of the Prudential Indicators set for 2011/12 are shown in **Appendix A.** Explanations of the terminology employed is set out in **Appendix B.**

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In year Monitoring 2011/12

PRUDENTIAL INDICATOR	2011/12		April to July 2011	Variance to Budget	Quarter 2	Variance to Budget	Quarter 3	Variance to Budget
(1). AFFORDABILITY PRUDENTIAL INDICATORS	Budget							
	£'000							
	£'000		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure	124,493		124,493	0	106,997	-17,496	73,661	-50,832
	%		**%**	**%**	**%**	**%**	**%**	**%**
Ratio of financing costs to net revenue stream	10.72		10.75	0.03	10.73	0.01	10.74	0.02
Net borrowing requirement	**£'000**		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
brought forward 1 April	371,704		371,701	-3	371,701	-3	371,701	-3
carried forward 31 March	401,658		401,993	335	391,651	-10,007	391,651	-10,007
in year borrowing requirement	29,954		30,291	337	35,952	5,998	19,950	-10,004
	£'000		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
In year Capital Financing Requirement	29,954		30,291	337	9,767	-20,187	(5,362)	-35,316
	£'000		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Capital Financing Requirement as at 31 March	410,903		404,425	-6,478	383,901	-27,002	368,772	-42,131
Affordable Borrowing Limit:								
Updated position of Current Capital Programme (Jan 2011)	£		£	£	£	£	£	£
Increase per council tax payer	6.21		8.15	1.94	6.93	0.72	6.93	0.72

PRUDENTIAL INDICATOR	2011/12		Quarter 1	Variance to Budget	Quarter 2	Variance to Budget	Quarter 3	Variance to Budget
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**estimate**							
	£'000		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Authorised limit for external debt -								
Borrowing	461,875		482,451	20,576	457,823	-4,052	439,668	-22,207
other long term liabilities	12,000		12,000	0	12,000	0	12,000	0
TOTAL	**473,875**		**494,451**	**20,576**	**469,823**	**-4,052**	**451,668**	**-22,207**
Operational boundary for external debt -								
Borrowing	374,896		402,043	27,147	381,519	6,623	366,390	-35,653
other long term liabilities	10,000		10,000	0	10,000	0	10,000	0
TOTAL	**384,896**		**412,043**	**27,147**	**391,519**	**6,623**	**376,390**	**-8,506**
Upper limit for fixed interest rate exposure								
Net principal re fixed rate borrowing / investments	100%		100%	0.00	100%	0.00	100%	0.00
Upper limit for variable rate exposure								
Net principal re variable rate borrowing / investments OR:-	25%		25%	0%	25%	0%	25%	0%
Upper limit for total principal sums invested for over 364 days	£		£		£		£	
(per maturity date)	0		0.00	0.00	0.00	0.00	0.00	0.00

Maturity structure of new fixed rate borrowing	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Appendix B

PRUDENTIAL INDICATORS

Ratio of financing costs to net revenue stream

The ratio of financing costs to net revenue stream shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, plus repayments of capital, as a proportion of annual income from council taxpayers and central government. The estimates of financing costs include current and future commitments based on the capital programme.

Net Borrowing

Net borrowing refers to the Authority's total external borrowing.

Actual and Estimated Capital Expenditure

Actual and estimates of capital expenditure for the current and future years.

Capital Financing Requirement

The Capital Financing Requirement (CFR) represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR measures the Authority's underlying need to borrow externally for a capital purpose. The Authority has a treasury management strategy which accords with the CIPFA Code of Practice for Treasury Management in the Public Services.

Authorised Limit

In respect of its external debt, the Authority approves authorised limits for its total external debt gross of investments. These limits separately identify borrowing from other long-term liabilities such as finance leases. Authorised limits are consistent with the Authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accord with the approved treasury management policy statement and practices. The Authorised limit is based on the estimate of most likely prudent, but not necessarily the worst-case scenario and provides sufficient additional headroom over and above the Operational Boundary.

Operational Boundary

The operational boundary for external debt is based on the same estimates as the authorised limit but reflects the Head of Finance's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Limits on Interest Rate Exposures

This means that the Authority will manage fixed interest rate exposures within the ranges and variable interest rate exposures within the ranges. This provides flexibility to take advantage of any favourable movements in interest rates.