Agenda item No. 7

Audit Committee – 26 September 2011

Annual Report on Treasury Management 2010/11, Treasury Management Policies and Mid-Year Review 2011/12

1. Summary of report

1.1. This report sets out the treasury management annual report for 2010/11 as required by the CIPFA Code of Practice **(Appendix A),** the council's review of treasury management policies **(Appendix B)** and the 2011/12 mid-year review **(Appendix C).**

1.2. In 2010/11 Walsall council's long term borrowing increased by £20m and investments increased by £58.2m. The average rate for Walsall's borrowing excluding other local authority debt during 2010/11 was reduced from 4.6% to 4.5%. This was lower than the average rate for the IPF benchmarking group (4.9%). The average investment return during 2010/11 was 1.82%. This was higher than the average rate for the IPF benchmarking group (i.e. 1.19%). This demonstrates that Walsall's treasury management function continues to provide excellent value for money.

2. Recommendations

2.1. To note, endorse and recommend to Council, the:-

- Treasury management annual report for 2010/11 (**Appendix A**)
- Treasury Management Policies (**Appendix B**)
- Mid-year review April to August 2011 (**Appendix C**)

James T Walsh – Assistant Director, Finance
(Chief Finance Officer)
16 September 2011

3. Background information

3.1. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 was adopted by Council on 22 February 2010 and the council fully complies with its requirements.

3.2. Treasury Management is defined as:-

"The management of the local authority's investments and 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."

3.3. Primary requirements of the Code include:

- Receipt by the full Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead (this was approved by Council in February 2011), a midyear review report (**Appendix C**) and an annual report of the previous year (**Appendix A**).
- The creation and maintenance of a treasury management policy statement which sets out the policies and objectives of the council's treasury management activities (**Appendix B**)**.**
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions (See Treasury Management Policy TMP 5 page 29).
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this council is the Audit Committee.

3.4. The **Annual Report** is detailed in **Appendix A** and covers:

- The treasury management strategy
- Economic review, operational treasury management and interest rates
- Review of 2010/11 activities
- Borrowing and investments
- Comparisons with other councils
- Compliance with treasury limits
- Prudential and local indicator performance

To ensure that Walsall's treasury management activities are affordable, prudent and sustainable, prudential indicators are maintained and reviewed during the year. Details of these indicators are detailed in pages 12-13 of **Appendix A**. A set of local indicators are also maintained to provide additional assurance.

3.5 The council has a number of key policies and objectives for borrowing and investment. The policies are laid out in the treasury management policy statement attached as **Appendix B**. The objectives for borrowing are aimed at minimising the revenue cost of borrowing whilst maintaining a balanced loan portfolio. The council's objectives for investments are the prudent investment of council monies in sterling with secure institutions at the best possible rates of interest.

3.6 The treasury management policies have been updated to include staff changes relating to authorised signatories. The criteria of credit ratings around investments which must be met before an investment may be made has been further strengthened.

3.7 **Appendix C** is a mid-year review of treasury management activities and currently shows an expected under spend for the year 2011/12 of £0.396m. All local and prudential indicators are either met or exceeded.

4. Resource and Legal considerations

4.1 Financial

The treasury management policy statement is a key document for the operation, review and performance assessment of treasury management and is reviewed annually. It forms part of the council's financial framework and supports delivery of the medium term financial strategy.

4.2 **Legal**

The council is required to have regard to the Prudential Code under the duties outlined by the Local Government Act 2003. One requirement of the Prudential Code is that the council should comply with the CIPFA Code of Practice for Treasury Management. The council adopted the original treasury management code in 1992 and further revised Code in 2002 and 2010.

5. Risk and performance management issues

5.1 **Risk**

Treasury management activity takes place within a robust risk management environment, which enables the council to effectively maximise investment income and minimise interest payments without undue or inappropriate exposure to financial risk. It is recognised that the management of risk is as important as maximisation of performance and it is essential that the council has the right balance of risk and reward when making investment decisions. The treasury management policy statement seeks to manage the risk of adverse fluctuations in interest rates and safeguard the financial interests of the council. Treasury management practice 1 (TMP 1) details the risk management arrangements in place (**Appendix B).**

5.2 **Performance**

The treasury management function participates in a local and national benchmarking group which compares Walsall council's treasury management performance with those of other councils. Performance is regularly reviewed by the treasury management panel.

All of the Prudential indicators (PrIs) as at 31.03.11 were complied with.

6. Equality implications

6.1 None directly relating to this report.

7. Consultation

7.1 The report has been approved by the finance treasury management panel, an internal governance arrangement comprising the CFO, Deputy CFO and Corporate Financial Systems and Treasury Manager.

8.0 **Background papers**

- Various financial working papers
- Annual review of treasury management policy statement, and mid-year review of treasury management activities 2010/11 – Cabinet 13.10.10
- Corporate budget plan and treasury management and investment strategy 2011/12 – Council 24.02.11

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Annual Treasury Management Report
2010/11

Walsall Council

Annual Treasury Management Report 2010/11

Purpose

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).

During 2010/11 the minimum reporting requirements were the following reports:

- an annual treasury strategy in advance of the year (approved by Council 22.02.2010)
- a mid-year treasury update report (Cabinet 13.10.2010)
- an annual report following the year describing the activity compared to the strategy (this report to Audit Committee)

In addition, this council's treasury management panel has received regular treasury management update reports.

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 outturn position for treasury activities and highlights compliance with the council's policies previously approved by members.

This 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 by the Audit Committee before they were reported to the full Council.

Executive summary

During 2010/11, the council complied with its legislative and regulatory requirements. 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	2009/10 Actual £ m	2010/11 Original £ m	2010/11 Update £ m	2010/11 Actual £ m
Actual capital expenditure	91.691	60.739	109.882	57.187
Capital Financing Requirement: Including PFI and finance leases Excluding PFI and finance leases	 315.344 301.593	 298.140 273.140	 322.719 308.680	 293.247 280.841
External debt	255.886	270.976	270.976	273.328
Investments	98.403	89.002	89.002	156.635

The capital programme is updated during the year from the original approved by Council 22.02.10 because of capital slippage from 2009/10 and additional grants received during the year. The capital financing requirement for 2010/11 was updated to reflect the balance sheet position of the council as 31.03.10 which included an increase in the estimated capital provision.

Other prudential and treasury indicators are to be found in the main body of this report. The assistant director of finance also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.

The financial year 2010/11 continued the challenging environment of previous years; low investment returns and continuing counterparty risk continued. Walsall continued to be a high performing council.

Key Benchmarks	Walsall	Average of 95 councils
Average rate on borrowing	4.5%	4.9%
Average investment return	1.8%	1.2%

Introduction and background

This report summarises:

- Capital activity during the year;
- Impact of this activity on the council's underlying indebtedness (the capital financing requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying how the council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

1. The Council's Capital Expenditure and Financing 2010/11

The council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	2009/10 Actual	2010/11 Updated	2010/11 Actual
Total capital expenditure	**91.691**	**109,882**	**57,187**
Resourced by:			
• Capital receipts	5.795	4.149	1.473
• Capital grants	27.060	71.981	44.018
• Capital Reserves		0.500	
• Revenue	0.147		0.163
Unfinanced capital expenditure	**58.689**	**33.252**	**11.533**

2. The Council's overall borrowing need

The council's underlying need to borrow for capital expenditure is termed the capital financing requirement (CFR). This figure is a gauge of the council's debt position. The CFR results from the capital activity of the council and what resources have been used to pay for the capital spend. It represents the 2010/11 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The council is required to make an annual revenue charge, called the minimum revenue provision (MRP), to reduce the CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a voluntary revenue provision (VRP).

The council's 2010/11 MRP Policy (as required by CLG Guidance) was approved as part of the treasury management strategy report for 2010/11 on 22 February 2010.

The council's CFR for the year is shown below, and represents a key prudential indicator. This includes PFI and leasing schemes on the balance sheet, which increase the council's borrowing need, the CFR. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

CFR	31 March 2010 Actual £ m	31 March 2011 Actual £ m
Opening balance	**259.727**	**322.719**
Adjustment for the inclusion of on-balance sheet e.g. PFI and leasing schemes	15.000	-4.123
Add unfinanced capital expenditure (as above)	58.689	11.533
Less set aside from Revenue	-10.697	-11.516
Restatement of exceptional item		-25.366
Closing balance	**322.719**	**293.247**

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Net borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term the council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2010/11 plus the expected changes to the CFR over 2011/12 and 2012/13. This indicator allows the council some flexibility to borrow in advance of its immediate capital needs in 2010/11. The table below highlights the council's net borrowing position against the CFR excluding PFIs and Finance leases because the debt liability for these are not in the net borrowing position of the council. The council has complied with this prudential indicator.

	31 March 2010 Actual £ m	31 March 2011 Updated £ m	31 March 2011 Actual £ m
Net borrowing position	**166.630**	**181.974**	**127.904**
CFR excluding PFI & Finance leases	**301.593**	**308.680**	**280.841**

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 2010/11 the council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the council 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.

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.

	2010/11
Authorised limit	£353.047m
Maximum gross borrowing position	£273.328m
Operational boundary	£298.140m
Average gross borrowing position	£268.451m
Financing costs as a proportion of net revenue stream	9.3%

3. Prudential Indicators

Indicator		Actual	Target	Position as at	Variance to target		Met
		2009/10	2010/11	31-Mar-11			
		£'000	£'000	£'000	£'000	%	
PrI 1	Capital Expenditure (10/11 target revised due to slippage from 09/10. Target revised from £60,739 to £109,882)	43,239	109,882	**57,187**	-£52,695	-48%	Y
PrI 2	Ratio of financing costs to net revenue stream	8.88%	10.61%	**9.33%**	-1.28%	-12%	Y
PrI 3	Estimates of the incremental impact of new capital investment decisions on Council Tax	£14.73	£9.42	**£9.42**	£0.00	0%	Y
PrI 4	Capital Financing Requirement	308,680	304,380	**280,841**	-£23,539	-8%	Y
PrI 5	Authorised Limit for external debt	301,991	353,047	**353,047**	-	0%	Y
PrI 6	Operational Limit for external debt	274,537	298,140	**298,140**	-	0%	Y

Indicator		Actual	Target	Position as at	Met
		2009/10	2010/11	31-Mar-11	
		£'000	£'000	£'000	
PrI 7	Net Borrowing exceeds capital financing requirement	No	No	**No**	Y
PrI 8	Authority has adopted CIPFA Code of Practice for Treasury Management	Yes	Yes	**Yes**	Y
PrI 9	Total principle sums invested for longer than 364 days must not exceed	12,000	25,000	**23,750**	Y

Indicator		Upper Limit	Lower Limit	Actual 2009/10	Position as at 31-Mar-11	Met
Prl 10	Fixed Interest Rate Exposure	95%	40%	**92%**	**93%**	Y
Prl 11	Variable Interest Rate Exposure	45%	0%	**8%**	**7%**	Y
Prl 12	***Maturity Structure of Borrowing***					
	Under 12 months	15%	0%	**14%**	**9%**	Y
	12 months and within 24 months	20%	0%	**2%**	**13%**	Y
	24 months and within 5 years	25%	0%	**23%**	**15%**	Y
	5 years and within 10 years	50%	10%	**6%**	**17%**	Y
	10 years and above	85%	40%	**55%**	**47%**	Y

All Prudential indicators were complied with.

Capital expenditure in 2010/ 11 was £57.1m, this was 52% of the approved capital programme. Slippage and rephasing of projects totalled £50.7m and had funding in place of £20.9m from borrowing and £29.8m from external grant. This was a major reason for the high cash balances and above budget investment income.

The capital financing CFR calculation assumed £10m slippage on projects funded by borrowing.

4. Treasury Position as at 31 March 2011

The council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the council's treasury management practices. At the beginning and the end of 2010/11 the council's treasury position was as follows:

	Opening Balance £m	Average Rate	Movement in Year £m	Closing Balance £m	Average Rate
PWLB	113.367	4.7%	20.039	133.406	4.4%
Market Loans	122.000	4.7%	-	122.000	4.7%
Bonds	0.128	4.3%	-0.012	0.116	4.3%
Total excluding OLA debt	**235.495**	**4.6%**	**20.027**	**255.522**	**4.5%**
Other L A Debt	26.582	6.7%	-0.739	25.843	6.7%
Total Borrowing over 12 months	262.077		19.287	281.364	
Waste Disposal Debtor	-8.437	6.7%	0.235	-8.202	6.7%
Total Debt	**253.640**	**4.9%**	**19.522**	**273.162**	**4.7%**
CFR less PFI finance & leases	301.593			280.841	
Under Borrowing	50.877			-7.679	
Debt as % of CFR		83.3%			97.3%
Long Term Investments	- 12.000	5.1%	-11.750	-23.750	3.8%
Short Term Investments	-86.403	1.7%	-46.482	-132.885	1.6%
Total	-98.403	2.3%	-58.232	-156.635	1.9%

Note:
OLA is Other Local Authority debt – which is mainly former West Midlands County Council debt which is managed by Dudley council and recharged to Walsall.

The maturity structure of the debt portfolio was as follows:

	Approved minimum limits £m	Approved maximum limits £m	Actual 31 March 2011 £m	Actual 31 March 2010 £m
Less than 1 year	0.000	40.999	25.282	23.603
Between 1 and 2 years	0.000	54.666	35.000	36.716
Between 2 and 5 years	0.000	68.332	40.000	31.471
Between 5 and 10 years	0.273	136.664	47.000	31.471
More than 10 years	1.093	232.329	127.922	141.620
Total			**275.204**	**264.882**

Investments

At the end of 2010/11 Walsall's investment balance was £58.2m higher. The table below shows an age profile of the investments. The split of this across long term and short term investments is shown in **Table 6.**

Table 6: Changes in Investments during 2010/11

	Opening Balance £m	Average Rate	Movement in Year £m
At Call accounts	42.890	30.710	-12.180
Between 1week and 3 months	13.000	37.175	24.175
Between 3 and 12 months	30.513	78.750	48.237
Over 12 months	12.000	10.000	-2.000
Total	98.403	156.635	58.232

The reason for the increase in investments is the variability of cashflows the high capital slippage and the £20 m borrowing in advance.

In the light of continuing stresses on the world banking system, enhanced priority was given to security and liquidity in order to reduce counterparty risk to the maximum possible extent. Accordingly, some of the investment portfolio was moved into lower earning investment instruments with their lower level of counterparty risk.

In order to counter the downturn in investment rates and earnings explained above, and following information from Sector (our treasury advisors), an increased part of the investment portfolio was held in liquidity accounts with main UK banks. These accounts offered both instant access and rates which were often double those available in the money markets through brokers for overnight money and higher than for most periods up to six months.

Local Authority Money Brokers

The council speaks to five brokers on a daily basis. Of the £632m of new investments made in 2010/11, £108m was dealt through brokers (investments fixed for three months up to 364 days). See **Table 7** below.

Table 7: Brokers performance 2010/2011 at 31/3//11

		No of deals per broker	Value of Deal (£)	Interest Generated (£)	Average Interest Rate	% of deals
	Broker 1	26	39,710,000	508,253	1.55	6%
	Broker 2	23	39,500,000	586,407	1.73	6%
	Broker 3	11	14,500,000	255,795	1.85	2%
	Broker 4	6	5,500,000	71,353	1.57	1%
	Broker 5	6	9,395,000	190,707	1.91	1%
	Lloyds TSB	4	11,295,000	300,600	1.80	2%
	Bank Of Scotland	5	15,000,000	247,195	1.34	2%
Call	Alliance & Leicester	115	154,310,000	71,327	0.80	24%
Call	Barclays	152	137,570,000	68,447	0.90	22%
Call	Abbey	78	123,175,000	88,598	0.80	19%
Call	Yorkshire Bank	8	25,595,000	39,545	0.75	4%
Call	Bank Of Scotland	25	38,995,000	31,627	0.75	6%
Call	National Westminster Bank Plc	6	9,890,000	31,877	0.80	2%
Call	Royal Bank of Scotland	1	2,600,000	15,956	0.80	0%
MMF	IGNIS	1	5,000,000	822	0.75	1%
	Total No of Deals	**466**	**632,035,000**	**2,507,687.06**	**1.21%**	100%

Table 8 shows the outturn on Investment income in 2010/11. The council achieved £1.521m increase in investment income. The average investment return was 1.82% compared to a 1.25% target, and therefore was over achieved.

Table 8 Investments Interest	2010/11 Approved Cash Limit £m	Outturn at 31 March 2011 £m	Over / (under) achieved cash limit £m	% Variation
Short Term Investments - Gross Income	(0.810)	(2.158)	(1.348)	(166%)
Long Term Investments - Gross Income	(0.440)	(0.613)	(0.173)	(40%)

As interest rates have remained low throughout the year investments at a higher rate made prior to the year would have dropped out leading to a lowering of investment returns. Draft benchmarking statistics indicate Walsall has maintained a higher rate than other council's as indicated below.

	Average Rate 2009/10	Average Rate 2010/11	Reduction
Walsall average investment return	2.32%	1.82%	-0.50%
Average council benchmarked	1.85%	1.19%	-0 66%

5. The Strategy for 2010/11

The council's 2010/11 treasury management strategy noted Sectors view that there were two Economic scenario's; a slow return to world growth and a strong return to growth, a consequence of both would be a rise in the cost of borrowing.

The expectation for interest rates within the strategy for 2010/11 anticipated low but rising bank rates (starting in quarter 4 of 2011) with similar gradual rises in medium and longer term fixed interest rates over 2010/11. This has influenced the council's investment strategy, with Walsall making deposits mostly for shorter periods.

Variable or short-term rates were expected to be the cheaper form of borrowing over the period. The risks that long term gilt yields and PWLB rates will rise markedly was high particularly if the Government did not tackle the high borrowing levels and the deficit. Faced with this risk and the high capital commitments, the council took out additional borrowing of £20m in June 2010 at an average rate of 3%. PWLB rates have subsequently risen but not primarily due to market pressure but due to a 1% borrowing increase introduced as part of the new Governments budget.

6. The Economy and Interest Rates

2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on PWLB lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.

UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although the economy slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being decidedly downbeat over the short to medium term while the Japanese disasters in March, and the Arab Spring, especially the crisis in Libya, caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

The change in the UK political background was a major factor behind weaker domestic growth expectations. The new coalition Government struck an aggressive fiscal policy stance, evidenced through heavy spending cuts announced in the October Comprehensive Spending Review, and the lack of any "giveaway" in the March 2011 Budget. Although the main aim was to reduce the national debt burden to a sustainable level, the measures are also expected to act as a significant drag on growth.

Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government's debt reduction plans, especially in the light of Euro zone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures.

These were also expected (during February / March 2011) to cause the Monetary Policy Committee (MPC) to start raising the bank rate earlier than previously expected.

The developing Euro zone peripheral sovereign debt crisis caused considerable concerns in financial markets. First Greece (May), then Ireland (December), were forced to accept assistance from a combined EU / IMF rescue package. Subsequently, fears steadily grew about Portugal, although it managed to put off accepting assistance till after the year end. These worries caused international investors to seek safe havens in investing in non-Euro zone government bonds.

Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in the bank rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in the bank rate in a band from May 2011 through to early 2013. This sharp disparity was also seen in MPC voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at ultra low levels.

Risk premiums were also a constant factor in raising money market deposit rates beyond 3 months. Although market sentiment has improved, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, mean that investors remain cautious of longer-term commitment. The European Commission did try to address market concerns through a stress test of major financial institutions in July 2010. Although only a small minority of banks “failed” the test, investors were highly sceptical as to the robustness of the tests, as they also are over further tests now taking place with results due in mid-2011.

Chart 1: Bank Rate v LIBID investment rates

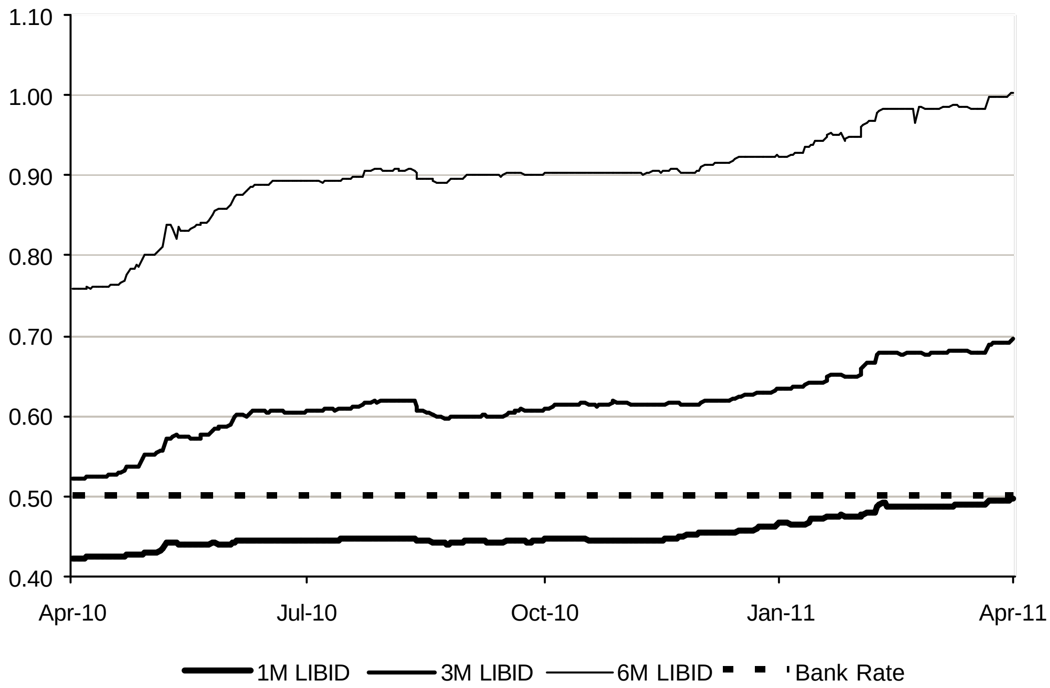
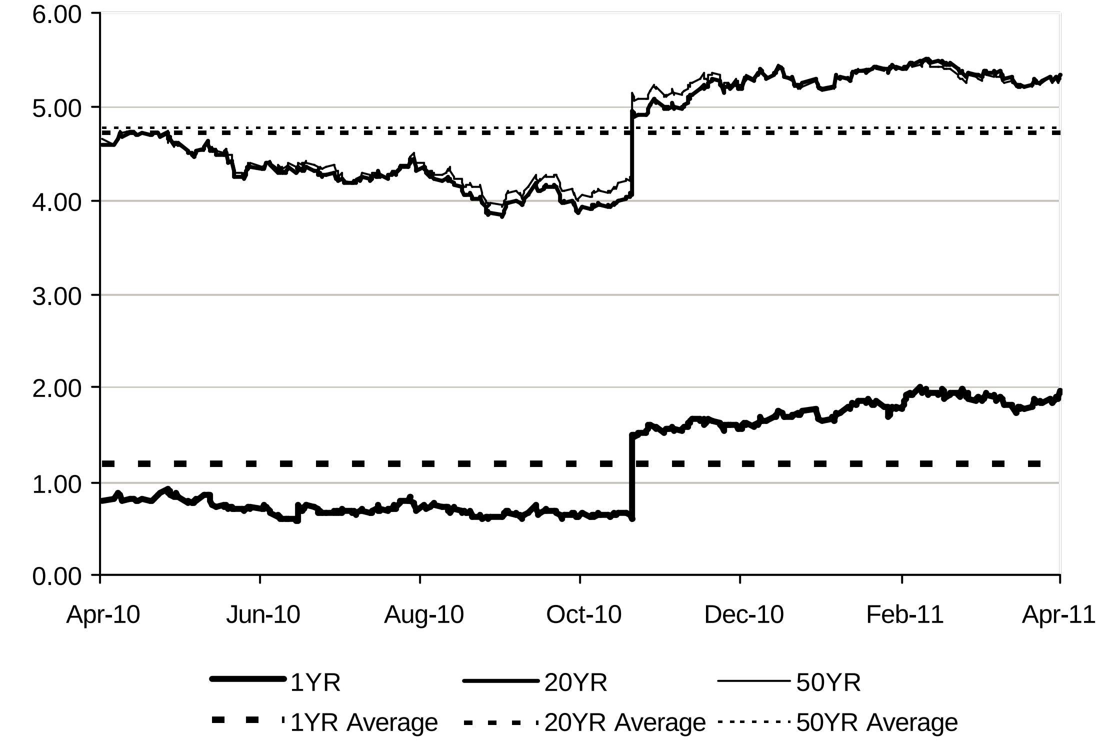


Chart 2: Average v new borrowing rates

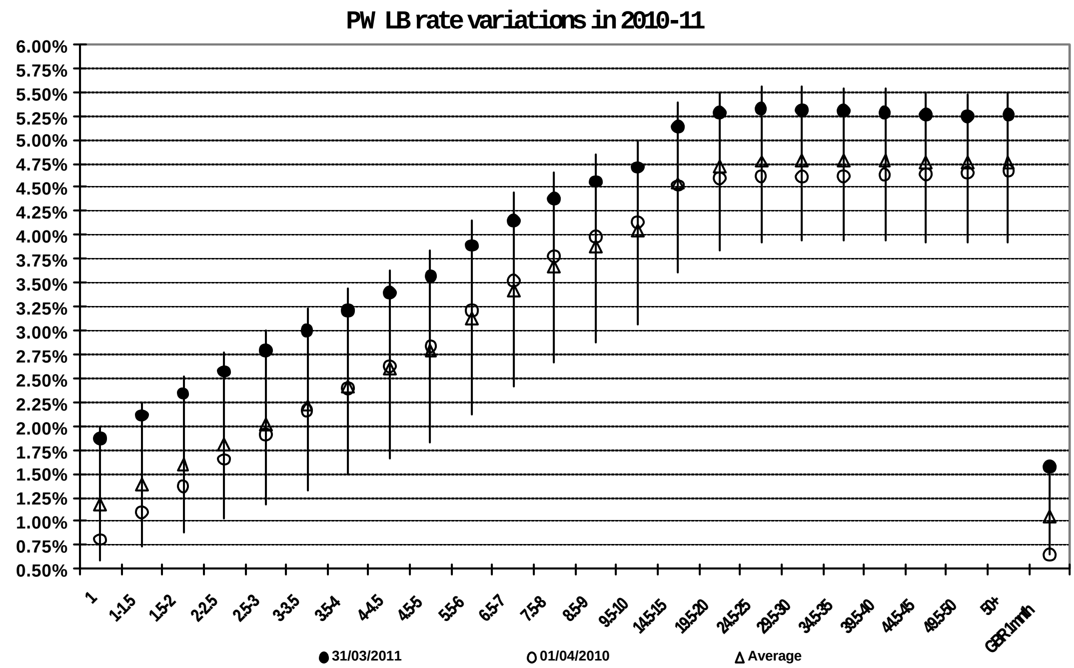


7.

Borrowing Rates in 2010/11

PWLB borrowing rates - the graph and table for PWLB maturity rates below show, for a selection of maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year.

Variations in most PWLB rates have been distorted by the October 2010 decision by the PWLB to raise it borrowing rates by about 0.75 – 0.85% e.g. if it had not been for this change, the 25 year PWLB at 31 March 2011 (5.32%) would have been only marginally higher than the position at 1 April 2010.



8. Borrowing Outturn for 2010/11

The loans drawn were:

Lender	Principal	Type	Interest Rate	Maturity	Average for 2010/11
PWLB	£10m	Fixed interest rate	2.77%	6 years	3.12%
PWLB	£10m	Fixed interest rate	3.19%%	7.5 years	3.54%

This compares with a budget assumption of borrowing at an interest rate of 4.75%. The overall position of the debt activity resulted in a fall in the average interest rate by 0.1%.

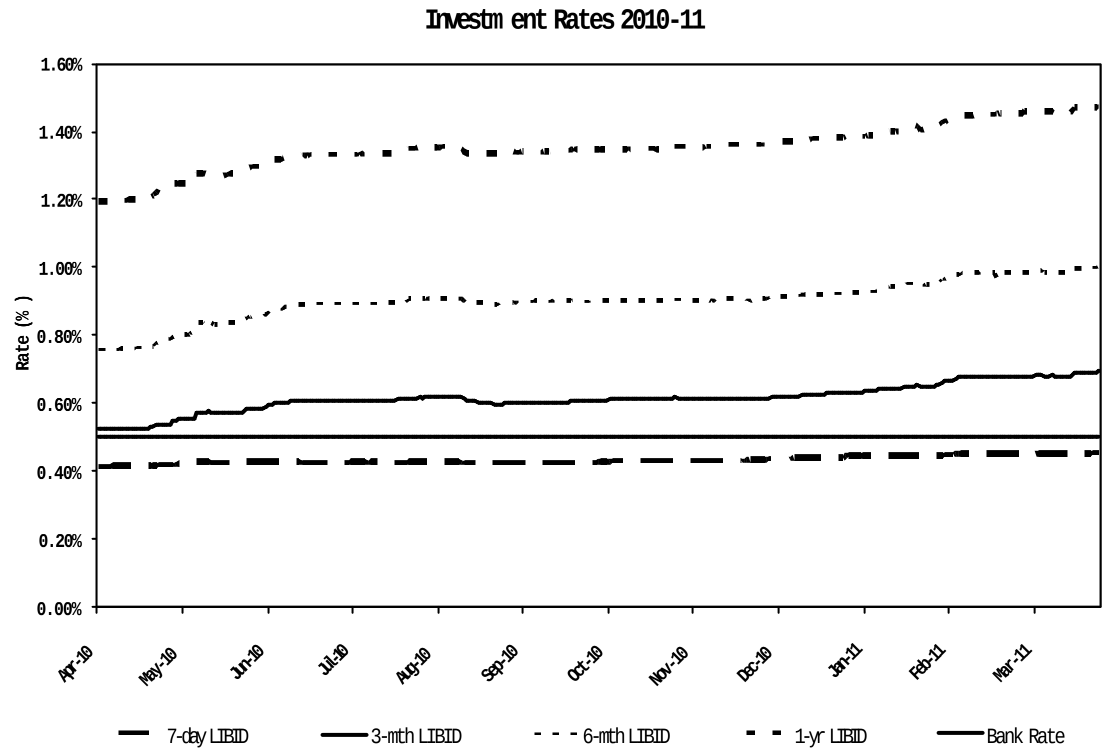
9. Investment Rates in 2010/11

The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material movement in the shorter term deposit rates. Bank Rate remained at its historical low of 0.5% throughout the year, although growing market expectations of the imminence of the start of monetary tightening saw 6 and 12 month rates picking up.

Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and latterly Portugal. Concerns extended to the European banking industry with an initial stress testing of banks failing to calm counterparty fears, resulting in a second round of testing currently in train. This highlighted the ongoing need for caution in treasury investment activity.

	Overnight	7 Day	1 Month	3 Month	6 Month	1 Year
01/04/2010	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
31/03/2011	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
High	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
Low	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
Average	0.43%	0.43%	0.45%	0.61%	0.90%	1.35%
Spread	0.03%	0.04%	0.07%	0.17%	0.24%	0.28%
High date	31/12/2010	30/03/2011	31/03/2011	31/03/2011	31/03/2011	31/03/2011
Low date	01/04/2010	01/04/2010	01/04/2010	01/04/2010	01/04/2010	01/04/2010

10. Investment Outturn for 2010/11



Investment Policy – the Council's investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by full Council on 22.02.2010. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented

The investment activity during the year conformed to the approved strategy, and the council had no liquidity difficulties.

Resources – the council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations.

Investments held by the council - the council maintained an average balance of £159m of internally managed funds. The internally managed funds earned an average rate of return of 1.82%. The comparable performance indicator is the average 7-day LIBID rate which was 0.435%.

11. Performance Measurement

One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide *(as incorporated in the table in section 3).* The council's performance indicators were set out in the annual treasury strategy.

This service has set the following local performance indicators.

Indicator		Actual 2009/10 £'000	Target 2010/11 £'000	Position as at 31-Mar-11 %	Variance to target %	Met
L1	Full compliance with prudential code	Yes	Yes	**Yes**		Y
L2	Average length of debt	17.99	20 to 25 years	**17**		Y
L3	Ratio of unsupported financing costs to net revenue stream	1.13%	2.40%	**1.09%**	-1.31%	Y
L4	Net actual debt vs. operational debt	93%	93%	**91%**	-2%	Y
L5	Average interest rate of external debt outstanding including OLA	4.85%	4.85%	**4.69%**	-0.16%	Y
	Average interest rate of external debt outstanding excluding OLA	4.63%	4.70%	**4.55%**	-0.15%	Y
L6	Gearing effect of 1% increase in interest rate	2.73%	5.00%	**1.94%**	-3.06%	Y
L7	Average interest rate received on STI vs. 7 day LIBID rate	0.81%	0.10%	**1.47%**	1.37%	Y
L8	Average interest rate received on short term investments	1.71%	1.00%	**1.90%**	0.90%	Y
L9	Average interest rate received on all investments	2.31%	1.25%	**1.82%**	0.57%	Y
L10	% daily bank balances within target range	97%	98%	**99.00%**	1.00%	Y

The council participates in CIPFA and West Midlands benchmarking clubs. The two key indictors are return on investments and average rate paid on borrowing. In a group of 95 councils Walsall had a return on investments of 1.8% compared to group average of 1.2%. For borrowing Walsall's average rate is 4.5% compared to the group average of 4.9%. The full statistics document is available on request.

APPENDIX B

TREASURY MANAGEMENT POLICY STATEMENT

The CIPFA Code recommends that authorities should:

i. Put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

ii. Policies and practices should make clear that the effective management of risk, having regard to return, is a prime objective of the treasury management activities.

iii. Acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, the treasury management policies and practices should reflect this.

In order to do this, the council should once again adopt a treasury management policy statement as shown below and create and adopt treasury management practices (TMPs):

- A treasury management policy statement, stating policies and objectives of its treasury management activities.
- Suitable TMPs, setting out the manner in which the council will seek to achieve those policies and objectives, prescribing how the council will manage and control those activities.
- The contents of the policy statement and TMPs will follow the recommendations contained in section 6 and 7 of the Code, subject only to amendment where necessary to reflect this council's particular circumstances.

There are amendments to the responsible posts under delegated powers, which reflect changes to the staffing structure of the finance service.

THE TREASURY MANAGEMENT PRACTICES 2011/12 ONWARDS

Walsall Council defines its treasury management activities as:
"The management of the organisation'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."

Walsall Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

Walsall Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principle of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

TREASURY MANAGEMENT FUNCTION

The approved activities of the treasury management function are as follows:

Activities:

- Borrowing
- Investment of temporary surplus funds and other balances
- Setting and reviewing the treasury management strategy
- Cash flow management
- Management of school investments
- Management of debt and investments, including rescheduling, management of interest rate exposure and maturity profile management.

TMP 1 – TREASURY RISK MANAGEMENT

The Section 151 Officer (CFO) shall:

- Ensure that appropriate arrangements are in place for the design, implementation and monitoring of all arrangements related to the identification, management and control of treasury management risk.
- Report at least annually on the adequacy/suitability thereof, and report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the council's objectives in this respect.
- In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives will be set out in schedules.

Liquidity

<u>Objective</u>: Adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable the council at all times to have the level of funds available which are necessary for the achievement of its service objectives.

Interest Rates

<u>Objective:</u> Management of the council's exposure to fluctuations in interest rates with a view to containment of its net interest costs.

Exchange Rates Objective: Management of the council's exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.
Inflation Objective: Control of exposure to the effects of inflation, in so far as they can be identified as impacting on treasury management activities.
Credit and Counterparties Objective: To secure the principal sums invested. A counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with whom funds may be deposited
Rescheduling & Refinancing of Debt Objective: All borrowing, private financing and partnership arrangements will be negotiated, structured and documented. The maturity profile of debt will be managed with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time. Relationships with counterparties in these transactions will be managed in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.
Legal and Regulatory Objective: Compliance with statutory powers and regulatory requirements for all treasury management activities. The council will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under **TMP1.1.5** *Credit and Counterparty risk management,* the council will ensure that there is evidence of counterparties powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged. The council will seek to minimise the impact of future legislative or regulatory changes on its treasury management activities so far as it is reasonably able to do so.
Fraud, Error and Corruption, and Contingency Management Objective: Identification of circumstances which may expose the council to the risk of loss through fraud, corruption or other eventualities in its treasury management dealings. Employ suitable systems and procedures and maintain effective contingency management arrangements.
Market Risk Objective: Protection from adverse market fluctuations in the value of the principal sums invested.
Additional Level Risk / Reward Objective: - to ensure that the risk/ reward balance is appropriate and consistent with the risk appetite of the council the following aims are managed:- ▪ to have a large proportion of debt on fixed rates to provide stability. ▪ to have investments over a range of period lengths ▪ to use UK highly rated banks or strong building societies ▪ to obtain a fair return without any undue risk. A high risk credit rating is defined as Banks/Institutions with a national credit rating of > 1.
Credit and Counterparty Risk Management The Financial Systems and Treasury Manager will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the

organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods And Techniques. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Policy on the use of credit risk analysis techniques.

a. The council will use credit criteria in order to select creditworthy counterparties for placing investments with.

b. Credit ratings will be used as supplied from rating agencies – Fitch and Moodys.

c. Treasury management advisors will provide regular updates of changes to all ratings relevant to the council.

d. The Financial Systems and Treasury Manager as responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits. The primary credit ratings Primary Credit Rating Scales for Fitch and Moody's which are used are shown below.

Minimum ratings	Fitch	Moodys
Short term	F1 or F2	P1 or P2
Long term	A	A

e. Credit ratings for individual counterparties can change at any time. The Financial Systems and Treasury Manager is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on the criteria for selection of counterparties, and with the approval of the Financial Systems and Treasury Manager.

f. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

- The quality financial press
- Market data
- Information on government support for banks and the credit ratings of that government support
- The maximum maturity periods and amounts to be placed in different types of investment instrument are as follows: -

Organisation	Criteria	Max Amount	Max Period
Banks and Nationwide Building Society.	Minimum Ratings as defined above in paragraph d above. At Call Fixed term deposits	£15m £10m	3 years
Building Societies	Must be at least in the top 10 largest Building Society or be in the top 20 in terms of proportion of free capital and profitability.	£5m	2 years
Money Market Funds	AAA long-term rating backed up with lowest volatility rating (MR1+)	£15m	2 years
Non UK Banks	Minimum Ratings as defined above in paragraph d.	£10m	1 year

Notes

- The definition of 'high credit quality' is also used to determine what are specified investments as opposed to non specified investments. Specified investments are those that require minimum procedural formalities in terms of the placing of the investment by the treasury management team. Minimal procedural formalities means that the team is well experienced and knowledgeable in using these types of instruments and they pose minimal risk in their use.
- Full Individual Listings of Counterparties and Counterparty Limits is available on request and reported regularly to the Treasury Management Panel.

TMP 2 – BEST VALUE AND PERFORMANCE MEASUREMENT

The council actively works to promote value for money and best value in its treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement. In addition annual benchmarking is undertaken to measure performance and to ensure that relative to other councils the council is achieving a fair investment return without any undue risk.

TMP 3 – DECISION- MAKING AND ANALYSIS

Full records will be maintained of treasury management decisions, and of the processes and practices applied in reaching those decisions, to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

TMP 4 – APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Only approved instruments, methods and techniques will be used, within the limits defined in **TMP1** *Risk Management.*

Sources of Borrowing
There shall be no restriction in principle on sources or methods of borrowing other than those imposed by law. The sources or methods of borrowing at any time will be determined by the current approved treasury management strategy.

Other Sources of Finance
The Assistant Director of Finance (Chief Finance Officer) shall arrange operating leases and similar arrangements for items of equipment, vehicles, etc. where the acquisition or use of such items has been approved in line with the council's contract and procedure rules.

Approved Organisations for Investments
The Assistant Director of Finance shall approve and revise from time to time, a list of organisations within the statutory definitions of approved investments, which would be eligible to receive investments from the council. Apart from the Government, and, in any emergency, the council's own bank, the maximum limit for investment with any single organisation shall be £15 million (£25 million for UK banks approved on counterparty list) and £5 million and the maximum period for investment shall be 3 months, 1 year or 3 years in accordance with each individual institution's credibility. This review should be at least monthly and incorporate any changes in ratings of counter parties.

Interest Rate Exposure
The limits on temporary borrowing and the proportion of interest at variable rates are set by Council, in accordance with Section 45 of the Local Government & Housing Act 1989.

TMP 5 – ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

Treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions and audit of the treasury management function.

If and when the council intends, due to a lack of resources or other circumstance, to depart from these principles, the section 151 Officer will ensure that the reasons are properly reported in accordance with **TMP6** *Reporting Requirements & Management Information Arrangements* and the implications properly considered and evaluated.

- The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover.
- The Section 151 Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the Section 151 Officer in respect of treasury management are set out in the Constitution. The Section 151 Officer will fulfil all such responsibilities in accordance with the Policy Statement and TMPs and the Standard of Professional Practice on Treasury Management. This includes, but not exclusively, the following activity.

Activity	Prepared By	Delegation / Accountability
Approval of Treasury Management Policy and Strategy.	Head of Finance / Assistant Director of Finance	Cabinet - Policy Statement Council - Strategy
Review the debt portfolio and reschedule loans when considered appropriate	Corporate Financial Systems and Treasury Manager	Assistant Director of Finance / Head of Finance
Undertake budget monitoring and initiate actions when necessary	Corporate Financial Systems and Treasury Manager	Head of Finance
Authorisation of loan interest payments	Accountancy Assistant – Treasury Management	Senior Accountancy Officer - Treasury
Approval of overnight investments	Accountancy Assistant – Treasury Management	Senior Accountancy Officer - Treasury
Preparation of borrowings documentation	Accountancy Assistant – Treasury Management	Senior Accountancy Officer - Treasury
To arrange borrowing from time to time for the council's purposes. Sources of funds will comprise temporary loans, loans from PWLB, other mortgages and bonds, money bills, bank overdraft and internal funds of the council, subject to any restrictions which may be made by statute, Council or Cabinet	Corporate Financial Systems and Treasury Manager	Assistant Director of Finance / Head of Finance
To arrange finance and operating leases as required in accordance with council's capital programme	Corporate Financial Systems and Treasury Manager	Assistant Director of Finance / Head of Finance
To invest council funds temporarily not required in accordance with the statutory provisions regulating approved investments as defined in Section 66 of the Local Government and Housing Act 1989, subject to any restrictions which may be made by statute, by Council or by cabinet	Accountancy Assistant – Treasury Management	Senior Accountancy Officer - Treasury

To maintain a counter party list of approved organisations eligible to receive council investments, this involves; - ongoing monitoring of ratings on investment products and institutions. - signing off by the treasury manager as evidence of a monthly review and mid month changes if necessary. - if ratings change for an investment product or institution currently held then actions for a possible exit of that strategy are undertaken as approved by the Treasury Management Panel	Senior Accountancy Officer - Treasury	Corporate Financial Systems and Treasury Manager Corporate Financial Systems and Treasury Manager Corporate Financial Systems and Treasury Manager Corporate Financial Systems and Treasury Manager and / or Assistant Director of Finance / Head of Finance dependent on limits set by TMP of exit strategy
Daily cash flow forecast	Accountancy Assistant – Treasury Management	Senior Accountancy Officer - Treasury
Update loan records	Accountancy Assistant – Treasury Management	Senior Accountancy Officer - Treasury
Maintain accurate up to date information on Treasury Management System - Logotech	Accountancy Assistant – Treasury Management	Senior Accountancy Officer - Treasury

RESERVE POWERS

Any powers available to officers under these financial regulations may at any time be exercised by the Chief Executive or a member of the Corporate Management Team, except where otherwise provided.

Officers authorised to sign cheques requiring manual signature and to sign other financial documents:

James T. Walsh	Assistant Director of Finance and CFO
Vicky Buckley	Head of Finance and Deputy CFO
Stephanie Simcox	Service Accounting and Training Manager
Michael Tomlinson	Corporate Financial Systems and Treasury Manager
Dan Mortiboys	Service Accounting and Financial Reporting Manager
Stuart Wootton	Finance Manager
Lloyd Haynes	Finance Manager
CMT	Chief Executive / Executive Directors
Tracy Evans	Lead Accountant
Chris Knowles	Lead Accountant
Richard Walley	Lead Accountant
Bev Fencott	Financial Administration and Support Service Manager

To release money transfer system payments only :	
Robert Page	Senior Accountancy Officer – Financial Reporting
Karen Griffin	Senior Accountancy Officer – Grants
Jennie Collier	Senior Accountancy Officer
Pauline Foster	Senior Accountancy Officer
Emma Brown	Senior Accountancy Officer
Mohammed Irfan	Senior Accountancy Officer
Neil Kingston	Senior Accountancy Officer
Susan Letts	Senior Accountancy Officer
Peter Chappell	Senior Accountancy Officer

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Regular reports will be prepared for consideration by Council on:

- Annual report on treasury management activities for the preceding year;
- Treasury management strategy for the year, reviewed at least once during the year;

Regular monitoring reports on prudential and local indicators are prepared for the Treasury Management Panel.

Report	Frequency	When	To:
Review of Treasury Management Strategy Material changes	Annual Immediately	February/ March	Cabinet and Council Cabinet and Council
Treasury Management Annual Report	Annual	June / July	Audit Committee and Council
Review of Treasury Management Policy and Mid year reports	Annual	September / October	Audit Committee and Council
TM budget monitoring	Quarterly Monthly	July, Oct, Jan, April	Assistant Director of Finance Treasury Management Panel Head of Finance for inclusion in overall corporate financial monitoring reports to CMT and cabinet which are first reviewed by the CFO
TM performance indicators	Quarterly Monthly	July, Oct, Jan, April	Assistant Director of Finance Treasury Management Panel Head of Finance
Cash flow summary	Monthly		Corporate Financial Systems and Treasury Manager
Borrowing transactions	Monthly		Corporate Financial Systems and Treasury Manager
Government statistical returns	Monthly		Office of the Deputy Prime Minister
Daily cash balance	Daily		Senior Accountancy Officer -

forecast			Treasury

TMP 7 – BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS
The Section 151 Officer will prepare for Cabinet, and full Council will approve and, if necessary from time to time, will amend, an annual treasury management budget which will bring together all costs involved in running the treasury management function and associated income.
The council will account for its treasury management activities in accordance with appropriate accounting practices, standards and statutory and regulatory requirements.
The council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.
In line with market convention loans office staff, when dealing, are required to commit the council to terms of borrowing and investment transactions by telephone. Although these transactions are not legally binding until confirmed in writing, if subsequently dishonoured, this may damage the council's reputation. Electronic funds transfer requires the involvement of three officers, at least one of whom shall be on the approved list in **TMP 5.**
TMP 8 – CASH AND CASH FLOW MANAGEMENT
All council monies shall be aggregated for treasury management purposes and will be under the control of the Section 151 Officer. Cash flow projections will be prepared on a regular and timely basis and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with **TMP1** *Liquidity risk management.*
TMP 9 – MONEY LAUNDERING
Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this area are properly trained.
TMP 10 – STAFF TRAINING AND QUALIFICATIONS
The council will appoint individuals to the treasury management function who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The council's treasury manager will be CCAB qualified. An annual review of staff capacity including training needs and experience will be undertaken and reported to the Treasury Management Panel.
TMP 11 – USE OF EXTERNAL SERVICE PROVIDERS
When external service providers are employed, the Section 151 Officer will ensure it does so for reasons which have been subjected to a full evaluation of the costs and benefits. The terms of appointment and the methods by which service providers' value will be assessed will be properly agreed and documented. The council does not currently require external investment managers, but recognises it may do so in the future for general or specific advice on a range of matters. These future services would be procured using the council's prevailing regulations relating to obtaining supplies and services. The council employs external treasury advisors to provide economic outlooks and information relevant to making robust investment and borrowing decisions.
TMP 12 – CORPORATE GOVERNANCE
This authority is committed to the pursuit and achievement of proper corporate governance throughout its business and services and to establish principles and practices by which this can be achieved. Accordingly the treasury management function and its activities will be

undertaken with openness and transparency, honesty, integrity and accountability.

The council has adopted and has implemented the key recommendations of the CIPFA Code. The Section 151 Officer will monitor and when necessary, report upon the effectiveness of these arrangements to Audit Committee.

A forum for the monitoring of Governance arrangements is the Treasury Management Panel. The Treasury Management Panel meets quarterly chaired by the Chief Finance Officer or (in his absence) the deputy Chief Finance Officer. It will receive reports on the monitoring of Prudential and Local Indicators and approve drafts of strategy and policy cabinet/council reports. It will also initiate work and projects to further ensure strong compliance of internal controls and effective treasury performance.

APPENDIX C

MID YEAR REVIEW OF TREASURY MANAGEMENT ACTIVITY FOR 2011/12

1 Background

1.1 The authority's current treasury management and investment strategy approved by Council on 24 February 2011 noted that Walsall council has a successful track record of effective treasury management, securing low cost borrowing to fund capital investment. The primary aim is to continue to do so within the requirements of the prevailing policies and codes of practice. Such that:-

- All borrowing and/or investment activity will be carried out in accordance with the approved treasury management strategy and treasury policy statements and within approved prudential indicators, having the highest regard for prudence, affordability and sustainability in the longer term.

- Appropriate use will be made of the Code for capital investment within approved prudential indicators and subject to medium term affordability.

2 Economic Review, Operational TM Strategy and Interest Rates

2.1 A review of treasury management activities should be undertaken with an understanding of the economic climate for the year. The key economic forecasts for the council are shown in Table 1 below.

Table 1: Key Economic Forecasts						
Forecast Date	**2011/12**		**2012/13**		**2013/14**	
	Now	**March 2012**	**Sept 2012**	**March 2013**	**Sept 2013**	**March 2014**
Bank base rate	0.5 %	0.5 %	0.5 %	1.0 %	1.5%	2.25%
10 year PWLB	3.75 %	4.1 %	4.4 %	4.6 %	4.8%	5.0%
25 year PWLB	4.9 %	5.1 %	5.1 %	5.2 %	5.4%	5.5%
50 year PWLB	4.95 %	5.1 %	5.1 %	5.2 %	5.4%	5.5%

2.2 The general trend beyond the next twelve months of gently rising gilt yields and PWLB rates is expected to remain unchanged as market fundamentals will focus on the sheer volume of UK gilt issuance (and also US Treasury issuance) and the price of those new debt issues. Negative (or positive) developments in the EU sovereign debt crisis could significantly impact current safe haven flows of investor money into UK and US bonds and produce shorter term movements away from our central forecasts. Sector's latest revised forecasts have had to build in the recent renewal of the EU sovereign debt crisis which has depressed gilt yields.

3 Review of 2009/10 Mid year activities

3.1 Table 2 shows borrowing and investments administered as at 31 March 2011 and 31 August 2011. It shows that net borrowing has decreased by £16.1m.

Table 2: Borrowing and Investments			
	Borrowing £ m	Investments £ m	Net Borrowing £ m
31 March 2011	273.162	- 156.635	116.527
31 August 2011	273.577	- 173.155	100.422
Change in year	0.415	16.520	- 16.105

3.2. Table 3 below shows a predicted revenue under spend for capital financing of £0.396m for 2010/11. If the opportunity arises for a prudent repayment of borrowing in 20010/11 which would generate significant on-going savings, then some of the £0.396m may be used this year to fund any premium charged on this repayment.

3.3. The main reasons for the under spend is due to the higher than forecast cash balance available for investment which is due to the capital slippage from 20010/11. The mid year cash position is usually between 10 to 20% higher than the year end position. Treasury management is currently forecasting an under spend of £0.396m for 2011/12.

Table 3: Summary of Capital Financing Revenue Outturn position August 2011				
Service Area	**2011/12 Approved Cash Limit £m**	**Forecast Outturn as at Aug £m**	**Saving on cash limit £m**	**% Variation**
Capital financing - MRP	12.133	12.133	-	0.0%
Capital financing - Interest	11.690	11.682	Cr 0.009	Cr 0.1%
Capital financing - Premium, Discounts and Recoveries	Cr 0.189	Cr 0.189	-	0.0%
Net Investments	Cr 1.568	Cr 1.990	Cr 0.422	Cr 26.9%
Other local authority debt	1.963	2.013	0.050	2.5%
Other Treasury Costs	0.087	0.073	Cr 0.014	Cr 15.9%
Total capital Financing	**24.116**	**23.722**	**Cr 0.394**	**Cr 1.6%**
Birmingham airport and Mortgages	Cr 0.148	Cr 0.150	Cr 0.002	Cr 1.5%
Grand Total	**23.968**	**23.572**	**0.396**	**Cr 1.6%**

4. Compliance with Treasury Limits

4.1 During the financial year the council operated within treasury limits and statutory Prudential Indicators set out in the council's annual treasury strategy report. The outturn for the Prudential Indicators are shown in the Tables below:-

Prudential Indicators

Indicator		Actual 2010/11 £'000	Target 2011/12 £'000	Position as at 31-Aug 11 £'000	Variance to target £'000	Variance to target %	Met
PrI 1	Capital Expenditure (11/12 target revised due to slippage from 10/11. Target revised from £55,448 to £109,882) NB. Exp shown is at 31st July 11	57,187	109,882	**92,361**	-17,521	-16%	Y
PrI 2	Ratio of financing costs to net revenue stream	9.33%	9.70%	**9.46%**	-0.24%	-2%	Y
PrI 3	Estimates of the incremental impact of new capital investment decisions on Council Tax	£9.42	£10.66	**£10.66**	£0.00	0%	Y
PrI 4	Capital Financing Requirement	280,841	326,255	**326,255**	-	0%	Y
PrI 5	Authorised Limit for external debt	353,047	373,730	**373,730**	-	0%	Y
PrI 6	Operational Limit for external debt	298,140	315,044	**315,044**	-	0%	Y

Indicator		Actual 2010/11 £'000	Target 2011/12 £'000	Position as at 31-Aug-11 £'000	Met
PrI 7	Net Borrowing exceeds capital financing requirement	No	No	**No**	Y
PrI 8	Authority has adopted CIPFA Code of Practice for Treasury Management	Yes	Yes	**Yes**	Y
PrI 9	Total principle sums invested for longer than 364 days must not exceed	12,000	25,000	**20,000**	Y

Indicator		Upper Limit	Lower Limit	Actual 2010/11	Position as at 31-Aug-11	Met
Prl 10	Fixed Interest Rate Exposure	95%	40%	**93%**	**93%**	Y
Prl 11	Variable Interest Rate Exposure	45%	0%	**7%**	**7%**	Y
Prl 12	***Maturity Structure of Borrowing***					
	Under 12 months	25%	0%	**9%**	**18%**	Y
	12 months and within 24 months	25%	0%	**13%**	**7%**	Y
	24 months and within 5 years	25%	0%	**15%**	**21%**	Y
	5 years and within 10 years	50%	10%	**17%**	**7%**	Y
	10 years and above	85%	40%	**47%**	**47%**	Y

5. Performance Measurement

The table below shows performance from April to August 2011 performance measured against locally set indicators.

Indicator		Target 2011/12 £'000	Position as at 31-Aug-11 %	Variance to target %	MET
L1	Full compliance with prudential code	Yes	**Yes**		
L2	Average length of debt	15 to 25 years	**16**		
L3	Net borrowing costs as % of net budget	4.00%	**3.70%**	-0.30%	Y
L4	Net actual debt vs operational debt	90.0%	**86%**	-4.0%	Y
L5	Average interest rate of external debt outstanding including OLA	4.73%	**4.68%**	-0.05%	Y
	Average interest rate of external debt outstanding excluding OLA	4.54%	**4.54%**	0.00%	Y
L6	Gearing effect of 1% increase in interest rate	5.00%	**3.80%**	-1.20%	Y
L7	Average interest rate received on STI vs 7 day LIBID rate	0.50%	**1.18%**	0.68%	Y
L8	Average interest rate received on short term investments	1.50%	**1.65%**	0.15%	Y
L9	Average interest rate received on all investments	1.70%	**1.87%**	0.17%	Y
L10	% daily bank balances within target range	98%	**100.00%**	2.00%	Y

EXPLANATION OF TECHNICAL TERMS

TERM	DEFINITION
Authorised Limit	Level of debt set by the council that must not be exceeded.
Bond	A government or public company's document undertaking to repay borrowed money usually with a fixed rate of interest.
Borrowing	Obtaining money for temporary use that has to be repaid.
Cash flow Management	The management of the authority's receipts and payments to ensure the authority can meet its financial obligations.
Counter party limits	Maximum amount that the council may lend to other institutions will vary according to size and credit rating of other intuitions.
Dividends	Sum to be payable as interest on loan.
ECB	European Central Bank
Investments	The employment of money with the aim of receiving a return.
LIBID	London inter banking bid rate
LOBO	Lenders Option Borrowers Option. A type of loan arrangement.
Liquidity	How easily an asset including investments may be converted to cash.
Long Term Borrowing	Borrowing of money for a term greater than one year.
Long Term Liabilities	Amounts owed by the council greater than 12 months old.
Market convention	The rules and regulations by which all brokers and dealers should abide by. It includes standards of practice and calculation conventions for interest. They are defined in the London Code of Conduct ("The London Code") published by the Bank of England.
MPC	Monetary Policy Committee – group that sets the bank base rate for the Bank of England
Non specified investments	Investments with a maturity exceeding a year
Operational Boundary	An indicator of the level day the authority expects during day to day treasury management activities
Other Local Authority Debt	Debt that is owed by one local authority to another local authority.
PFI	Private Finance Initiative
PWLB	Public Works Loan Board, a central government body providing loans to councils.
Prudential Code	A framework of policies and working practices to ensure that local authorities' capital investment plans are affordable, prudent and sustainable.
Short Term Borrowing	Borrowing of money for a term of up to 364 days.
Stock	Subscribed capital of trading company, or public debt of nation, municipal corporation etc regarded as transferable property
Temporary borrowing	Borrowing of money for a term of up to 364 days.
Treasury management	The management of the local authority's cash flows, its borrowings and its investments, the management of associated risks, and the pursuit of the optimum performance or return consistent with those risks.
Treasury Policy Statement	A statement of key policies that an organisation follows in pursuit of effective treasury management, including borrowing limits and strategy.
Variable debt	This is money that has been borrowed at a variable interest rate, and as such is subject to interest rate changes.
Unsupported borrowing	Borrowing taken through the remit of the Prudential Code for which the council will not receive any government funding and will fund from own resources.