Audit Committee – 25 September 2013

Annual Report on Treasury Management 2012/13

1. Summary of report

1.1. This report sets out the treasury management annual report for 2012/13 as required by the CIPFA Code of Practice (Appendix A).

1.2. In 2012/13 Walsall council's borrowing decreased by £0.069m and investments increased by £1m. The average rate for Walsall's borrowing excluding other local authority debt during 2012/13 remained at 4.47%. This was slightly lower than the average rate for the IPF benchmarking group (4.52%). The average investment return during 2012/13 was 2.14%. This was higher than the average rate for the IPF benchmarking group of 1.11%. This demonstrates that Walsall's treasury management function continues to provide excellent value for money.

2. Recommendations

2.1. To note, endorse and recommend the treasury management annual report for 2012/13 (Appendix A) to Council.

James T Walsh – Assistant Director, Finance
(Chief Finance Officer)
16 September 2013

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 full Council and review of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead (this was approved by Council in February 2013, and an annual report of the previous year (Appendix A). A mid-year report and the annual review of the council's treasury management policy statements which sets out the policies and objectives of the council's treasury management activities, will be presented at a future meeting of the Audit Committee.
- Delegation by the Council to officers, of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- 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 2012/13 is detailed in Appendix A and covers:

- The treasury management strategy
- Economic review, operational treasury management and interest rates
- Review of 2012/13 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 provided in pages 9-10 of Appendix A. A set of local indicators are also maintained to provide additional assurance (see page 18).

4. Resource and Legal considerations

4.1 Financial

The annual treasury management report is a key document for the operation, review and performance assessment of treasury management. It forms part of the council's financial framework and supports delivery of the medium term financial strategy and the Corporate Plan.

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. Council adopted the original treasury management code in 1992 and the 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 investment loss.

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 Statutory Prudential indicators (PrIs) as at 31.03.13 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 Chief Finance Officer (CFO), Head of Finance (Deputy CFO) and the Corporate Financial Systems and Treasury Manager.

8. Background papers

- Various financial working papers
- Annual treasury strategy in advance of the year - Council 23.02.2012
- Annual review of treasury management policies – Audit Committee 14.01.13

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Appendix A

Annual Treasury Management Report 2012/13

Walsall Council
September 2013

Contents

Annual Treasury Management Report 2012/13

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 prudential and treasury indicator performance for 2012/13. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2012/13 the minimum reporting requirements were the following reports:

- an annual treasury strategy in advance of the year (Council 23.02.2012)
- a mid-year (minimum) treasury update report (Audit Committee 12.11.2012)
- an annual review of treasury management policies (Audit Committee 14.01.2013)
- an annual report following the year describing the activity compared to the strategy (this report to Audit Committee 25.09.2013)

In addition, this council's treasury management panel (TMP) 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 are reported to full Council.

Executive summary

During 2012/13, 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:

Table 1 Actual prudential and treasury indicators	2011/12 Actual (Year end) £m	2012/13 Budget £m	2012/13 Revised Budget £m	2012/13 Actual (Year end) £m
Actual capital expenditure	66.935	38.074	*93.180	50.828
Capital Financing Requirement:				
Including PFI and finance leases	299.452	304.499	As Original	305.908
Excluding PFI and finance leases	287.657	294.086	As Original	296.143
External debt	255.188	273.391	As Original	256.475
Investments	136.380	108.549	As Original	137.380

* The capital programme is updated during the year from that originally approved by Council on 23 February 2012, for capital carry forwards and re-profiling of spend from 2011/12, and additional grants received during the year.

The capital financing requirement for 2012/13 was updated to reflect the balance sheet position of the council as at 31 March 2013 and the impact of carry forwards to 2013/14.

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

The financial year 2012/13 continued the challenging environment of previous years; low investment returns and continuing counterparty risk continued.

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 borrowing activity; and
- Detailed investment activity.

1. The Council's Capital Expenditure and Financing 2012/13

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. In addition to the capital expenditure noted below £1.336m of assets were acquired through leasing and £1.016m of assets were acquired by or gifted by the Art Gallery.

Table 2	2011/12 Actual £m	2012/13 Actual £m
Total capital expenditure	**61.868**	**50.828**
Resourced by:		
• Capital receipts	1.561	4.625
• Capital grants	40.761	31.563
• Capital Reserves	0.170	0.000
• Revenue	0.616	0.156
• Unfinanced Capital Expenditure - Financed by Borrowing	18.760	14.484
Total capital financing	**61.868**	**50.828**

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 2012/13 unfinanced capital expenditure (see table 2) 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 by utilising temporary cash resources within the council.

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 2012/13 MRP Policy (as required by DCLG Guidance) was approved as part of the treasury management strategy report for 2012/13 on 23 February 2012.

The council's CFR for the year 2012/13 is shown below in Table 3 and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet which increase the council's borrowing need or CFR. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable). It shows that in 2012/13 the council's CFR increased from £299.4m to £305.9m.

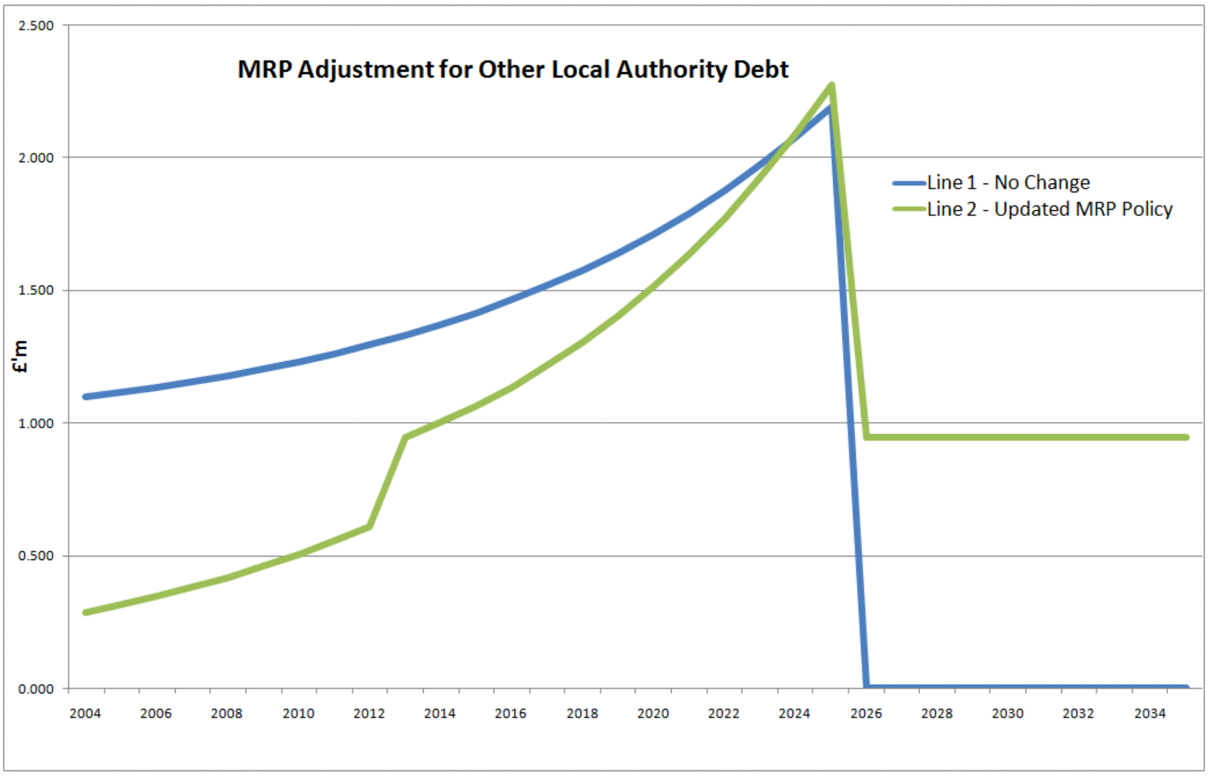
Table 3 CFR (£m)	**31 March 2012 Actual £m**	**31 March 2013 Actual £m**
Opening balance	**294.629**	**299.452**
Add unfinanced capital expenditure (as above)	18.760	14.484
Less MRP / VRP	- 14.107	- 9.358
Other assets acquired e.g. leases	0.170	1.329
Closing balance	**299.452**	**305.907**

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

Updated MRP policy - In 2011/12 the council's MRP policy was reviewed and amended such that the calculation would be adjusted for other local Authority transferred debt. This was approved for 2012/13 onwards. The implications of this change were fully appraised in 2012/13 in particular in relation to prudency.

A consideration of prudency is the smoothing of capital financing costs over the life of the asset. The net amount of other local authority debt remaining to be paid as at 31.03.12 was £25.029m. This must be repaid according to the agreed timeline with Dudley and other West Midland councils by 2025. The other elements of the set aside to repay debt being charged to the council's revenue account relate to the general assets of the council. Currently the council's net borrowing to fixed assets ratio is 25%. It was thus considered appropriate and prudent to charge this over a longer period of time e.g.by 2035 and thus smooth the debt liability.

See graph below line 1 No change, line 2 updated MRP policy.



The result of this change was a one off revenue saving in capital financing of £5.5m which was transferred to reserves for use to support future MRP pressures which were in particular expected to arise following the approval of a number of major strategic projects in 2013/14 onwards.

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 2012/13 (plus the expected changes to the CFR over 2012/13 and 2013/14). This indicator allowed the council some flexibility to borrow in advance of its immediate capital needs in 2012/13. 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.

Table 4	**31 March 2012 Actual £m**	**31 March 2013 Actual £m**
Borrowing	**255.833**	**255.902**
Net borrowing position	**119.453**	**118.522**
CFR	**299.452**	**305.908**
Long term Assets	**504.520**	**487.029**
Net Borrowing % of Long term Assets	**24%**	**24%**

Another measure of prudency is the proportion of net to fixed assets. Table 4 above shows that the net borrowing position of the council as at 31.03.13 is £118.522m which is 24% of the value of the council's long term assets as valued on the council's balance sheet as at 31.03.2013.

Other key Prudential Indicators are shown in Table 5 below.

Table 5 Prudential and Borrowing Limits	2011/12 £m	2012/13 £m
1. Authorised limit	**373.730**	**319.908**
2. Maximum gross borrowing in year	**273.329**	**263.777**
3. Operational boundary	**315.044**	**292.093**
4. Average gross borrowing in year	**272.467**	**263.669**
5. Financing costs as proportion of net revenue stream	**9.00%**	**7.02%**

1. **The authorised limit** - the authorised limit is the "affordable borrowing limit" set by Council as required by s3 of the Local Government Act 2003. The council does not have the power to borrow above this level without the prior approval by full Council. Table 5 demonstrates that during 2012/13 the council's maximum gross borrowing was within its authorised limit.

2. **Maximum Gross borrowing** – is the peak level of borrowing in the year.

3. **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. In 2012/13 the council's average borrowing position was less than the operational boundary.

4. **Average Gross Borrowing** – is an estimate of the borrowing level in the year (see Table 7).

5. **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. Net revenue stream is defined as Net Council Tax Requirement **+** Formula Grant. This has reduced from 9.0% in 2011/12 to 7.0% in 2012/13.

3. Prudential Indicators

The following tables show performance against statutorily required prudential and local indicators.

Table 6	Prudential Indicator	Actual 2011/12 £m	Target 2012/13 £m	Position at 31-Mar-13 £'000	Variance to target	%
PrI 1	**Capital Expenditure** (12/13 target revised due to cf from 11/12 and additional grants).	66.935	93.180	**50.820**	- £42.36m	-45%
PrI 2	Ratio of financing costs to net revenue stream	9.00%	9.50%	**7.02%**	-2.48%	-26%
PrI 3	Estimates of the incremental impact of new capital investment decisions on Council Tax	£10.66	£10.67	**£10.67**	£0.00	0%
PrI 4	Capital Financing Requirement	293.247	304.499	**305.908**	£1.409m	1%
PrI 5	Authorised Limit for external debt	373.730	319.724	**319.724**	-	0%
PrI 6	Operational Limit for external debt	315.044	292.093	**292.093**	-	0%

Table 6 continued Prudential Indicator		Actual 2011/12 £m	Target 2012/13 £m	Position at 31-Mar-13
PrI 7	Net Borrowing exceeds capital financing requirement	No	No	**No**
PrI 8	Authority has adopted CIPFA Code of Practice for Treasury Management	Yes	Yes	**Yes**
PrI 9	Total principle sums invested for longer than 364 days must not exceed	**15.00**	25.000	**14.105**

Table 6 continued Prudential Indicator		Upper Limit	Lower Limit	Actual 2011/12	Position at 31-Mar-13
PrI 10	Fixed Interest Rate Exposure	95%	40%	**93%**	**89%**
PrI 11	Variable Interest Rate Exposure	45%	0%	**7%**	**11%**
PrI 12	***Maturity Structure of Borrowing***				
	Under 12 months	25%	0%	**9%**	**14%**
	12 months and within 24 mnths	25%	0%	**13%**	**9%**
	24 months and within 5 years	25%	0%	**15%**	**25%**
	5 years and within 10 years	50%	10%	**17%**	**11%**
	10 years and above	85%	40%	**47%**	**41%**

All Statuary Prudential indicators were complied with. Key variances are because of the following reasons:-

Prl 1 Total capital expenditure - £42m
The variation is due to capital carry forwards particularly capital grants which are expected to be spent in 2013/14.

Prl 2 Estimates of the ratio of financing costs to the net revenue stream – 26%
Compared to other councils, Walsall's ratio of capital financing to total revenue costs is low, which demonstrated good performance. This has dropped due to the under spend in 2012/13 of the capital financing revenue budget in 2012/13.

4. Treasury Position as at 31 March 2013

The council's debt and investment position is organised by the treasury management team 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 2012/13 the council's treasury position was as follows see Table 7 below. NB the borrowing and investments position reported in the statement of accounts is different because it includes accrued interest and investment income, payable or due to the council as at 31.03.13.

Table 7 Loans and Investments	Opening Balance £m	Average Rate At 31/03/12 %	Movement in Year £m	Closing Balance £m	Average Rate At 31/03/12 %
PWLB loans	**116.487**	**4.36%**	**0.040**	**116.487**	**4.36%**
Market Loans	**122.000**	**4.67%**	**-**	**122.000**	**4.67%**
Bonds	**0.095**	**3.94%**	**- 0.003**	**0.092**	**3.94%**
Total excluding WMCC debt	**238.582**	**4.47%**	**0.037**	**238.619**	**4.47%**
WMCC Debt	**25.029**	**6.57%**	**- 0.895**	**24.134**	**6.57%**
Total Borrowing over 12 months	**263.611**		**- 0.858**	**262.753**	
Temporary Loans	**0.166**	**0.50%**	**0.643**	**0.809**	**0.50%**
Gross Borrowing	**263.777**	**4.73%**	**- 0.215**	**263.562**	**4.73%**
Waste Disposal Debtor	**- 7.944**	**6.57%**	**0.284**	**- 7.660**	**6.57%**
Borrowing	**255.833**	**4.63%**	**- 0.069**	**255.902**	**4.63%**
CFR less PFI finance & leases	**287.657**			**296.143**	
Under Borrowing	**31.824**			**40.241**	

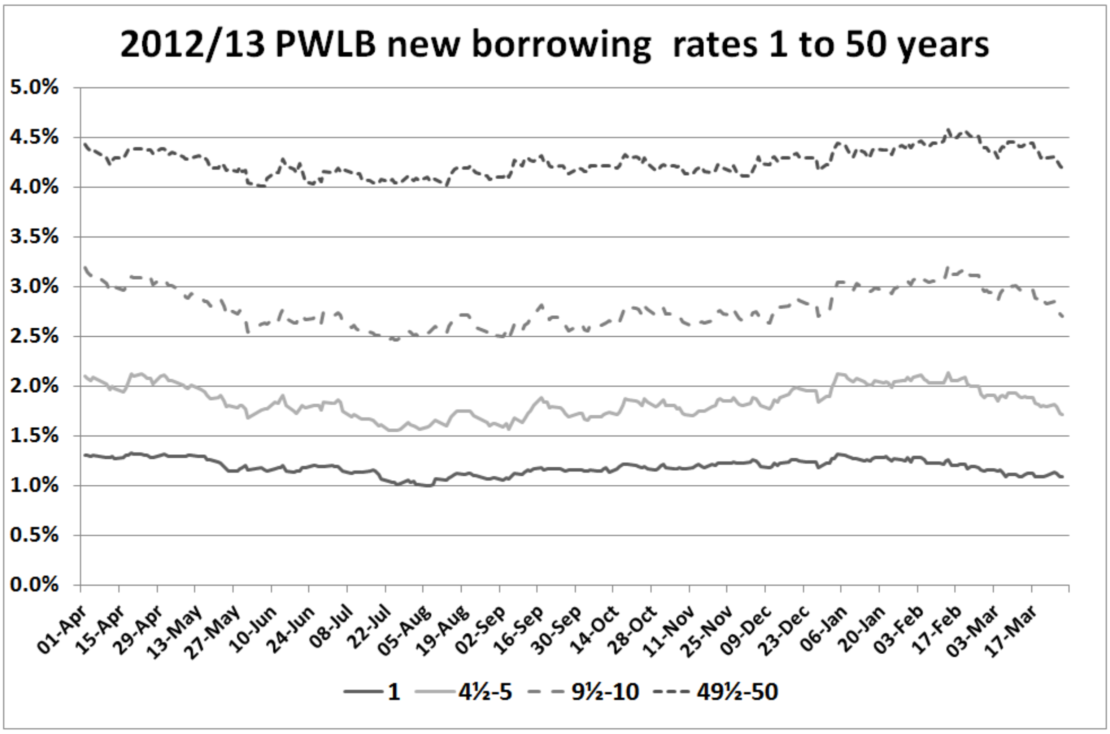
Debt as % of CFR		88.9%			86.4%
Table 7 Loans and Investments	**Opening Balance £m**	**Average Rate At 31/03/12 %**	**Movement in Year £m**	**Closing Balance £m**	**Average Rate At 31/03/12 %**
Call Accounts	- **2.130**	**0.80%**	- **1.750**	- **3.880**	**0.90%**
Short Term Investments	**- 119.250**	**2.01%**	**- 0.145**	**- 119,395**	**1.83%**
Long Term Investments	**- 15.000**	**3.83%**	**0.895**	**- 14.105**	**3.70%**
Total Investments	**- 136.380**	**2.39%**	**- 1.000**	**- 137.380**	**2.14%**
Net Borrowing Position	**119.453**		**- 2.501**	**118.522**	

5. The Borrowing Strategy for 2012/13 and Economic Context

In the 2011/12 Settlement the Government changed the means of funding councils' capital expenditure from supported borrowing to grant. This change reduced the council's projected borrowing requirement. Also short term rates on investments were predicted to remain lower in 2012/13 than rates paid on current debt for the short to medium term. The strategy has been to monitor interest rate movements to identify potential opportunities to make savings by running down investment balances and to repay debt prematurely. Critical to this consideration of the debt rescheduling and debt repayment is the outlook for interest rates, as the best time to repay borrowing would be when rates are high.

Sector, the council's treasury advisor's view has been that the longer run trend is for Government debt gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. Thus the expectation for interest rates within the strategy for 2012/13 was to anticipate a low but rising bank rate (starting in quarter 3 of 2012) with similar gradual rises in medium and longer term fixed interest rates over 2012/13. However these increases did not materialise.

PWLB borrowing rates - the chart overleaf, showing 2012/13 PWLB maturity rate for a selection of maturity periods, demonstrates that no significant change in rates occurred, thus there was no opportunity for the repayment or rescheduling of debt.



6. Borrowing Outturn for 2012/13

The council's borrowing reduced slightly in 2012/13 by £0.069m due to the annual repayment of other local authority debt (£0.895m) and the repayment of bonds (£0.003m) being offset by the amortisation of PWLB discounts(£0.040m), new temporary borrowing (£0.643m) and a reduction in the waste disposal debtor (£0.282m).

There were no new borrowings or rescheduling of loans undertaken.

7. Investments in 2012/13 and Economic Context

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

Investment Policy – the council's investment policy is governed by central government guidance which was implemented in the annual investment strategy approved by Council on 23 February 2012. 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 by KPMG survey of Building Societies.

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

The economic commentary for 2012/13 from our treasury advisors, Sector is as follows:-

"The original expectation for 2012/13 was that the Bank Rate would not rise in 2012/13 or 2013/14 and for it to start gently rising from quarter 4, 2014. This forecast rise has now been pushed back to a start in quarter 1, 2015 at the earliest. Economic growth (GDP) in the UK was virtually flat during 2012/13 due to the UK austerity programme, subdued domestic consumer expenditure, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). This weak UK growth resulted in the Monetary Policy Committee (MPC) increasing quantitative easing (QE) by £50bn in July to a total of £375bn. The Bank Rate, therefore, ended the year unchanged at 0.5%, while CPI inflation has remained stubbornly high and above the 2% target, starting the year at 3.0% and still being at 2.8% in March; however, it is forecast to fall to 2% in three years time. The EU sovereign debt crisis was an ongoing saga during the year, with an eventual very protracted agreement of a second bailout for Greece in December followed by a second major crisis, this time over Cyprus, towards the end of the year.

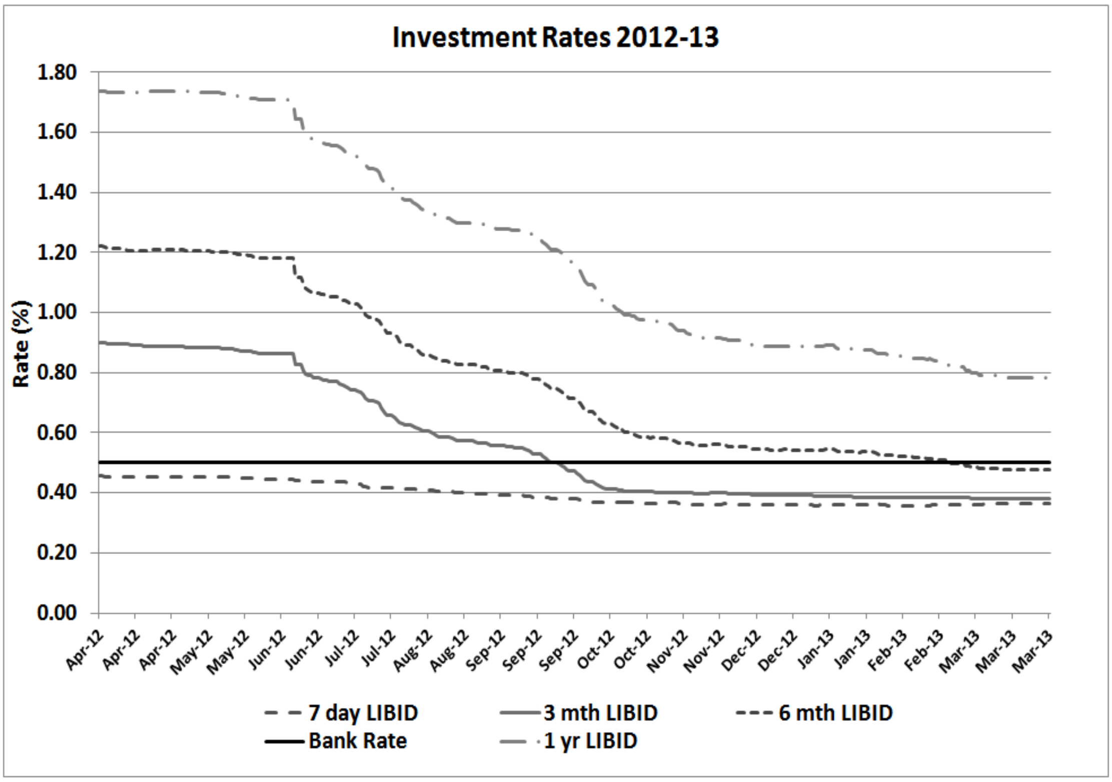
***Gilt yields** oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically low levels.*

The Funding for Lending Scheme, announced in July, has resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling drastically in the second half of the year. However, perceptions of counterparty risk have improved after the Eurozone countries banking statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

***The UK coalition Government** maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch after the Budget in March.*

Thus when the 2012/13 strategy was developed the expectation was for interest rates to remain low with a strong possibility that growth in the economy will be disappointing and interest rises won't materialise. As our higher rated investments would be maturing the target rate for all investments was reduced from 1.9% to 1.3%. The council maintained an average balance of £166m of internally managed funds. The internally managed funds actually earned an average rate of return of 2.14%.

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for four years. Market expectations of the start of monetary tightening were pushed back during the year to early 2015 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year (see Investment Rates 2012/13 chart overleaf).



Investments

At the end of 2012/13 Walsall's investment balance was £1m higher that that at the start of the year. Table 8 below shows an age profile of the investments.

Table 8: Changes in Investments during 2012/13	Opening Balance £m	Closing Balance £m	Movement in Year £m
At Call accounts	2.130	3.880	1.750
Between 1 week and 3 months	44.750	27.000	-17.750
Between 3 and 12 months	74.500	92.395	17.895
Over 12 months	15.000	14.105	-0.895
Total	136.380	137.380	1.000

The reason for the slight increase is the variability of cash flows.

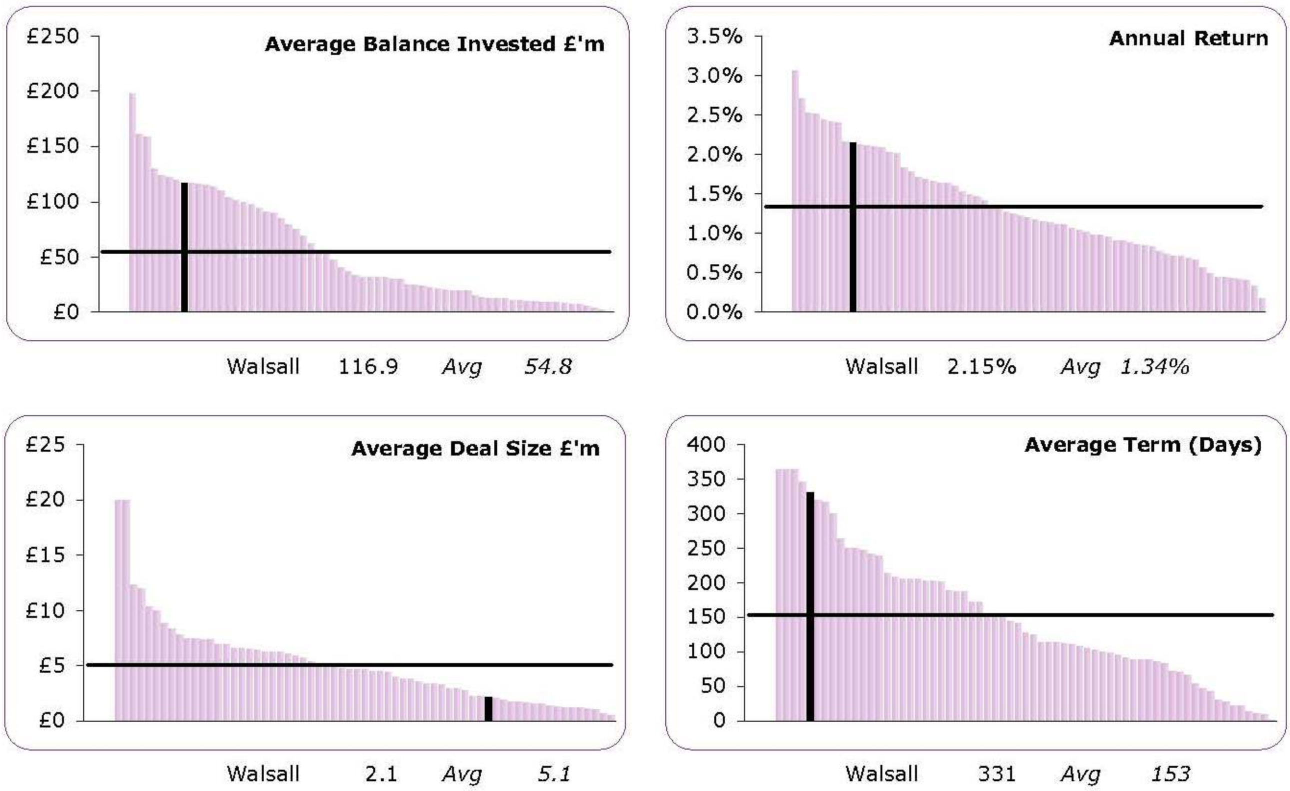
Recognising the continuation of the stresses on the world banking system, enhanced priority has continued to be given to security and liquidity. To reduce counterparty risk to the maximum possible extent the investment portfolio was spread across a range of appropriately credit rated institutions.

The following bar charts exclude call accounts and long term investments and show that another factor in Walsall's strong performance in 2012/13 compared to other councils was placing smaller investments for longer time periods.

Walsall's average balance made available for short term investments to be invested was higher than the average, £116.9m compared to £54.8m. A high annual return was achieved, 2.15%

compared to 1.34%. Also Walsall invested amount in smaller sizes (£2.1m compared to £5.1m but for longer time periods (331 days compared to 153 days).

FIXED INVESTMENTS <365 DAYS



This indicates that Walsall's better than average investment performance was due to active investment management. Making available for fixed investments as much cash as possible within the constraints of the cash flow needs.

Table 9 shows the outturn on investment income in 2012/13. The council achieved a £1.521m increase in investment income. The average investment return was 2.14% compared to our 1.30% target.

Table 9 Investments Interest – Gross Income	2011/12 Approved Cash Limit £m	Outturn at 31 March 2012 £m	Over /(under) achieved cash limit £m	% Target Rate	% Rate achieved
Call Account investments	0.508	- 0.227	0.281	0.75%	0.92%
Short Term Investments	0.823	- 2.449	- 1.626	1.50%	1.83%
Long Term Investments	0.225	0.741	- 0.516	2.50%	4.10%
Total	1.556	3.348	- 1.861	1.30%	2.14%

The investment income is shown gross because £0.536m was transferred on to schools and other specific fund balances within the council. Table 10 below summarises our performance compared to other council's for the past 3 years and the change from 2011/12 to 2012/13. It shows that in 2012/13 Walsall achieved an improved investment performance and other council's had a reduction in their investment return.

Table 10	Average Rate 2010/10	Average Rate 2011/12	Average Rate 2012/13	Increase (+) / Reduction (-)
Walsall average investment return	1.82%	1.85%	2.14%	+0.29%
Average council benchmarked	1.26%	1.22%	1.11%	- 0.11%

Local Authority Money Brokers

The council liaises with five brokers on a daily basis. Of the £625m of new investments made in 2012/13, £127m was through 5 brokers and £497m was deals undertaken by the treasury team, the majority of which were through call accounts.

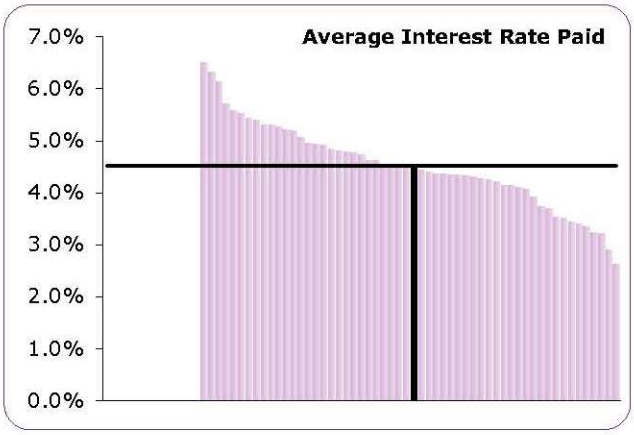
	Table 12: Brokers Performance 2012/13	No of deals per broker	Value of Deal (£)	% of deals
	Broker 1	20	51,000,000	8%
	Broker 2	14	48,105,000	8%
	Broker 3	11	19,000,000	3%
	Broker 4	3	7,000,000	1%
	Broker 5	3	2,395,000	0%
	Total Broker deals	**51**	**127,500,000**	
	Bank of Scotland	2	10,000,000	2%
Call	Barclays	312	250,810,000	40%
Call	Royal Bank of Scotland	64	148,902,000	24%
Call	Natwest	8	26,500,000	4%
Call	Bank of Scotland	29	54,430,000	9%
	Lloyds	2	3,000,000	0%
	Manchester	2	4,000,000	1%
	Other Deals	**419**	**497,642,000**	
	Total No of Deals	**470**	**625,142,000**	100%

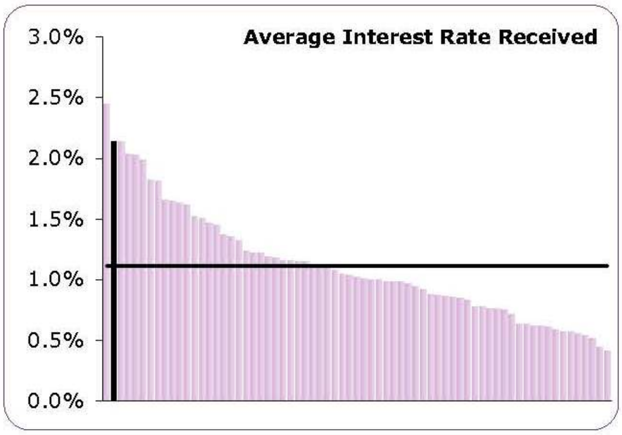
8. Performance Measurement

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.

Below is an extract from the Cipfa draft Benchmarking 2012/13. It shows Walsall paid interest on it's borrowing at 4.47%, slightly below the benchmarked average rate of 4.52%. But

Walsall was significantly above the benchmark average on the return on investments, 2.14% compared to 1.14%.





Annual Average Borrowing

	Authority			Group Total		
	Av. Balance £'m	Interest £'k	Rate	Balance £'m	Interest £'k	*Average Rate*
Short-term variable rate	0.0	0.0	na	*133*	*2,373*	*1.21%*
Long-term variable rate	0.0	0.0	na	*325*	*7,523*	*1.63%*
Short-term fixed	0.9	14.7	na	*237*	*3,599*	*2.17%*
Long-term fixed	117.9	5,069.4	4.30%	*12,926*	*595,183*	*4.83%*
LOBO	122.0	5,682.0	4.66%	*3,224*	*147,991*	*4.42%*
Total	**240.8**	**10,766.1**	**4.47%**	***16,236***	***729,419***	***4.52%***

Annual Average Investment

	Authority			Group Total		
	Av. Balance £'m	Interest £'k	Rate	Balance £'m	Interest £'k	*Average Rate*
Variable rate	30.4	280.3	0.92%	*3,673*	*29,816*	*0.77%*
Short-term fixed	116.9	2,518.2	2.15%	*4,017*	*49,630*	*1.28%*
Long-term fixed	18.9	759.4	4.01%	*834*	*19,910*	*2.53%*
Externally Managed	0.0	0.0	na	*248*	*3,562*	*1.73%*
Total	**166.3**	**3,557.8**	**2.14%**	***8,772***	***102,918***	***1.11%***

Council approved the set of local performance indicators shown overleaf, the majority of which were complied with during the year.

Table 13 Local Indicators		Actual 2010/11 £'000	Target 2011/12 £'000	Position as at 31-Mar-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%	**3.02%**	-25%	Y
L4	Net actual debt vs operational debt	83.0%	75 - 90%	**88%**		Y
L5	Average interest rate of external debt outstanding excluding OLA	4.53%	4.52%	**4.53%**	0%	N
L6	Average interest rate of external debt outstanding including OLA	4.73%	4.63%	**4.67%**	0%	N
L7	Gearing effect of 1% increase in interest rate	2.76%	5.00%	**2.74%**	-45%	Y
L8	Average interest rate received on STI vs 7 day LIBID rate	1.22%	0.50%	**1.44%**	1.8%	Y
L9a	AT call investments	0.80%	0.75%	**0.90%**	2%	Y
L9b	Short Term Investments	2.01%	1.50%	**1.83%**	22%	Y
L9c	Long Term Investments	3.83%	2.50%	**3.70%**	48%	Y
L10	Average interest rate on all ST investments (ST and AT call)	2.07%	1.10%	**1.80%**	63%	Y
L11	Average rate on all investments	2.39%	1.30%	**2.14%**	65%	Y
L12	% daily bank balances within target range	100%	98%	**100%**	2%	Y

<u>L.5 and L.6 Average rate on debt</u>

Both are slightly above target. There being no borrowing nor rescheduling activities due to the economic conditions in 2012/13 thus there was no opportunity to reduce the average borrowing rate.