CITY OF YORK COUNCIL

APPENDIX A

Cabinet

Report of the Cabinet Member for Corporate Services

Treasury Management Annual Report & Review of Prudential Indicators 2010/11

Summary

1. This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2010/11. 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).

2. The treasury management annual activities are detailed in report and the prudential indicators, which ensure the Council's treasury management activities are affordable sustainable and prudent as approved by Council on 25 February 2011, are contained in Annex A.

3. The Council's debt and investment position ensures adequate liquidity for revenue and capital activities, security for investments and manages risks within all treasury management areas. Procedures and controls to achieve these objectives are established through Member reporting and through officer operational activities detailed in the Council's Treasury Management Practices. The Council's treasury position a for 2010/11 is as follows:

	31-Mar-11	Rate of Return	31-Mar-10	Rate of Return
Borrowing:	£M		£M	
-PWLB	108.1		101.1	
-Market	25.0		15.0	
Total Borrowing	133.1		116.1	
Average Borrowing	**130.5**	**4.20%**	**104.9**	**4.52%**
Investments:				
Total Investments	35.2		25.9	
Average Investments	63.8	1.15%	47.4	2.20%

Table 1 – Position of the treasury management portfolio

Background

Economic Background

4. The performance of the council's treasury management function is an outcome of the long-term borrowing and short-term investment decisions affected by the economic conditions during the 2010/11 financial year.

5. The base rate remained at 0.5% throughout 2010/11 and inflation rates (CPI) remained higher than expected above the Bank of England's target rate of 2%. The change in UK political background was a major factor behind weaker domestic growth expectations, evidenced by the heavy spending cuts announced in the October Comprehensive spending review.

6. Interest rates on bonds (gilt yields), which affect the Council's achievable borrowing rates, fell for much of the first half of the year as financial markets drew considerable reassurance from the Government's debt reduction plans. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed (with increasing borrowing interest rates) in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures.

7. Figure 1 shows the base rate movements since 1 April 2010 with predictions from economists and the Council's Treasury management Advisors – Sector - to February 2014. The graph shows how predictions have changed. The diamond line shows

Sectors prediction of the base rate in February 2010 compared to their latest prediction in triangles.

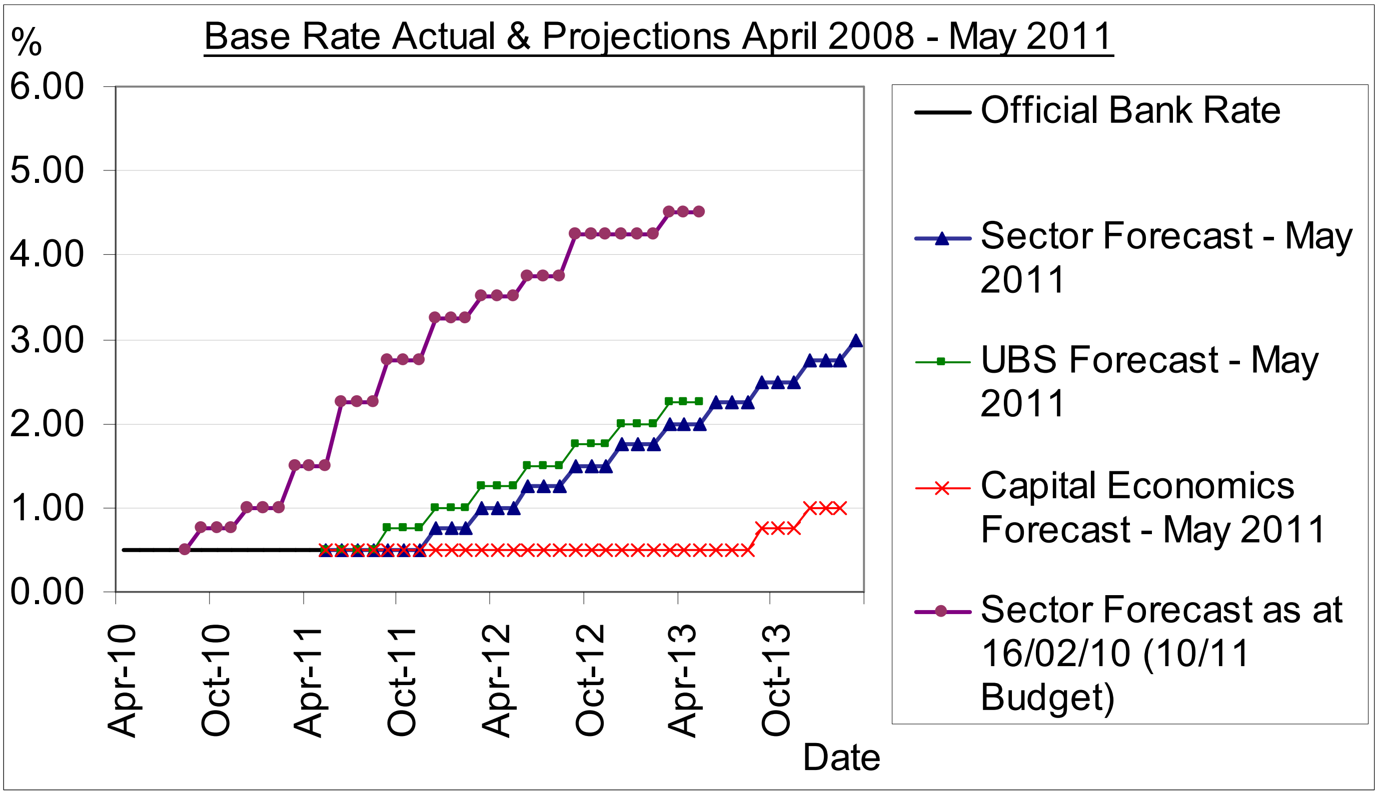

Figure 1 – Forecast Base Rates 2010- 2014

Treasury Managment Strategy

8. The council's borrowing strategy set for 2010/11 at full Council on 25 February 2010 followed advice from the council's treasury management advisors –Sector Treasury Services - to borrow primarily at the start of the year when borrowing rates were forecast to be lower prior to rates rising in the second half of the financial year. The actual movement in interest rates broadly followed the expectations in the strategy, borrowing was taken at the lower rates during the year, the full borrowing requirement was not taken due to borrowing rates being higher than investment rates.

9. Figure 2 illustrates the PWLB rates for 2010/11 including the loans borrowed by the council. This shows the council, took borrowing in the first half of the year when interest rates were lower.

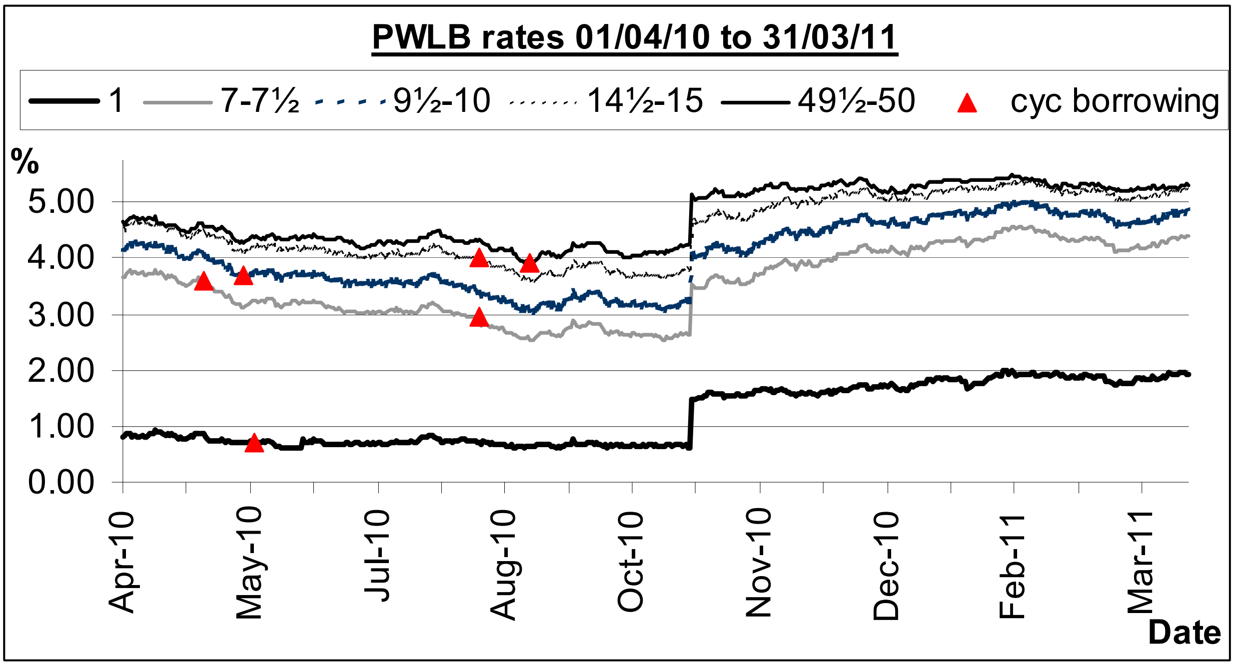

Figure 2 - PWLB rates vs. Bank of England vs. CYC borrowing level

Borrowing Outturn 2010/11

10. The Council undertakes capital expenditure on long-term assets as part of the Capital programme. The way that the capital programme is financed affects the treasury management activity of the Council, and ultimately borrowing. The prudential indicators which control the borrowing activity of the Council are contained in Annex A.

11. The councils long-term borrowing started the year at £116.4m. Table 2 shows the movement in debt during the year, the interest rates obtained on new borrowing, the average rate of the portfolio and the year of maturity.

	Date	Type	Amount £M	Interest rate	Year of Maturity
Total Borrowing 01/04/10			**116.1**	**4.52%**	
Less Loans Repaid	05/05/10	PWLB	4.0	3.85%	2010/11
	10/02/11	PWLB	3.0	0.85%	2010/11
Plus New Loans	12/05/10	LOBO	5.0	3.60%	2060/61
	25/05/10	PWLB	5.0	3.70%	2020/21
	28/05/10	MARKET	5.0	0.70%	2011/12
	12/08/10	PWLB	3.0	4.01%	2025/26
	12/08/10	PWLB	3.0	2.95%	2017/28

	31/08/10	PWLB	3.0	3.92%	2059/60
Total Borrowing 31/03/11			**133.1**	**4.20%**	

Table 2 - Movement In Long Term Borrowing 2010/11

12. All of the new borrowing decisions were taken in light of the maturity structure of the Council's current long term borrowing and the advantageous interest rates available.

13. The Council did not restructure any of its borrowing portfolio during the year as no opportunities were favourable due to the disparity in PWLB rates since November 2007 and the governments change in PWLB rates in the comprehensive spending review.

14. The overall position of the borrowing activity resulted in a fall in the average interest rate by 0.32% from 4.52% to 4.2%.

15. Figure 3 shows the average rate of CYC borrowing continues to fall and in 2009/10 was comparable to other unitary authorities and the national average. No figures as yet are available for 2010/11.

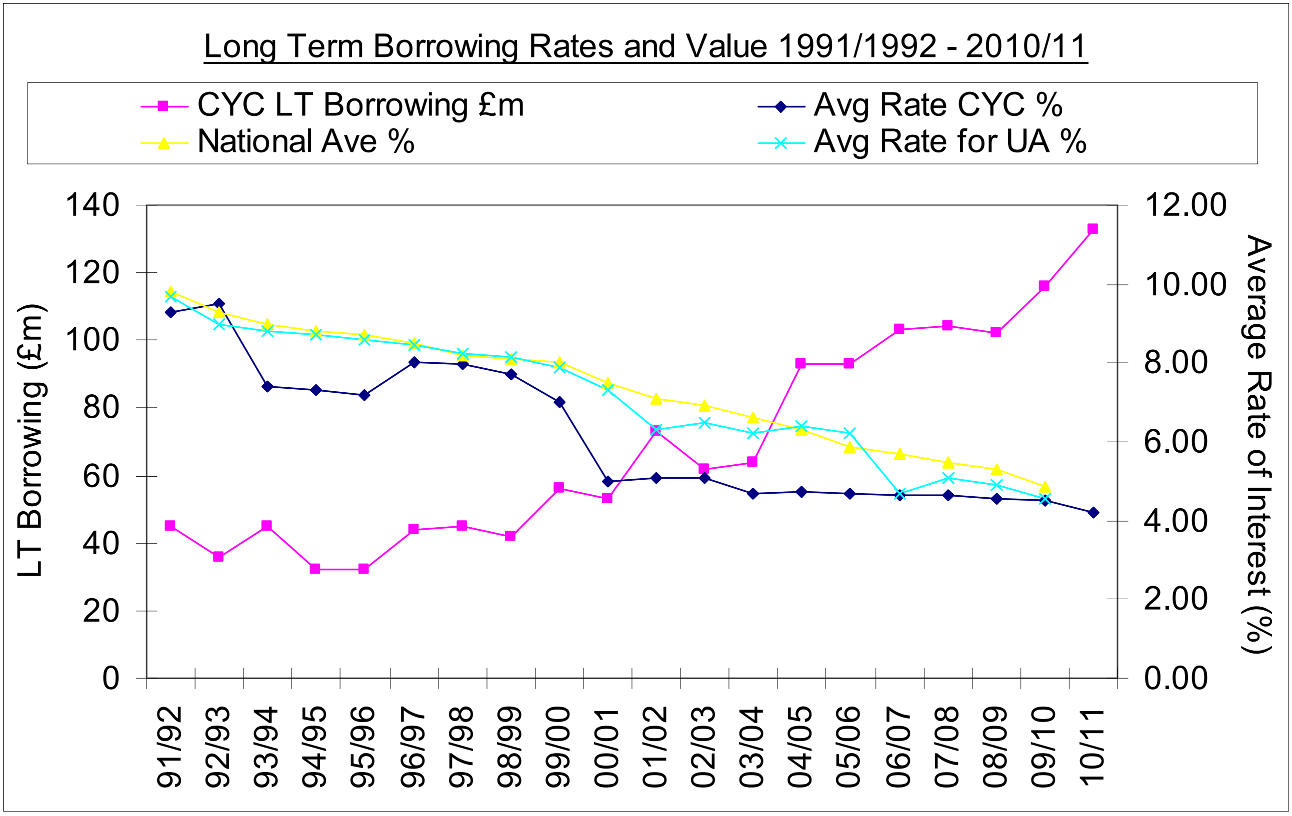

Figure 3 - CYC borrowing vs National Average vs Unitary Authority

Investment Outturn 2010/11

16. The Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 25 February 2011. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies (Fitch, Standard & Poors, Moody's) supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

17. The investment activity during the year confirmed to the approved strategy, and the Council had no liquidity difficulties

18. The Council maintained an average investment balance of £43.1m compared to £47.2m in 2009/10. The surplus funds earned an average rate of return in 2010/11 of 1.15%, compared to 2.2% in 2009/10. The rates available in 09/10 were more favourable and there were longer term investments that still held good rates in 2009/10 which no longer existed in 2010/11. The comparable performance indicator is the average 7-day LIBID rate, which was 0.43% in 2010/11 and the one month LIBID rate of 0.62%. This occurred in line with the Investment strategy that the security of capital is of prime importance.

19. Figure 4 illustrates the investment interest rates available for 2010/11 including the rate of return on investments achieved. The Council could not invest further in 1 year due to the security of the Councils surplus fund being of prime importance. The fall in the rate of return in May is the repayment of the 2 year investment with Nationwide when rates were more favourable.

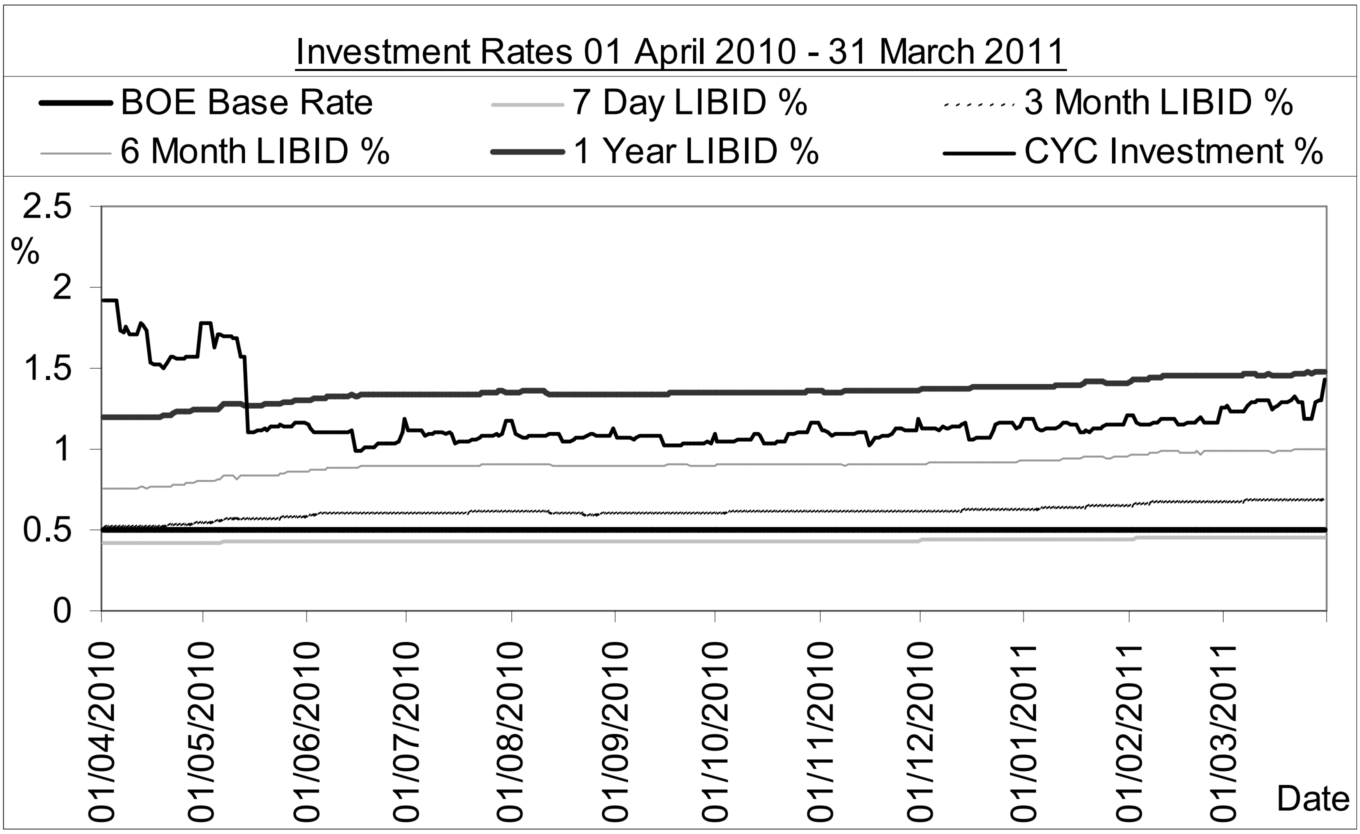

Figure 4 – Investment rates vs. Rate of Return on CYC Investments

Consultation

20. This report is for information purposes and reports on the performance of the treasury management function. Members through the budget process set the level of budget and expected performance of the Councils treasury management function.

Options / Analysis

21. In accordance with the Local Government Act 2003, it is a requirement under the CIPFA Prudential code and the CIPFA Treasury Management in Local Authorities that the Cabinet receives an annual treasury management review report of the previous year –2009/10- by 30 September the following year – 30 September 2010. It is also a requirement that the Council delegates the role of scrutiny of treasury management strategy and policies to a specified named body which in this Council is the Audit & Governance Committee. This annual treasury

management report is scheduled at Audit & Governance Committee on 28th July 2011.

Corporate Priorities

22. The council will meet its Corporate Strategy objective of "Effective Organisation" to achieve high standards by successfully and proactively managing its treasury activities. Effective treasury management is concerned with the management of the council's cash flows, it's banking, money market and capital transactions, the management of debt, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

Implications

23.

(a) **Financial** These are detailed in the body of the report

(b) **Human Resources (HR)** There are no HR implications as a result of this report

(c) **Equalities** There are no equalities implications as a result of this report

(d) **Legal** Treasury Management activities have to conform to the Local Government Act 2003, which specifies that the Council is required to adopt the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice

(e) **Crime and Disorder** There are no crime and disorder implications as a result of this report

(f) **Information Technology (IT)** There are no IT implications as a result of this report

(g) **Property** There are no property implications as a result of this report

Risk Management

24. The treasury function is a high-risk area because of the level of large money transactions that take place. As a result of this there are strict procedures set out as part of the Treasury

Management Practices statement. The scrutiny of this and other monitoring reports is carried out by Audit & Governance Committee as part of the council's system of internal control

Recommendations

25. The Cabinet, in accordance with the Local Government Act 2003 is advised to:
    (a) **Note** the 2010/11 performance of the Treasury Management activity,
    (b) **Note** the movements in the Prudential Indicators in Annex A

Contact Details

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<tr><td colspan="3">Wards Affected: All wards</td><td>All</td><td>Y</td></tr>
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Background Papers:

Cash-flow Model 2010/11 Investment Register 2010/11, PWLB Debt Register, Capital Financing Requirement 2010/11 outturn, Prudential Indicators 2010/11, CIPFA Statistics 2009/10

Annexes

Annex A: Prudential Indicators 2010/11