

Key Decision Required:	Yes	In the Forward Plan:	Yes
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CABINET

1 AUGUST 2014

REPORT OF FINANCE AND TRANSFORMATION PORTFOLIO HOLDER

A.5 TREASURY MANAGEMENT PERFORMANCE 2013/14

(Report prepared by Richard Barrett and Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To report on the Council's treasury management activities and Prudential Indicators for 2013/14.

EXECUTIVE SUMMARY

- Borrowing and investments have been undertaken in accordance with the 2013/14 Annual Treasury Strategy that was approved by Council on 26 March 2013.
- No external borrowing was undertaken in 2013/14 for either the General Fund (GF) or Housing Revenue Account (HRA).
- The amount of interest earned from investments remained low because of the continuing unprecedented low interest rates existing throughout the year. However due to maximising investment opportunities and cash flow advantages during the year interest returns were in line with the increased amount budgeted.
- The outturn for the Prudential Indicators is attached as **Appendix B**.

RECOMMENDATION(S)

- a) That Cabinet considers and notes the Treasury Management performance position and Prudential and Treasury Indicators for 2013/14.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Good and effective Treasury Management supports the Council in delivery against its corporate goals and objectives.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Key treasury management performance data is set out in **Appendix A**.

Risk

Risk is inherent in all treasury management activities. Such risks are considered within the Treasury Strategy with management actions necessary to mitigate the risks set out in the Council's Treasury Management Practices.

LEGAL

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance which this Council has adopted.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications in respect of the above areas.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Services. The main reporting elements to comply with this code include:

- An Annual Treasury Strategy approved by Cabinet after consultation with the Corporate Management Committee for recommending to the Full Council.
- Regular monitoring reports that form part of the Council's Corporate Budget Monitoring arrangements during the year.
- An annual treasury performance or outturn report for the preceding year that is presented to Cabinet.

This report sets out the necessary information in response to the third bullet point above and provides a summary of the treasury activities undertaken in 2013/14 (**Appendix A**) and final Prudential and Treasury Indicators at the end of 2013/14 (**Appendix B**).

BORROWING AND INVESTMENTS 2013/14

Borrowing

The Base Rate has remained at the same level throughout the year and the Council's treasury advisors are forecasting that there is unlikely to be any change until March 2015. Public Works Loan Board (PWLB) rates also remained low although these have already begun to rise during 2014/15 as a result of an increase in confidence in equity markets anticipating stronger economic recovery in key global economies.

No external borrowing was undertaken during the year. The Strategy proposed that internal borrowing be maintained at a level of up to £5m. This limit had been agreed previously following advice from the Council's treasury advisors. A £1m General Fund loan matured during the year which would ordinarily have been replaced through a PWLB loan. However, rather than borrowing this £1m it is being financed internally through the advantageous cash flow position. This means internal borrowing is running just above the £5m agreed internal borrowing level. Given the continuing low return on investments and no significant increases in PWLB interest rates in the immediate future, it is felt prudent to maintain this position in the short term although this will be kept under review in consultation with the Council's external advisors and set against the background of the potential increases in borrowing rates forecast in 2015.

No new borrowing or restructuring of existing debt was undertaken for GF or HRA purposes in 2013/14.

The figures for GF and HRA are shown separately in **Appendix A** to reflect the move to self-financing. Principal has been paid on HRA debt in line with the 30 year business plan.

Debt rescheduling opportunities are limited in the current economic climate and with the structure of interest rates following increases in the PWLB new borrowing rates in October 2010, hence no debt rescheduling has been undertaken.

No temporary borrowing from the markets was required during the year. The use of an overdraft facility of up to £300,000 was utilised as part of the management of the Council's daily cash flow position, but this was generally not significant so there is only a slight difference shown between long term and total debt in **Appendix A** (1a and 1b).

Two Treasury Management Practice Limits were exceeded during the year with further details as follows:

- For one day in October 2013 the Council had a debit bank balance of £0.554m, £0.254m in excess of the agreed overdraft limit. This was caused by a bank stating that they did not receive a faxed recall from the Council although one was sent.

To prevent a recurrence, when a fax is sent a reminder is set up to ring the bank after 45 minutes to confirm receipt of the fax, if not received it is resent marked as a possible duplicate.

This request was only one of 46 made during 2013/14.

- For one weekend at the end of February 2014 the Council had a debit bank balance of £2.276m, £1.977m in excess of the agreed overdraft limit. This was the result of a counterparty not repaying an investment on the date requested. However the cost associated with exceeding the overdraft limit was met by the counterparty.

Investments

The year saw the continuation of the challenging investment environment of low investment returns and heightened levels of counterparty risk. The tight monetary conditions remain and shorter term deposit rates decreased gradually through the first part of the year, although rising slightly in the second part of the year. Rates have fallen back again in early 2014/15.

The Council manages its investments in-house and invests in accordance with the approved strategy. The Council invests for periods of time dependent on the Council's cash flows, the view as to future interest rate movements and the interest rates offered by counterparties whilst balancing various risks such as interest rate risk.

With relatively poor investment returns available along with the continuing counterparty concerns a significant proportion of the Council's investments were made with other local authorities. The interest rates paid by local authorities are generally lower than that on the financial markets but they do provide a secure and a realistic alternative under current market conditions. The use of Treasury Bills declined as the rates fell but that of the UK Debt Management Office (DMO) increased as the rates offered were similar and deposits could be timed to mature at any time without any risk to capital. Both government and local authority investments fit well with the Council's low appetite for risk with the security and liquidity of the investment the prime concern.

The total invested in the DMO and local authorities at 31 March 2014 was **£1.760m** and **£31.000m** respectively out of a total investment of **£40.136m**. Other investments were held with UK banks and one UK building society with no amounts held with non-UK institutions or in Treasury Bills.

The Council receives regular credit rating updates during the year following which the appropriate action is taken as soon as practical where the credit rating falls below the minimum ratings which form part of the Council's Treasury Management Practices.

The UK still holds an AAA rating with one rating agency, with the downgrade by the other two rating agencies not having a specific adverse impact on the Council's treasury activities at the present time.

The ratings of The CO-Operative Bank have also recently been downgraded, but the bank provides the Council's day to day banking requirements rather than being a potential counterparty for investments. At the present time the Council is maintaining a position of keeping the net amount held with the bank overnight as low as possible whilst supporting the management of daily cash flow requirements. Given the continuing problems with the CO-Operative bank and the banks withdrawal from the Public Sector market, officers are now starting the process of identifying an alternative bank to meet the Councils cash management and banking requirements.

The Treasury Management Practices currently allow amounts to be invested for more than 365 days but restricts the total investment to £3.5 million. There is an argument for allowing a proportion of monies representing the minimum balance the Council needs to hold to be invested for a longer term, potentially up to two years. This has been reviewed by officers and based on the fact that interest rates are expected to rise over the next few years, there is a financial risk associated with placing investments for longer periods which has to be balanced against the possible higher interest rate that could be earned over a longer period so no long term investments are proposed at the current time.

Compliance with Treasury and Prudential Limits

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy. The outturn for the Prudential Indicators is shown in **Appendix B**.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A Treasury Performance figures 2013/14

Appendix B Prudential and Treasury Indicators 2013/14

1 Borrowing

1a Long Term Debt

Principal	Opening Balance 1 April 2013 £'000	New Borrowing £'000	Principal Repaid £'000	Balance at 31 March 2014 £'000	Average Debt for Year £'000
Long Term Borrowing					
PWLB - General Fund	2,782	0	1,223	1,559	2,705
PWLB - Housing Revenue Account	52,956	0	1,964	50,992	51,959
Total Long Term Borrowing	55,738	0	3,187	52,551	54,664

Average Interest Rates	Average Interest Rate 1 April %	New Borrowing %	Principal Repaid %	Average Interest Rate 31 March %	Average Interest Rate for Year %
Long Term Borrowing					
PWLB - General Fund	8.672	0.000	9.192	8.265	8.674
PWLB - Housing Revenue Account	3.151	0.000	2.116	3.191	3.167
Overall Long Term Borrowing	3.426	0.000	4.831	3.341	3.440

Interest paid relating to 2013-14

General Fund	235
Housing Revenue Account	1,642
	<u>1,877</u>

Long term debt is defined in legislation as loans repayable over more than one year.

1b Total debt

Average debt over the year	£54,664
Interest paid relating to 2013-14	£1,877
Average interest rate for year	3.434%

This includes interest paid on temporary debt

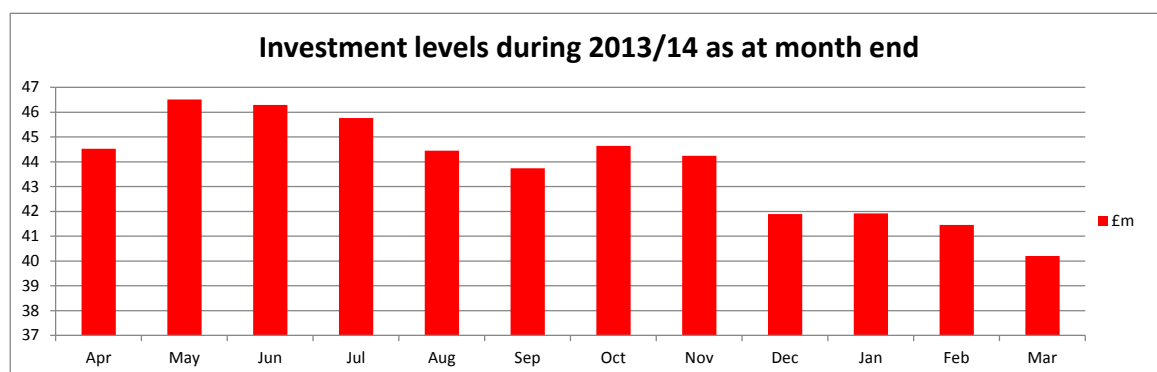
1c Budget for Total Interest Paid

	Original Estimate £'000	Revised Estimate £'000	Out-turn £'000	Variation from Revised Budget £'000
General Fund	254	235	235	0.000
Housing Revenue Account	1,683	1,646	1,642	(4.000)
Total Interest Paid	1,937	1,881	1,877	(4.000)

2 Investments

2a Temporary Investments

Principal	Opening Balance 1 April 2013 £'000	New Investments £'000	Investments Repaid £'000	Balance at 31 March 2014 £'000	Average Investments for Year £'000
Investments less than a year					
Investments with UK Government via Treasury Bills, DMO, Local Authorities and other public bodies	25,500	196,888	189,628	32,760	
Investments with UK Financial Institutions (including Money Market Funds)	8,244	44,384	45,252	7,376	
Investments with non-UK Financial Institutions	0	0	0	0	
Total Temporary Investments	33,744	241,272	234,880	40,136	46,996



Average Interest Rates	Average Interest Rate 1 April %	Average Interest Rate 31 March %	Average Interest Rate for Year %
Temporary Investments	0.354	0.423	0.336

2b Budget for Total Interest Earned

	Original Estimate £'000	Revised Estimate £'000	Out-turn £'000	Variation from Revised Budget £'000
Total Interest Earned	(156)	(156)	(159)	(3)

3 Base rates

%

At 1 April 2013 0.500

At 31 March 2014 0.500

The rate remained unchanged throughout 2013/14

PRUDENTIAL INDICATORS

Appendix B
2014/15 estimates

	Actual 2012/13	2013/14 Estimate	Actual 2013/14	Notes	2014/15 as agreed by Council March 2014	Amended 2014/15 (excluding carry forwards)
					£000	£000
Capital Expenditure						
Non -HRA	1,052	8,546	2,271		1,493	11,993
HRA	2,414	5,456	3,276		4,242	4,242
TOTAL	3,466	14,002	5,547		5,735	16,235
Ratio of Financing Costs to Net Revenue Stream						
Non -HRA	2.06%	2.09%	2.11%		2.01%	2.01%
HRA	46.67%	55.62%	44.58%		54.13%	54.13%
TOTAL	48.73%	57.71%	46.69%		56.14%	56.14%
Impact of capital investment decisions						
If the Council had funded the proposed capital investment and associated ongoing costs by a direct charge on Council Tax alone the estimate of the incremental impact of capital investment decisions on the Council Tax would have been as follows.	n/a	n/a	n/a	(1)	£6.33	£6.33
Estimate of the Incremental Impact of Capital Investment Decisions on Housing Rents	n/a	n/a	n/a	(1)	£6.08	6.08%
Capital Financing Requirement				(2)		
Non -HRA	7,250	6,961	6,961		6,682	6,682
HRA	52,956	50,992	50,992		49,028	49,028
TOTAL	60,206	57,953	57,953		55,710	55,710
Net borrowing and the Capital Financing Requirement				(2)		
Capital Financing Requirement	60,206	57,953	57,953		55,710	55,710
External debt	55,737	53,551	52,931		50,344	50,344
Internal borrowing	4,469	4,402	5,022		5,366	5,366
Debt Cap (Housing Revenue Account)						
Debt cap amount as determined by CLG	60,285	60,285	60,285		60285	60285
TREASURY INDICATORS						
	Actual 2012/13	2013/14 Estimate	Actual 2013/14	Notes	2014/15 as agreed by Council March 2014	Amended 2014/15
	£000	£000	£000		£000	£000
Has the Authority adopted the 'CIPFA Code of practice for Treasury management in the public sector'	Yes	Yes	Yes		Yes	Yes
Authorised limit for external debt				(3)		
Borrowing	58,804	78,790	78,790		75,834	75,834
Other Long – Term liabilities	0	0	0		0	0
TOTAL	58,804	78,790	78,790		75,834	75,834

	Actual 2012/13	2013/14 Estimate	Actual 2013/14	Notes	2014/15 as agreed by Council March 2014	Amended 2014/15 (excluding carry forwards)
	£000	£000	£000		£000	£000
Operational Boundary for external debt						
Borrowing	58,804	68,932	68,932	(3)	67,594	67,594
Other Long – Term Liabilities	0	0	0		0	0
TOTAL	58,804	68,932	68,932		67,594	67,594
Interest Rate Exposures						
Upper limit for fixed interest rates	52,550	57,953	57,953	(2)	55,710	55,710
Upper limit for variable interest rates	30,557	17,386	17,386		16,713	16,713
Gross and Net Debt						
Upper limit on the proportion of net debt compared to gross debt		100.00%			100.00%	100.00%
Prudential limits for principal sums invested for periods longer than 364 days	Nil	3,500	Nil		3,500	3,500

MATURITY STRUCTURE OF FIXED RATE BORROWING

	Actual 2011/12	2012/13 Estimate	Actual 2012/13	Notes	2014/15 as agreed by Council March 2014	Amended 2014/15
Upper Limit						
Under 12 months	5.72%	25%	4.89%	(2)	25%	25%
12 months and within 24 months	3.96%	30%	4.21%		30%	30%
24 months and within 5 years	11.57%	60%	11.41%		60%	60%
5 years and within 10 years	16.50%	75%	16.62%		75%	75%
10 years and above	62.25%	95%	62.87%		95%	95%
Lower Limit						
Under 12 months	5.72%	0%	4.89%		0%	0%
12 months and within 24 months	3.96%	0%	4.21%		0%	0%
24 months and within 5 years	11.57%	0%	11.41%		0%	0%
5 years and within 10 years	16.50%	0%	16.62%		0%	0%
10 years and above	62.25%	25%	62.87%		25%	25%

Notes

(1) These are not measurable indicators as they are intended to be a measure of the impact of investment proposals when the capital programme is agreed.

(2) Actual figures as at 31 March

(3) Actual figures are the maximum external debt occurring during the year.