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**Executive**

**30 July 2015**

**Report of the Director of Customer and Business Support Services  
(Portfolio of the Leader of the Council)**

**Treasury Management Annual Report & Review of Prudential  
Indicators 2014/15**

**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 2014/15. 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 27 February 2014 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.

**Recommendations**

3. The Executive, in accordance with the Local Government Act 2003 is asked to:
  - (i) Note the 2014/15 performance of Treasury Management activity and
  - (ii) Note the compliance with and movements of the Prudential Indicators in Annex A

4. Recommend to Full Council the amendment to the Treasury Management Annual Investment Strategy per Annex B and the Creditworthiness Policy wording to:

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1 and Long Term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

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

### Summary of Issues

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

#### Debt

	<b>31/03/2015</b> <b>£m</b>	<b>Rate</b> <b>%</b>	<b>31/03/2014</b> <b>£m</b>	<b>Rate</b> <b>%</b>
General Fund Debt	128.8	4.18	118.3	4.24
Housing Revenue Account Debt	140.3	3.40	140.3	3.40
<b>Total Debt</b>	<b>269.1</b>	<b>3.74</b>	<b>258.6</b>	<b>3.76</b>

#### Investments

	<b>31/03/2015</b> <b>£m</b>	<b>Rate</b> <b>%</b>	<b>31/03/2014</b> <b>£m</b>	<b>Rate</b> <b>%</b>
Councils Investment Balance	60.997	0.52	44.2	0.48

**Table 1 a & b – Summary of the treasury management**

## Borrowing Outturn 2014/15

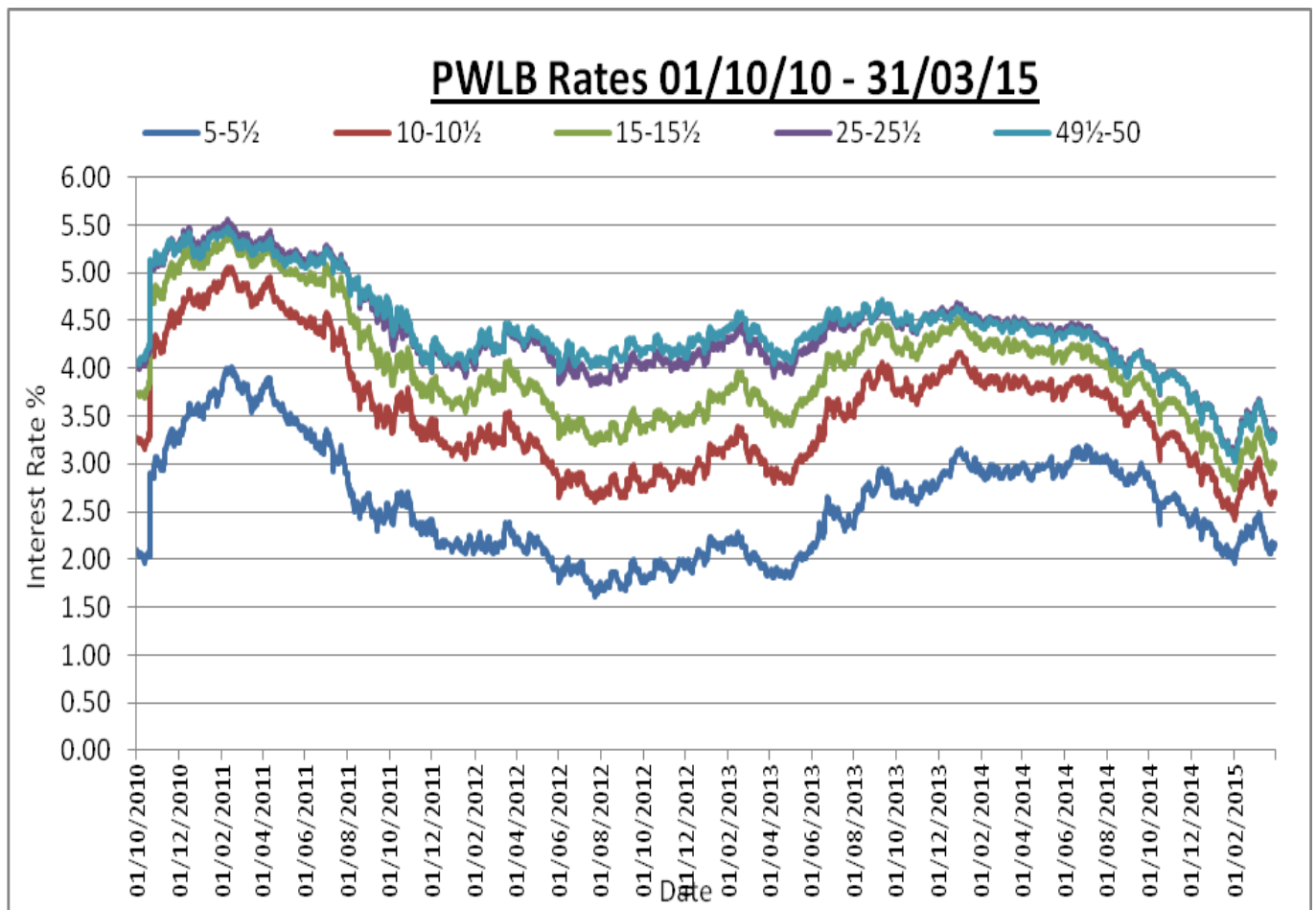
7. The Councils capital expenditure activity on long-term assets undertaken as part of the approved Capital programme impacts (dependant on the way that the capital programme is financed) the level of borrowing. The prudential indicators which control the borrowing activity of the Council are contained in Annex A
8. The purpose of the Council's underlying need to borrow is to finance capital expenditure, termed the Capital Financing Requirement (CFR). The total CFR for the council at the end of 2014/15 was £317.4m (compared to £ 311.3m 2013/14) split between the General Fund at £177.1m and the HRA at £140.3m.
9. The CFR suggests the Councils level of borrowing (that is actual debt) could be as high as £317.4m, however in accordance with the flexibility allowed by the borrowing strategy; it currently stands at £269.1m. The Council continues make efficient use of its strong cash balance position to support its current capital expenditure requirements in cash terms but has also taken the decision to secure some long tem borrowing whilst rates are favourable to reduce its exposure to financing risk in future years.
10. Table 2 shows a summary of the debt position reflecting the new loans taken during 2014/15:

	<b>Loan Value £m</b>	<b>Rate of Interest</b>	<b>Maturity Date</b>
<b>Opening Debt Position</b>	<b>258.6</b>	<b>3.76%</b>	
<b>New loans:</b>			
PWLB	5.000	3.68%	2064
PWLB	5.000	3.69%	2063
PWLB	5.000	3.49%	2064

<b>Repayments:</b>			
PWLB	4.500	3.91%	2014
<b>Closing Debt Position</b>	<b>269.1</b>	<b>3.74%</b>	

**Table 2 – 2014/15 Debt summary and movement detailed**

11. Debt rescheduling opportunities remain limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. Consequently 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.
  
12. For context figure 1 shows the PWLB interest rates from 1 October 2010 to 31 March 2015.



**Figure 1 - PWLB rates and CYC borrowing levels**

### Investment Outturn 2014/15

13. The investment activity during the year conformed to the approved Treasury Strategy that reflects the DCLGs guidance on Local Authority investments issued in 2010, all investments were made in full accordance with the Councils investment practices and the Council had no liquidity difficulties in meeting its obligations
14. Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Consequently, with bank rate not expected to increase to 0.75% until quarter 2 2016 investment levels have remained relatively flat with rates above 0.5% only being available for longer dated maturities.
15. The Council maintained an average investment balance of £74.792m compared to £61.150m in 2013/14. The surplus funds earned an average rate of return of 0.521% in 2014/15 compared to 0.484% in 2013/14. The increase in cash balances is

attributable to the receipt of high value developer's contributions and the continued early receipt of grant funding from Government.

16. The comparable performance indicator for the Councils investment performance is the average London Inter Bank Bid Rate that represents average interest rate which major London banks borrow Eurocurrency deposits from other banks. Table 3 shows the rates for financial year 2014/15 aligned to the Councils financial year and shows that for all cash holdings (includes amounts held to meet day to day payments) the rate of return is comparable with 6 month benchmark, far exceeding the levels of the usual 7 day and 3 month benchmarks.

<b>Benchmark</b>	<b>Benchmark Return</b>	<b>Council Performance</b>	<b>CYC Variance</b>
7 day	0.35	0.52	+0.17
1 month	0.37	0.52	+0.15
3 month	0.43	0.52	+0.09
6 month	0.56	0.52	-0.04
12 month	0.87	0.52	-0.35

**Table 3 – LIBID vs. CYC comparison**

## **Consultation**

17. This report in the main 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**

18. 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 (2014/15) by 30 September 2015. 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 29<sup>th</sup> July 2015.

### **Corporate Priorities**

19. Treasury Management is aimed at ensuring the Council has sufficient liquidity to allow it to operate, safeguards its investments through a prudent investment approach and maximises its return on investments and minimises the cost of its debts. Effective management allows more resources to be freed up to invest in the Council's priorities, values and imperatives, as set out in the Council's plan. Treasury management covers the management of the council's cash flows, its 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**

20. Contained throughout the main body of the report.

### **Human Resources Implications**

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

### **Equalities Implications**

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

### **Legal Implications**

23. 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

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

## Information Technology

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

## Property

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

## Risk Management

27. The treasury function is a high-risk area due to 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

## Contact Details

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	<b>Report Approved</b>	√	<b>Date</b> 08/06/15
<b>Wards Affected:</b> 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 2014/15

Annex B: Revised Specified and Non-Specified Investments Categories