CITY OF YORK COUNCIL

Cabinet **1 July 2014**

Report of the Cabinet Member for Finance and Performance

Treasury Management Annual Report & Review of Prudential Indicators 2013/14

Purpose of Report

1. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of 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). Prudential Indicators are attached at Annex A.

2. The information detailed in this report ensures the Council's treasury management activities are affordable, sustainable and prudent as approved by Council on 28 February 2013 and that the Council's debt and investment position ensure adequate liquidity for revenue and capital activities, security for investments and manages risks within all treasury management areas.

3. The Council's year end treasury debt and investment position for 2013/14 compared to 2012/13 is summarised in the table below:

<u>Debt</u>

	31/03/2014 £m	**Rate %**	**31/03/2013 £m**	**Rate %**
General Fund Debt	118.7	4.2	118.7	4.2
Housing Revenue Account Debt	139.9	3.4	139.9	3.4

Total Debt	**258.6**		**258.6**	

Investments

	31/03/2014 £m	Rate %	31/03/2013 £m	Rate %
Councils Investment Balance	44.2	0.48	11.9	1.46

Table 1 – Summary of the treasury management portfolio

Borrowing Outturn 2013/14

4. The Councils capital expenditure activity on long-term assets undertaken as part of the approved Capital programme impacts (dependant on the way that the capital programme is financed)the level of borrowing. The prudential indicators which control the borrowing activity of the Council are contained in Annex A

5. The purpose of the Council's underlying need to borrow is to finance capital expenditure, termed the Capital Financing Requirement (CFR).

6. The total CFR for the council at the end of 2013/14 was £311.2m (compared to £ 311.8m 2013/14) split between the General Fund at £170.9m and the HRA at £140.3m. In accordance with the flexibility allowed by the borrowing strategy, no external borrowing was taken to finance this requirement as surplus funds were used. The Council continues make efficient use its strong cash balance position to support its current capital expenditure requirements

7. Total actual level at the start of 2013/14 was £258.6m (General Fund £118.7m / HRA £139.3m) and remained constant throughout the year closing at the end of 2013/14 at £258.6m (General Fund £118.7m / HRA £139.9m).

8. The Council did not restructure any of its borrowing portfolio during the year as no opportunities arose when taking into consideration the associated premium that would be generated.

9. The overall position of the borrowing activity has not caused any variation in the average interest rate that remains at 3.8%.

10. Figure 1 shows the PWLB interest rates from 1 October 2010 to 31 March 2014 and includes the loans borrowed by the council.

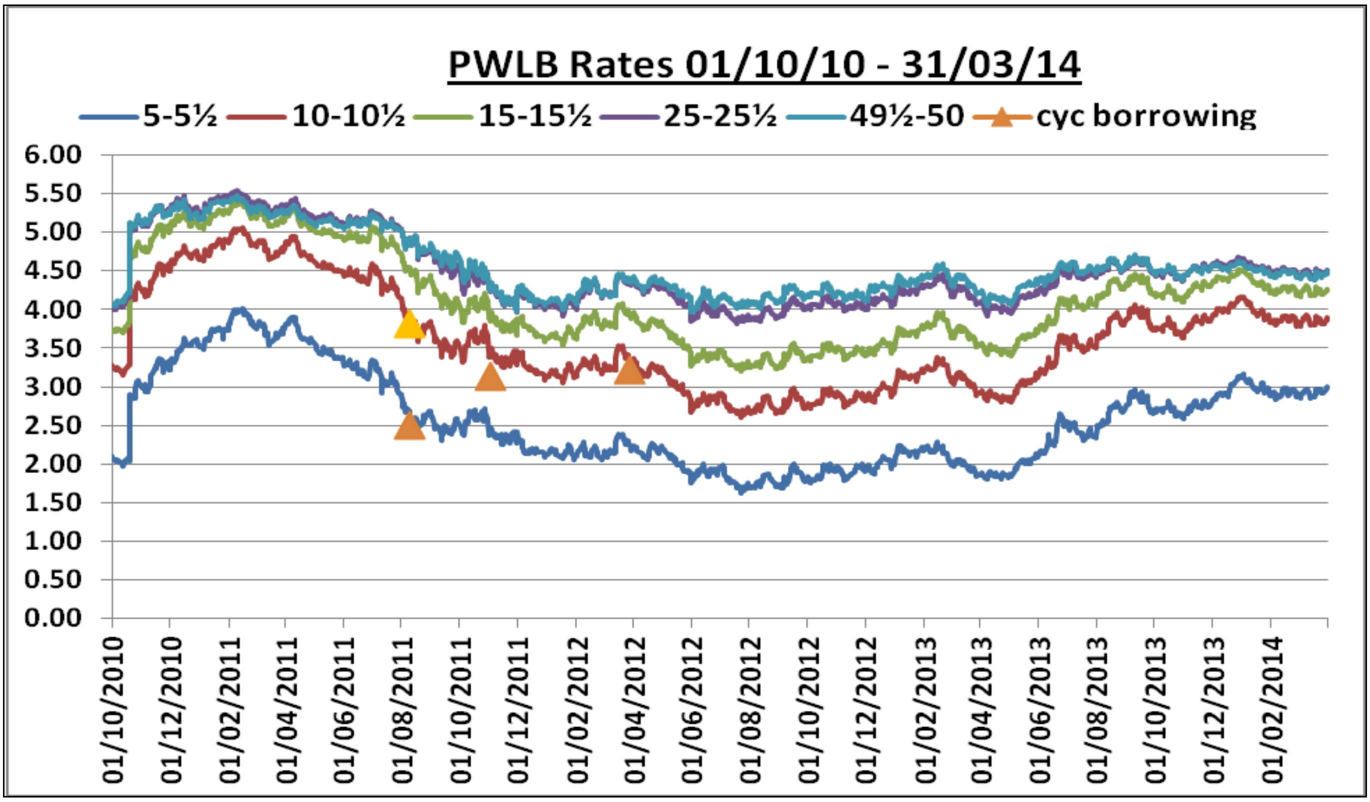

Figure 1 - PWLB rates and CYC borrowing levels

Investment Outturn 2013/14

11. Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. Market expectations of the start of monetary tightening were pushed back during the year to Quarter 4 of 2015.

12. The Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 28 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 (Fitch, Standard & Poors, Moody's) supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

13. The investment activity during the year conformed to the approved strategy, all investments were made in full accordance with the Councils investment practices and the Council had no liquidity difficulties in meeting its obligations.

14. The Council maintained an average investment balance of £61.150m compared to £40.2m in 2012/13. The surplus funds earned an average rate of return in 2013/14 of 0.484% compared to 1.461% in 2012/13. The increase in cash in cash balances is attributable to the receipt of high value developer's contributions and the continued early receipt of grant funding from Government.

15. The comparable performance indicator is the average 7-day LIBID rate, which was 0.34% in 2013/14 and the three month LIBID rate of 0.39%. All investments occurred in line with the investment strategy that the security of capital is of prime importance

Consultation

16. This report is for information purposes and reports on the performance of the treasury management function. Members through the budget process set the level of budget and expected performance of the Councils treasury management function.

Options

17. In accordance with the Local Government Act 2003, it is a requirement under the CIPFA Prudential code and the CIPFA Treasury Management in Local Authorities that the Cabinet receives an annual treasury management review report of the previous year (2013/14) by 30 September 2014. It is also a requirement that the Council delegates the role of scrutiny of treasury management strategy and policies to a specified named body which in this Council is the Audit & Governance Committee. This annual treasury management report is scheduled at Audit & Governance Committee on 30th July 2014.

Council Plan

18. Treasury Management is aimed at ensuring the Council maximises its return on investments and minimises the cost of its debts. This will allow more resources to be freed up to invest in the Council's priorities, values and imperatives, as set out in the Council's plan. Effective treasury management is concerned with the management

of the council's cash flows, it's banking, money market and capital transactions, the management of debt, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

Financial Implications

19. Contained throughout the main body of the report.

Human Resources Implications

20. There are no HR implications as a result of this report.

Equalities Implications

21. There are no Equalities implications as a result of this report.

Legal Implications

22. Treasury Management activities have to conform to the Local Government Act 2003, which specifies that the Council is required to adopt the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice.

Crime and Disorder

23. There are no Crime and Disorder implications as a result of this report.

Information Technology

24. There are no Information Technology implications as a result of this report.

Property

25. There are no Property implications as a result of this report.

Risk Management

26. The treasury function is a high-risk area because of the level of large money transactions that take place. As a result of this there are strict procedures set out as part of the Treasury Management Practices statement. The scrutiny of this and other monitoring reports is carried out by Audit & Governance Committee as part of the council's system of internal control

Recommendations

27. The Cabinet, in accordance with the Local Government Act 2003 is asked to:

    (i) Note the 2013/14 performance of Treasury Management activity and

    (ii) Note the compliance with and movements of the Prudential Indicators in Annex A.

Reason: To ensure the continued performance of the Council's Treasury Management function can be monitored.

Contact Details

Authors:	**Cabinet Member & Chief Officer** **Responsible for the report:**			
Ross Brown Principal Accountant Ext 1207 Debbie Mitchell Corporate Finance Manager Ext 4161	Cllr Dafydd Williams, Cabinet Member for Finance and Performance Ian Floyd Director of Customer & Business Support Services			
	Report Approved	√	**Date**	*13/06/14*
Wards Affected: *All*				

For further information please contact the authors of the report

Specialist Implications:
Legal – Not Applicable
Property – Not Applicable
Information Technology – Not Applicable

Annexes

Annex A: Prudential Indicators 2013/14