Annual Treasury Management Review
2013/14

Annual Treasury Management Review 2013/14

1. Purpose

This 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).

During 2013/14 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 28/02/2013)
- a mid-year (minimum) treasury update report (Council 16/10/2013)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore 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.

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Standards & Audit Committee before they were reported to the full Council.

2. The Economy and Interest Rates

The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk had subsided somewhat. The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality (see paragraph 4.) The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.

The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

3. Overall Treasury Position as at 31 March 2014

The Council’s debt and investment position is organised by the treasury management service 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 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:

TABLE 1	31 March 2013 Principal £000	Rate/ Return %	Average Life years	31 March 2014 Principal £000	Rate/ Return %	Average Life years
General Fund:						
Long term debt	**4,638**	**6.39**	**10.3**	**4,298**	**6.21**	**10.1**
CFR	**8,357**			**10,660**		
Over / (under) borrowing	**(3,719)**			**(6,362)**		
Short term debt	**4,000**	**0.39**		**5,060**	**0.39**	
HRA:						
Long term debt	**138,104**	**3.99**	**24.4**	**135,609**	**3.92**	**23.8**
CFR	**142,680**			**140,540**		
Over / (under) borrowing	**(4,576)**			**(4,931)**		
Total investments	**24,219**	**1.18**		**23,122**	**0.34**	
Net debt	**122,523**			**121,845**		

4. The Strategy for 2013/14

The Council's overall core borrowing strategy is as follows:-

- To reduce the revenue costs of debt
- To manage the Council's debt maturity profile, leaving no one future year with a high level of repayments that might cause problems in re-borrowing
- To secure funding at the cheapest cost commensurate with future risk
- To reschedule debt in order to take advantage of potential savings as interest rates change. Any reschedule exercise will be considered in terms of the premiums and discounts on the General Fund and HRA.
- To manage the day to day cash flow of the Authority in order to, where possible, negate the need for short term borrowing.

The Head of Finance will take the most appropriate form of borrowing depending on prevailing interest rates at the time. It is likely that short term fixed rates may provide lower cost opportunities in the short/medium term.

The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and offset the expected fall in investment returns.

5. The Borrowing Requirement and Debt

The Council's underlying need to borrow to finance 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 and prior years' net or unfinanced capital expenditure that has not yet been charged to revenue or other resources.

Part of the Council's treasury activities is to address the funding requirement for this borrowing need. 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.

The General Fund element of the CFR is reduced each year by a statutory revenue charge.

The total CFR can also be reduced by:

- The application of additional capital financing resources (such as capital receipts); or
- Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP)

CFR: General Fund	31 March 2013 Actual £000	31 March 2014 Revised £000	31 March 2014 Actual £000
Opening balance	7,848	8,357	8,357
Add unfinanced capital expenditure	1,022	1,998	2,620
Less MRP/VRP	(513)	(318)	(317)
Closing balance	8,357	10,037	10,660

CFR: HRA	31 March 2013 Actual £000	31 March 2014 Revised £000	31 March 2014 Actual £000
Opening balance	142,680	142,680	142,680
Add unfinanced capital expenditure	-	-	-
Less MRP/VRP	-	(2,140)	(2,140)
Closing balance	142,680	140,540	140,540

6. Borrowing Outturn for 2013/14

Borrowing – There was no new long term borrowing during the year.

Rescheduling - No rescheduling was undertaken during the year.

Repayments – Repayments of £2m were made in the year.

Interest payable on borrowing	2012/13 Actual £000	2013/14 Revised £000	2013/14 Actual £000
General Fund	399	523	541
HRA	5,513	5,438	5,440

7. Investment Outturn for 2013/14

Investment Policy – the Council's investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Council on 28th 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.).

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

Investments held by the Council - the Council maintained an average balance of £4.05m of internally managed funds. The internally managed funds earned an average rate of return of 0.94%. The comparable performance indicator is the average 7-day LIBID rate (uncompounded), which was 0.354%. This compares with a budget assumption of £3.7m investment balances earning an average rate of 0.97%.

Investments held by fund managers – the Council uses Investec Asset Management as external fund managers to invest part of its cash balances. The performance indicator is the average 7 day LIBID rate (compounded). The performance of the managers against the benchmark return was:

Fund Manager	Investments Held	Return	Benchmark*
Investec	£21.7m	0.226%	0.356%

This compares with a budget assumption of average investment balances of £21.7m at 0.32% investment return. Performance during the year has been disappointing compared to the benchmark and the rest of the industry. A review of the Council's investment arrangements is currently being undertaken by the Head of Finance.

Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2012/13	2013/14	2013/14
	actual	revised	actual
	£'000	£'000	£'000
Capital Expenditure			
General fund	3,739	6,609	6,458
HRA	16,211	15,387	12,739
TOTAL	19,950	21,996	19,197
Ratio of financing costs to net revenue stream			
General Fund	3.23%	4.50%	4.65%
HRA	16.19%	15.43%	15.31%
Gross borrowing requirement General Fund			
brought forward 1 April	11,376	8,638	8,638
carried forward 31 March	8,638	8,176	9,358
in year borrowing requirement	(2,738)	(462)	720
Gross borrowing requirement HRA			
brought forward 1 April	139,467	138,104	138,104
carried forward 31 March	138,104	136,609	135,609
in year borrowing requirement	(1,363)	(1,495)	(2,495)
Gross debt	146,742	144,785	144,967
CFR			
General Fund	8,357	10,037	10,660
HRA	142,680	140,540	140,540
TOTAL	151,037	150,577	151,200
Annual change in Cap. Financing Requirement			
General Fund	509	1,680	2,303
HRA	-	(2,140)	(2,140)
TOTAL	509	(460)	163

2. TREASURY MANAGEMENT INDICATORS	2012/13	2013/14	2013/14
	actual	revised	actual
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	162,000	161,500	161,500
other long term liabilities	-	-	-
TOTAL	162,000	161,500	161,500
Operational Boundary for external debt -			
borrowing	150,850	150,250	150,250
other long term liabilities	-	-	-
TOTAL	150,850	150,250	150,250
Maximum external debt during year	150,843	-	150,241
Actual external debt as at 31st March	146,742	144,785	144,967
Maximum HRA debt limit	138,104	136,609	135,609
Upper limit for fixed interest rate exposure	50% - 100%	50% - 100%	50% - 100%
Upper limit for variable rate exposure	0% – 50%	0% – 50%	0% – 50%
Upper limit for total principal sums invested for over 364 days (per maturity date)	25%	25%	25%

Maturity structure of fixed rate borrowing during 2013/14	upper limit	lower limit
under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	45%	0%
5 years and within 10 years	75%	5%
10 years and above	95%	25%

The maturity structure of the debt portfolio was as follows:

	31 March 2013 Actual £000	31 March 2014 Actual £000
Under 12 months	2,836	1,861
12 months and within 24 months	1,861	2,887
24 months and within 5 years	6,743	5,823
5 years and within 10 years	10,783	11,817
10 years and above	120,519	117,519

The maturity structure of the investment portfolio was as follows:

	2012/13 Actual £000	2013/14 Actual £000
Less than one year	24,219	19,962
Over 1 year	-	3,160
Total	24,219	23,122