

Key Decision Required:	Yes	In the Forward Plan:	Yes
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**CABINET
24 JULY 2015**

REPORT OF FINANCE & TRANSFORMATION PORTFOLIO HOLDER

A.3 TREASURY MANAGEMENT PERFORMANCE 2014/15
(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 2014/15.

EXECUTIVE SUMMARY

- Borrowing and investments have been undertaken in accordance with the 2014/15 Annual Treasury Strategy that was approved by Council on 28 February 2014.
- No external borrowing was undertaken in 2014/15 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)

That Cabinet notes the Treasury Management performance position and Prudential and Treasury Indicators for 2014/15.

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. (For 2014/15, a number of issues were brought to the attention of members as part of this reporting process with no further issues to raise as part of this outturn review)
- 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 2014/15 (**Appendix A**) and final Prudential and Treasury Indicators at the end of 2014/15 (**Appendix B**).

BORROWING AND INVESTMENTS 2014/15

Borrowing

The Base Rate has remained at the same level throughout the year and the latest forecast from the Council's treasury advisors indicates that this is unlikely to change until June 2016. Public Works Loan Board (PWLB) rates also remained relatively low although these began 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 2013/14 which would ordinarily have been replaced through a PWLB loan. However, rather than borrowing this £1m it is still 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 2016.

No new borrowing or restructuring of existing debt was undertaken for GF or HRA purposes in 2014/15. Principal on HRA debt continues to be repaid each year in line with the 30 year business plan.

Debt rescheduling opportunities are limited in the current economic climate with no debt rescheduling taking place in 2014/15.

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.

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 short term deposit rates remain at low levels.

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 and counterparty risk.

With relatively poor investment returns available along with limited 'low' risk counterparties, a significant proportion of the Council's investments were still made with other local authorities. A number of banks did, however, see their ratings rise over the past 12 months which brought them back onto the Council's lending list. Certificates of deposit and treasury bills were bought in the first months of the year instead of investing with local authorities as a better return was available from these instruments. Local authority rates rose later in the year and the Council continued to invest with them again. 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 Government's Debt Management Office (DMO) and local authorities at 31 March 2015 was **£2.700m** and **£32.000m** respectively out of a total investment of **£43.037m**. 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 lower grade from the other two rating agencies not having a specific adverse impact on the Council's treasury activities at the present time.

During the year the Council's banking contract was retendered and the main banking activity was awarded to Lloyds Bank Plc. The switchover to the new accounts began in January 2015 and by the end of April 2015 the only account that remained open with the Co-operative bank is the account for the Paypoint collections, which is a requirement under a separate contract for this type of payment method. The ratings of The Co-Operative Bank remain below the levels acceptable for investment under the Treasury Management Policies, but as the bank still provides the Council's Paypoint facility, money is paid in to a COOP account but the amount held in that account overnight is kept as low

as possible.

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 2014/15

Appendix B Prudential and Treasury Indicators 2014/15

1 Borrowing

1a Long Term Debt

Principal	Opening Balance 1 April 2014 £'000	New Borrowing £'000	Principal Repaid £'000	Balance at 31 March 2015 £'000	Average Debt for Year £'000
Long Term Borrowing					
PWLB - General Fund	1,559	0	241	1,317	1,496
PWLB - Housing Revenue Account	50,992	0	1,965	49,027	49,994
Total Long Term Borrowing	52,551	0	2,206	50,345	51,490

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	8.265	0.000	8.378	8.244	8.260
PWLB - Housing Revenue Account	3.191	0.000	2.116	3.234	3.208
Overall Long Term Borrowing	3.342	0.000	2.799	3.365	3.356

Interest paid relating to 2014-15

General Fund	124
Housing Revenue Account	1,604
	<u>1,728</u>

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

1b Total debt

Average debt over the year	£51,490
Interest paid relating to 2014-15	£1,728
Average interest rate for year	3.356%

This includes interest paid on temporary debt

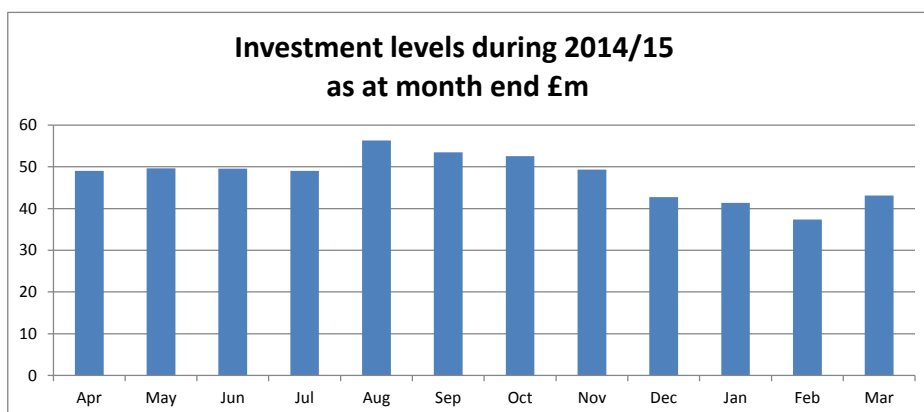
1c Budget for Total Interest Paid

	Original Estimate £'000	Revised Estimate £'000	Out-turn £'000	Variation from Revised Budget £'000
General Fund	235	124	124	0.000
Housing Revenue Account	1,617	1,617	1,604	(13.000)
Total Interest Paid	1,852	1,741	1,728	(13.000)

2 Investments

2a Temporary Investments

Principal	Opening Balance 1 April 2014 £'000	New Investments £'000	Investments Repaid £'000	Balance at 31 March 2015 £'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	32,760	323,700	321,760	34,700	
Investments with UK Financial Institutions (including Money Market Funds)	7,376	45,849	44,888	8,337	
Investments with non-UK Financial Institutions	0	0	0	0	
Total Temporary Investments	40,136	369,549	366,648	43,037	51,331



Average Interest Rates	Average Interest Rate 1 April %	Average Interest Rate 31 March %	Average Interest Rate for Year %
Temporary Investments	0.414	0.426	0.393

2b Budget for Total Interest Earned

	Original Estimate £'000	Revised Estimate £'000	Out-turn £'000	Variation from Revised Budget £'000
Total Interest Earned	(196)	(196)	(222)	(26)

3 Base rates

%

At 1 April 2014 0.500

At 31 March 2015 0.500

The rate remained unchanged throughout 2014/15

PRUDENTIAL INDICATORS

Appendix B
2015/16 estimates

	Actual 2013/14	2014/15 Estimate	Actual 2014/15	Notes	2015/16 as agreed by Council March 2015	Amended 2015/16
					£000	£000
Capital Expenditure						
Non -HRA	2,271	18,161	16,850		27,151	29,362
HRA	3,276	6,211	5,470		4,395	6,110
TOTAL	5,547	24,372	22,320		31,546	35,472
Ratio of Financing Costs to Net Revenue Stream						
Non -HRA	2.11%	2.13%	1.13%		0.92%	0.92%
HRA	44.58%	42.26%	56.92%		54.39%	54.39%
TOTAL	46.69%	44.39%	58.05%		55.31%	55.31%
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	£6.33	n/a	(1)	£68.49	£68.49
Estimate of the Incremental Impact of Capital Investment Decisions on Housing Rents	n/a	£6.08	n/a	(1)	£0.93	£0.93
Capital Financing Requirement				(2)		
Non -HRA	6,961	6,682	6,682		6,415	6,415
HRA	50,992	49,028	49,027		47,063	47,063
TOTAL	57,953	55,710	55,709		53,478	53,478
Net borrowing and the Capital Financing Requirement				(2)		
Capital Financing Requirement	57,953	55,710	55,709		53,478	53,478
External debt	52,931	50,344	50,344		48,117	48,117
Internal borrowing	5,022	5,366	5,365		5,361	5,361
Debt Cap (Housing Revenue Account)						
Debt cap amount as determined by CLG	60,285	60,285	60,285		60285	60285
TREASURY INDICATORS						
	Actual 2013/14	2014/15 Estimate	Actual 2014/15	Notes	2015/16 as agreed by Council March 2015	Amended 2015/16
	£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	78,790	82,036	82,036		83,320	83,320
Other Long – Term liabilities	0	0	0		0	0
TOTAL	78,790	82,036	82,036		83,320	83,320

	Actual 2013/14	2014/15 Estimate	Actual 2014/15	Notes	2015/16 as agreed by Council March 2015	Amended 2015/16
	£000	£000	£000		£000	£000
Operational Boundary for external debt						
Borrowing	68,932	73,832	73,832	(3)	74,988	74,988
Other Long – Term Liabilities	0	0	0		0	0
TOTAL	68,932	73,832	73,832		74,988	74,988
Interest Rate Exposures						
Upper limit for fixed interest rates	57,953	55,710	55,710	(2)	53,478	53,478
Upper limit for variable interest rates	17,386	16,713	16,713		16,043	16,043
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 2013/14	2014/15 Estimate	Actual 2014/15	Notes	2015/16 as agreed by Council March 2015	Amended 2015/16
Upper Limit						
Under 12 months	4.89%	25%	4.42%	(2)	25%	25%
12 months and within 24 months	4.21%	30%	4.47%		30%	30%
24 months and within 5 years	11.41%	60%	11.04%		60%	60%
5 years and within 10 years	16.62%	75%	19.18%		75%	75%
10 years and above	62.87%	95%	60.89%		95%	95%
Lower Limit						
Under 12 months	4.89%	0%	4.42%		0%	0%
12 months and within 24 months	4.21%	0%	4.47%		0%	0%
24 months and within 5 years	11.41%	0%	11.04%		0%	0%
5 years and within 10 years	16.62%	0%	19.18%		0%	0%
10 years and above	62.87%	25%	60.89%		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.