

Audit Committee – 12 November 2012

Treasury Management Mid-year Position Statement 2012/13.

1. Summary of report

- 1.1. This report provides a mid-year position statement for treasury management activities.
- 1.2. Excluding the costs of debt rescheduling, and prior to transfer to reserves, current monitoring shows a forecast under spend for 2012/13 of £1.966m. After transfer of windfall income and transfers to reserves, the position is expected to be broadly in line with budget. Prudential indicators are either met or exceeded. The local indicators relating to average cost of borrowing has reduced but is slightly above target. Opportunities for rescheduling of debt are being monitored.

2. Recommendations

- 2.1. To note and endorse the mid-year position statement April to September 2012.
- 2.2. To forward the mid-year position statement to Council for noting.



**James T Walsh – Assistant Director, Finance
(Chief Finance Officer)
31 October 2012**

3. Background information

1 Strategy

- 1.1 The authority's current treasury management and investment strategy approved by Council on 23 February 2012 noted that Walsall council has a successful track record of effective treasury management, by 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.

2 Treasury Management Annual Report 2011/12 and Training

- 2.1 The Treasury Management Annual Report 2011/12 has been reviewed and approved by the Treasury Management Panel. It will be circulated to all councillors along with an invitation to a treasury management briefing. The Annual Report will be presented to the next meeting of Audit Committee along with a review of Treasury Management Policies.

3 Review of 2012/13 Mid-year activities

3.1 **Table 1** shows borrowing and investments administered as at 31 March 2012 and 30 September 2012. It shows that net borrowing has decreased slightly by £2.292m.

Table 1: Borrowing and Investments			
	Borrowing £ m	Investments £ m	Net Borrowing £ m
31 March 2012	263.777	Cr 136.380	127.397
30 September 2012	264.420	Cr 139.315	125.105
Change in year	0.643	Cr 2.935	- 2.292

3.2. **Table 2** shows a predicted revenue under spend for capital financing of £1.966m for 2012/13. This includes windfall income of £0.266m relating to the dividend from Airport shares. This under spend may increase following the full review of the MRP policy which is being undertaken, taking into account financial pressures arising from the forthcoming financial settlement and prudence. Furthermore, if the opportunity arises for a prudent repayment of borrowing in 2012/13 which would generate significant on-going savings, then some of the £1.966m may be used to fund any premium charged on this repayment. Following this, the balance of the underspend will be transferred to the commutation reserve, which is used to manage the risk of interest rate and investment return fluctuations; and provide funds for future rescheduling of debt over a five year period.

Treasury Activity Heading	2012/13 Approved Cash Limit £m	Forecast Outturn as at Sept £m	Saving on cash limit £m	% Variation
Capital financing - MRP	11.798	11.798	-	0.00%
Capital financing - Interest	11.006	10.978	Cr 0.028	-0.25%
Capital financing - Premia, discounts and recoveries	Cr 0.189	Cr 0.189	-	0.00%
Net Investments	Cr 0.955	Cr 2.703	Cr 1.748	183.04%
Other local authority debt	1.996	1.996	-	0.00%
Other treasury costs	0.090	0.112	0.022	24.44%
Birmingham airport & mortgages	Cr 0.462	Cr 0.673	Cr 0.212	45.88%
Total	23.284	21.319	Cr 1.966	-8.44%

3.3. The main reason for the under spend is the higher than budgeted cash balance available for investment which is due to the capital carry forward from 2011/12 and a higher rate of return obtained from investments, at no additional risk.

Resource and Legal considerations

4.1 Financial

Treasury management 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 Code in 1992 and further revised Codes in 2002 and then 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.

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) and local indicators are detailed in Appendix 1.

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
- Corporate budget plan and treasury management and investment strategy 2012/13 – Council 23.02.12

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As at 30 September 2012

Prudential Indicators defined within Prudential Code

Indicator	Actual 2011/12 £'000	Target 2012/13 £'000	Position as at 30-Sep-12 £'000	Variance to target		Met	
				£'000	%		
Pr1 1	Capital Expenditure (12/13 target revised due to Capital C/F 11/12 and additional grants).	66,935	93,650	93,070	- 2,879	-3%	Y
Pr1 2	Ratio of financing costs to net revenue stream	9.00%	9.5%	8.88%	-0.62%	-7%	Y
Pr1 3	Estimates of the incremental impact of new capital investment decisions on Council Tax	£10.66	£10.67	£10.67	£0.00	0%	Y
Pr1 4	Capital Financing Requirement	293,247	304,499	299,452	- 5,047	-2%	Y
Pr1 5	Authorised Limit for external debt	373,730	319,724	319,724	-	0%	Y
Pr1 6	Operational Limit for external debt	315,044	292,093	292,093	-	0%	Y

Prudential indicators for prudence

Indicator	Actual 2011/12 £'000	Target 2012/13 £'000	Position as at 30-Sep-12 £'000	Met	
Pr1 7	Net Borrowing exceeds capital financing requirement	No	No	NO	Y
Pr1 8	Authority has adopted CIPFA Code of Practice for Treasury Management	Yes	Yes	YES	Y
Pr1 9	Total principle sums invested for longer than 364 days must not exceed	15,000	25,000	15,000	Y

Indicator	Upper Limit	Lower Limit	Actual 2011/12	Position as at 30-Sep-12	Met	
Pr1 10	Fixed Interest Rate Exposure	95%	40%	93%	89%	Y
Pr1 11	Variable Interest Rate Exposure	45%	0%	7%	11%	Y
Pr1 12	Maturity Structure of Borrowing					
	Under 12 months	25%	0%	9%	14%	Y
	12 months and within 24 months	25%	0%	13%	9%	Y
	24 months and within 5 years	25%	0%	15%	25%	Y
	5 years and within 10 years	50%	10%	17%	11%	Y
	10 years and above	85%	40%	47%	41%	Y

Locally defined prudential indicators

Indicator	Actual 2011/12 £'000	Target 2012/13 £'000	Position as at 30-Sep-12 %	Variance to target	Met	
				%		
L1	Full compliance with prudential code	Yes	Yes	YES		Y
L2	Average length of debt	16.03	15 to 25 years	16		Y
L3	Net borrowing costs as % of net budget requirement	3.33%	4.00%	3.33%	-0.67%	Y
L4	Net actual debt vs operational debt	83.0%	75 - 90%	88%	-2%	Y
L5	Average interest rate of external debt outstanding excluding OLA	4.53%	4.52%	4.53%	0.01%	N
L6	Average interest rate of external debt outstanding including OLA	4.73%	4.63%	4.67%	0.04%	N
L7	Gearing effect of 1% increase in interest rate	2.76%	5.00%	2.34%	-2.66%	Y
L8	Average interest rate received on STI vs 7 day LIBID rate	1.22%	0.50%	1.51%	1.01%	Y
L9	(a) AT call investments	0.80%	0.75%	0.92%	0.17%	Y
	(b) Short Term Investments	2.01%	1.50%	2.27%	0.77%	Y
	(c) Long Term Investments	3.83%	2.50%	4.28%	1.78%	Y
L10	Average interest rate on all ST investments (ST and AT call)	2.07%	1.10%	1.90%	0.80%	Y
L11	Average rate on all investments	2.39%	1.30%	2.12%	0.82%	Y
L12	% daily bank balances within target range	100%	98%	100%	2%	Y