

POLICY & RESOURCES CABINET BOARD

REPORT OF THE HEAD OF FINANCIAL SERVICES – MR DAVID REES

29TH SEPTEMBER 2014

SECTION A – MATTERS FOR DECISION

WARDS AFFECTED: ALL

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2013/14

1. Purpose of Report

- 1.1 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 2013/14. 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). Some information incorporated within this report has been provided by the Council's Treasury Advisors Capita Asset Services.
- 1.2 During 2013/14 the minimum reporting requirements were that the full Council / Committee should receive the following reports:
 - an annual treasury strategy in advance of the year (Council 27th February 2013)
 - a mid year (minimum) treasury update report (Cabinet 30th October 2013 and Council 27th November 2013)
 - an annual review report of actual treasury management activities for the financial year 2013/14 (This report) compared to the strategy.
- 1.3 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.
- 1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to the annual strategy report, which was submitted to Cabinet in February 2013 before being reported to full Council.

2.0 Executive Summary

2.1 During 2013/14, 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:

Prudential and Treasury Indicators	2012/13 Actual £000	2013/14 Original Estimate £000	2013/14 Revised Estimate £000	2013/14 Actual £000
Capital Expenditure	78,182	47,542	53,566	53,718
Capital Financing Requirement	206,516	224,657	216,350	219,942
External debt (gross) Less Investments	172,834 (71,168)	186,561 (83,000)	171,861 (72,000)	171,861 (59,477)
Net Borrowing Position	101,666	103,561	99,861	112,384

2.2 The full list of prudential and treasury indicators are to be found in Appendix 1. During the financial year the Council operated within its treasury limits and Prudential Indicators.

2.3 The financial year 2013/14 was once again a challenging environment as in previous years with low investment returns and continuing counterparty risk.

3.0 Introduction and Background

3.1 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

4.0 The Council's Capital Expenditure and Financing 2013/14

4.1 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.

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

	2012/13 Actual £'000	2013/14 Original Estimate £'000	2013/14 Revised Estimate £'000	2013/14 Actual £'000
Total capital expenditure	78,182	47,542	53,566	53,718
Resourced by:				
• Capital receipts	(2,265)	(1,250)	(1,250)	(1,530)
• Capital grants & contributions	(56,394)	(23,939)	(32,505)	(26,820)
• Capital reserves + Direct Revenue Financing	(1,992)	(1,176)	(1,176)	(4,001)
Unfinanced capital expenditure (to be funded from Borrowing)	(17,531)	(21,177)	(18,635)	(21,367)

5.0 The Council's Overall Borrowing Need

5.1 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 2013/14 unfinanced capital expenditure (see previous table), and prior years' net of unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 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.

5.3 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 is effectively a repayment of the borrowing need. 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.

5.4 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).

5.5 The Council’s 2013/14 MRP Policy (as required by WAG Guidance) was approved by Council as part of the Treasury Management Strategy Report for 2013/14 during February 2013.

5.6 The Council’s CFR for the year is shown below, and represents a key prudential indicator.

CFR	2012/13 Actual £’000	2013/14 Original Estimate £’000	2013/14 Revised Estimate £’000	2013/14 Actual £’000
Opening balance	197,724	212,281	206,516	207,493
Add unfinanced capital expenditure (as above)	17,531	21,177	18,635	21,367
Less MRP/Set aside receipts	(8,739)	(8,801)	(8,801)	(8,918)
Closing balance	206,516	224,657	216,350	219,942

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

5.8 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 used 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 2013/14 plus the expected changes to the CFR over 2014/15 and 2015/16. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2013/14. The table below highlights the Council’s net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31/3/13 Actual £m	31/3/14 Original Estimate £m	31/3/14 Revised Estimate £m	31/3/14 Actual £m
Net borrowing position	101.666	103.561	99.861	112.384
CFR	206.516	224.657	216.350	219.942

5.9 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.

5.10 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 2013/14 £000
Authorised limit	244,024
Operational boundary	224,024
Maximum Gross Borrowing during 2013/14	
<u>Comprising of:</u>	
Maximum Long Term Borrowing at any point during year	172,944
Maximum Short Term Borrowing at any point during year	11,500

The Council has maintained gross borrowing below the Authorised limit.

6.0 Treasury Position as at 31st March 2014

6.1 The Council's debt and investment position is managed by Finance Treasury Staff 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 executive summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2013/14 the Council's treasury position was as follows:

	31 March 2013 Principal	Rate / Return	31 March 2014 Principal	Rate / Return
Fixed rate funding:	£m	%	£m	%
-PWLB	110.3	5.43	109.4	5.35
-Market	62.5	3.93	62.5	3.93
Variable rate funding:				
-PWLB	-	-	-	-
-Market	-	-	-	-
Total debt	172.8	4.89	171.9	4.88
Investments:				
- in house	71.2	1.29	59.4	0.92
- with managers	-	-		
Total investments	71.2	1.29	59.4	0.92

PWLB = Public Works Loans Board which is a body the Government has established to lend money to Local Government.

Market LOBO's = Lender Option Borrower Option – this is borrowing from the market when the lender has offered a long term loan but with options to continue or foreclose on the loan at various specific intervals.

7.0 The Strategy for 2013/14

7.1 The strategy for 2013/14 was approved by Cabinet Board and Council in February 2013.

7.2 Interest Rate and New Borrowing Forecasts:

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing up the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.
- Temporary borrowing from the money markets or other local authorities.
- PWLB variable rate loans for up to 10 years.
- Short dated borrowing from non PWLB sources.
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB fixed rate loans for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

7.3 The main sensitivities to the forecasts were:

- If a sharp fall in long and short term rates (due to risks around relapse into recession, deflation etc) was likely then long term borrowings would be postponed and potential rescheduling from fixed rate funding into short term borrowing would be considered.
- If a sharp rise in long and short term rates was likely (due to an increase in world economic activity or inflation risks) then fixed rate funding would be considered before any increases took effect

The Council adhered to this strategy during the year by not entering into any further long term borrowing and utilising short term funds to cover daily cashflow requirements.

7.4 Investments

The Council continued with its main investment priorities:

- (a) security of capital
- (b) liquidity of capital

with the aim of achieving the optimum return commensurate with proper levels of security and liquidity. With investments being dominated by low counterparty risk considerations, relatively low returns were expected when compared to borrowing rates.

7.5 For balances generated through normal cashflow the strategy looked to utilise the business reserve (call account) and short dated deposits.

7.6 External v Internal Borrowing

Investment rates were expected to be below long term borrowing rates for the foreseeable future. In recent years new capital expenditure has been financed using internal cash balances instead of new external borrowing.

7.7 Debt Rescheduling

The strategy did allow for the use of investment balances to repay debt prematurely providing it was economically worthwhile and it enhanced the maturity profile of the debt portfolio.

No debt rescheduling was anticipated (or took place) in 2013/14 particularly as the PWLB rate structures have made it more expensive in recent years to do so.

8. Borrowing Outturn for 2013/14

8.1 Treasury Borrowing – The following short term temporary loans were completed in the year:-

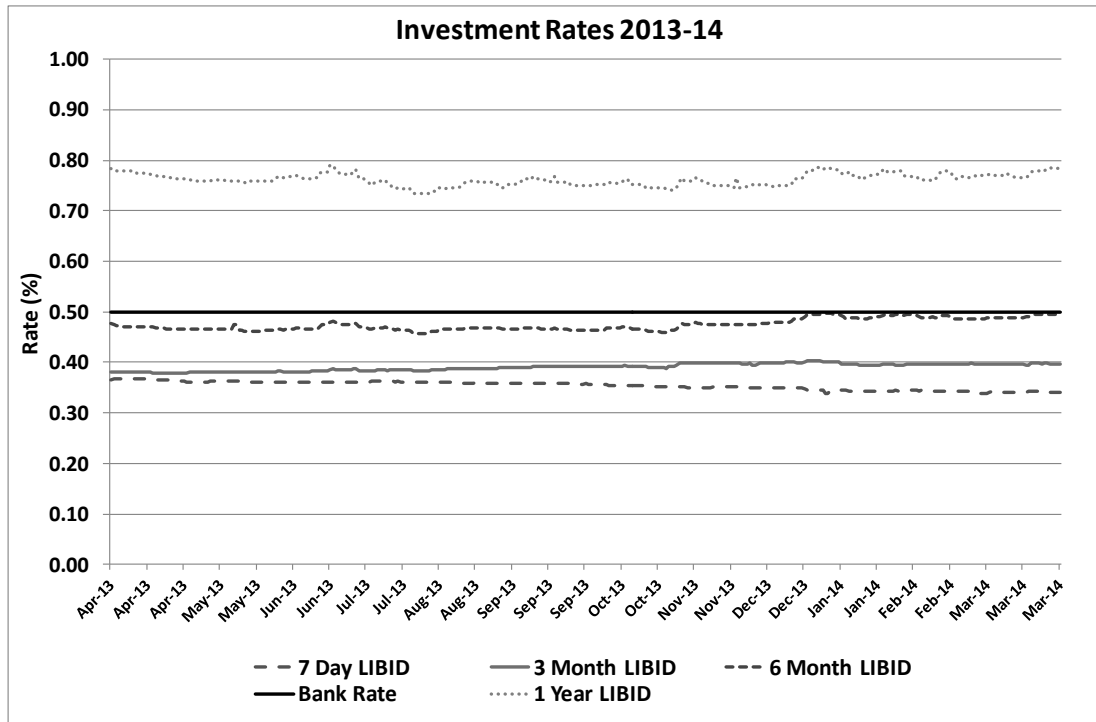
Start Date	End Date	Lender	Principle £'000	Rate %
24/5/13	5/6/13	Surrey County Council	10,000	0.28
30/7/13	5/8/13	Leicester City Council	1,500	0.29
1/8/13	5/8/13	Derbyshire County Council	10,000	0.35
20/8/13	4/9/13	Lewes District Council	2,000	0.28
23/8/13	4/9/13	Middlesbrough Council	3,000	0.28
27/9/13	30/9/13	Derbyshire County Council	4,000	0.50
29/11/13	2/12/13	London Borough of Ealing	4,000	0.45
20/12/13	2/1/14	London Borough of Ealing	6,500	0.52
23/1/14	5/2/14	Rhonda Cynon Taff CBC	3,740	0.30
28/1/14	5/2/14	London Borough of Hackney	2,000	0.45
28/1/14	28/2/14	Tendring Borough Council	2,000	0.34

8.2 Borrowing – No new PWLB or Market loans were entered into in the year.

8.3 Rescheduling – No loans were rescheduled during 2013/14

9. Investment Rates in 2013/14

9.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years and expectations are that no change is expected before early 2015. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.



10. Investment Outturn for 2013/14

10.1 Investment Policy – the Council’s investment policy is governed by Welsh Government guidance, which has been implemented in the annual investment strategy approved by the Council in February 2013. 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 additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

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

10.3 Resources – the Council’s longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council’s core cash resources comprised the following:

Balance Sheet Resources	31 March 2013 £m	31 March 2014 £m
Balances and Earmarked Reserves	54.038	50,000
Provisions	2.405	3.332
Usable capital receipts	8.045	7.631
Total	64.488	60,963

10.4 Investments held by the Council – The Council received the following return on its investments:

* Average Investment £'000	External Interest Earned £'000	Rate of Return	Benchmark Return
84,799	779	0.92	0.39

The benchmark for funds managed in house is the 3 month LIBID uncompounded. The rate reflects a more realistic neutral position for core investments with a medium term horizon and a rate which is more stable with fewer fluctuations caused by market liquidity.

11. Performance Measurement

11.1 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 6). The Council's original performance indicators for 2013/14 were set out in the Annual Treasury Strategy approved by Council in February 2013.

12. Icelandic Bank Defaults

12.1 As at the 31st March 2014 the Authority had the following investments outstanding from Iceland related banks:

Bank Name	Balance Remaining £'000
Heritable Bank	403
KSF	484
Total	887

12.2 Some of the investments matured by the old Glitnir, totalling £387k, have resulted in cash being held in the form of Icelandic Kroner. In line with Icelandic law, the Kroner is not tradable and can only be spent within Iceland. The Local Government Association is pursuing ways of transferring these investments to realise repayments into Sterling. These new investments with the new bank are held in an Escrow Account in the name of the local authority and generating interest in excess of 4%.

13. Appendices

Appendix 1 – Prudential Indicators

14. Recommendation

14.1 It is recommended that Members note the 2013/14 treasury management function performance as set out in this report including the actual 2013/14 prudential and treasury indicators.

15. Reason for Proposed Decision

15.1 For Members to note the Treasury Management Performance for last financial year.

List of Background Papers

Treasury Management Closing Files 2013/14

Capita Asset Services - Treasury Management Templates

Officer Contact

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COMPLIANCE STATEMENT

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2013/14

Implementation of Decision

The decision is proposed for implementation after the three-day call in period.

Sustainability Appraisal

Community Plan Impacts

Economic Prosperity	-	Neutral
Education & Lifelong Learning	-	Neutral
Better Health & Well Being	-	Neutral
Environment & Transport	-	Neutral
Crime & Disorder	-	Neutral

Other Impacts

Welsh Language	-	Neutral
Sustainable Development	-	Neutral
Equalities	-	Neutral
Social Inclusion	-	Neutral

Consultation

There is no requirement under the Constitution for external consultation on this item.

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS	2012/13 Actual	2013/14 Original Estimate	2013/14 Revised Estimate	2013/14 Actual
Capital Expenditure	£'000 78,182	£'000 47,542	£'000 53,566	£'000 53,718
Ratio of financing costs to net revenue stream	% 6.34	% 6.41	% 5.96	% 5.87
In year borrowing requirement	£'000 8,792	£'000 12,376	£'000 9,834	£'000 12,449
Capital Financing Requirement as at 31 st March	£'000 206,516	£'000 224,657	£'000 216,350	£'000 219,942
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p
Increase in council tax (Band D) per annum	(7.80)	30.17	6.48	3.83
		-	-	

PRUDENTIAL INDICATORS

TREASURY MANAGEMENT INDICATORS	2012/13 Actual	2013/14 Original Estimate	2013/14 Revised Estimate	2013/14 Actual
	£'000	£'000	£'000	£'000
Authorised Limit for External Debt:				
Borrowing and other long term liabilities	244,834	258,561	244,024	244,024
TOTAL	244,834	258,561	244,024	244,024
Operational Boundary for External Debt:				
Borrowing and other long term liabilities	224,834	238,561	224,024	224,024
TOTAL	224,834	238,561	224,024	224,024
External Debt (Gross)	172,834	186,561	171,861	171,861
Less Investments	(71,168)	(83,000)	(72,000)	(59,477)
Net Borrowing Position	101,666	103,561	99,861	112,384

PRUDENTIAL INDICATORS

Maturity Structure of Fixed Rate Borrowing During 2013/14	2012/13 Actual	2013/14 Original Estimate		2013/14 Actual
		Upper Limit	Lower Limit	
	%	%	%	%
Under 12 months	1	15	0	1
12 months to 2 years	1	15	0	1
2 to 5 years	6	40	0	5
5 to 10 years	19	60	0	13
10 years and above	73	100	15	80

