

Report to: **Audit Committee**
Date: **29 September 2015**
Title: **ANNUAL TREASURY MANAGEMENT REPORT
2014/15**
Portfolio Area: **Support Services**

Wards Affected: **ALL**

Urgent Decision: **N** Approval and clearance obtained: **Y**

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Recommendations:

That the Audit Committee:

- 1. Approves the actual 2014/15 prudential and treasury indicators in this report**
- 2. Notes the Annual Treasury Management Report for 2014/15**

1. Executive summary

Income from investments this year was £41,193 which is £872 higher than the budget of £40,321 at an average return of 0.45%. (Appendix A Benchmarking Exercise) The comparable performance indicator (Benchmark) is the average 7-day LIBID rate which was 0.35%. Therefore the Council achieved 0.10% return on investments over the benchmark for 14/15.

2. Background

Introduction

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 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).

Treasury management is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks "

During 2014/15 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Audit Committee 11/02/2014 – AC 32)
- A mid-year (minimum) treasury update report (Council 09/12/2014 – CM61)
- 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 Audit Committee before they were reported to the full Council.

The Economy and Interest Rates

The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro.

By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

Overall Treasury Position as at 31 March 2015

At the beginning and the end of 2014/15 the Council's treasury position was as follows:

	As at 31/03/2014		As at 31/03/2015	
	Principal	Interest	Principal	Interest
	£	%	£	%
Investment Type				
Call Account	1,630,072	0.30	1,456,341	0.30
Short Fixed	2,000,000	0.39	2,000,000	0.46
Money Market Funds	-		4,000,000	0.40
Total	3,630,072	0.35	7,456,341	0.40

The Following is a list of our fixed investments at 31 March 2015

	Fixed to	£	Interest Rate
Barclays Bank	29/05/2015	2,000,000	0.46%

The Strategy for 2014/15

The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit ratings are required together with a limit of £2m per counterparty. This has resulted in only a small number of institutions in which we can invest (see Appendix B).

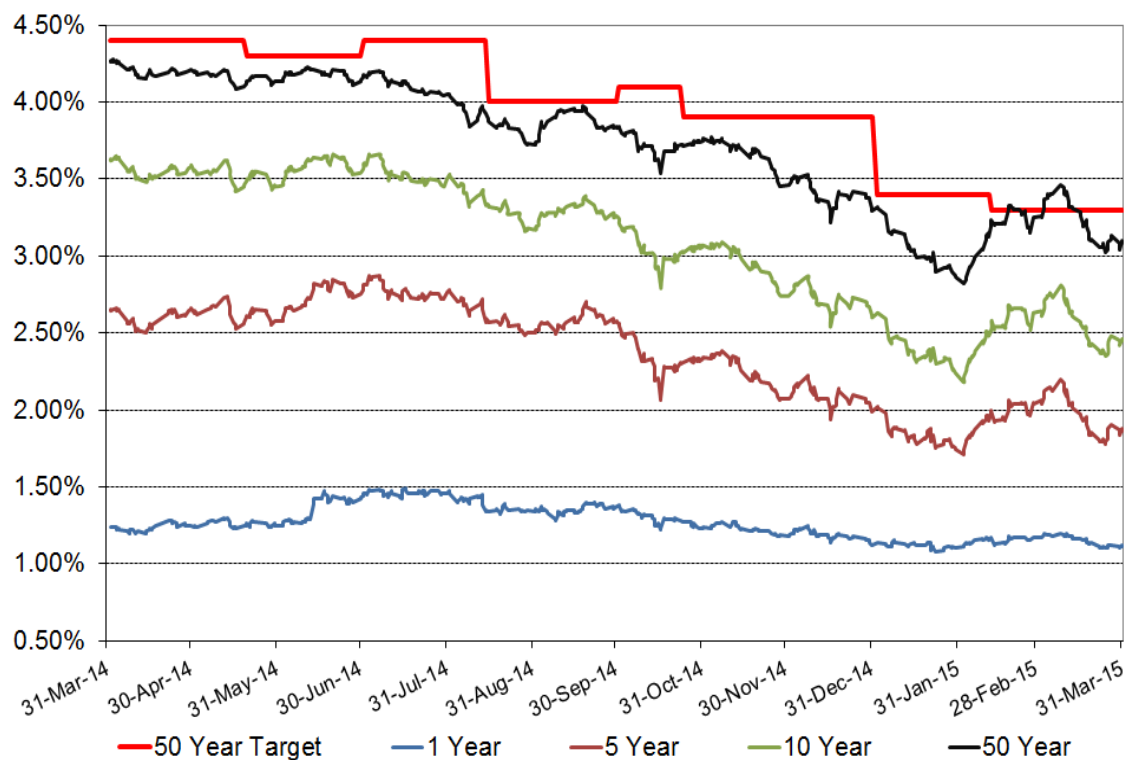
The Borrowing Requirement and Debt

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

	31 March 2014 Actual	31 March 2015 Budget	31 March 2015 Actual
CFR General Fund (£m)	1,842	1,800	1,799

Borrowing Rates in 2014/15

PWLB borrowing rates - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



Borrowing Outturn for 2014/15

Repayments

On 30/07/2014 & 31/01/2015 the Council repaid £47,775 at an average rate of 4.55%

Investment Rates in 2014/15

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.

Investment Outturn for 2014/15

Investment Policy – the Council’s investment policy is governed by the Department for Communities and Local Government (DCLG) guidance, which has been implemented in the annual investment strategy approved by the Audit Committee on 11/02/2014 (AC32). 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.

Income from investments this year was £41,193 which is £872 higher than the budget of £40,321 at an average return of 0.45%. The comparable performance indicator (Benchmark) is the average 7-day LIBID rate which was 0.35%. Therefore the Council achieved 0.10% return on investments over the benchmark for 14/15.

3. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003

Financial	Y	Income from Treasury Management activities amounted to £41,193 in 2014/15. Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning.
Risk	Y	<p>The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.</p> <p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Members.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	N/a
Safeguarding	N	N/a
Community Safety, Crime and Disorder	N	N/a
Health, Safety and Wellbeing	N	N/a
Other implications	N	none

Supporting Information

Appendices:

Appendix A – Benchmarking Exercise 2014/15

Appendix B – Lending list as at 31 March 2015

Appendix C - Prudential and Treasury Indicators 2014/15

Background Papers:

Annual treasury strategy in advance of the year (Audit Committee 11/02/2014 – AC 32)

A mid-year (minimum) treasury update report (Council 09/12/2014 – CM 61)

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/a

APPENDIX A

Benchmarking Exercise 2014/15 (internal managed Funds)

Investment	Ref	Weighted Amount	Start	Maturity	Borrower	Interest Rate	No. of days in period	Interest Paid
2,000,000	1212	306,849	17/02/2014	14/04/2014	Barclays Bank plc	0.39%	56	1,196.71
2,000,000	1212	241,096	14/04/2014	28/05/2014	Barclays Bank plc	0.40%	44	959.56
2,000,000	1215	432,877	15/04/2014	03/07/2014	Lloyds TSB Bank Plc	0.30%	79	1,298.63
2,000,000	1216	465,753	15/05/2014	08/08/2014	Nationwide BS	0.47%	85	2,189.04
2,000,000	1217	504,110	16/06/2014	16/09/2014	Barclays Bank plc	0.47%	92	2,369.32
2,000,000	1218	493,151	15/07/2014	13/10/2014	Lloyds TSB Bank Plc	0.57%	90	2,810.96
2,000,000	1219	367,123	15/08/2014	21/10/2014	Nationwide BS	0.46%	67	1,688.77
2,000,000	1217	383,562	16/09/2014	25/11/2014	Barclays Bank plc	0.45%	70	1,726.03
2,000,000	1218	504,110	13/10/2014	13/01/2015	Lloyds TSB Bank Plc	0.57%	92	2,873.42
1,400,000	1220	26,849	15/10/2014	22/10/2014	Debt Management Office	0.25%	7	67.12
1,000,000	1221	169,863	04/11/2014	05/01/2015	Nationwide BS	0.46%	62	781.37
1,000,000	1222	134,247	17/11/2014	05/01/2015	Nationwide BS	0.44%	49	590.68
1,000,000	1223	21,918	17/11/2014	25/11/2014	Debt Management Office	0.25%	8	54.79
2,000,000	1224	306,849	15/12/2014	09/02/2015	Barclays Bank plc	0.37%	56	1,135.34
1,000,000	1225	19,178	15/12/2014	22/12/2014	Debt Management Office	0.25%	7	47.95
1,000,000	1226	167,123	15/01/2015	17/03/2015	Lloyds TSB Bank Plc	0.47%	61	785.48
1,500,000	1227	106,849	14/01/2015	09/02/2015	Debt Management Office	0.25%	26	267.12
2,000,000	1228	334,247	15/01/2015	17/03/2015	Nationwide BS	0.46%	61	1,537.53
700,000	1229	19,178	27/02/2015	09/03/2015	Debt Management Office	0.25%	10	47.95
2,000,000	1230	400,000	17/03/2015	29/05/2015	Barclays Bank plc	0.46%	73	1,840.00
	Total	5,404,932					Total	24,267.78

Total Interest for 2014/15 financial year on a weighted capital sum of £5,404,932 amounts £24,267.78 interest which equates to an investment return as follows:

$$\frac{24,267.78}{5,404,932} \times \frac{100.00}{1} = 0.45\%$$

Average 3 month LIBID 0.35%

Favourable variance 0.10%

APPENDIX B

West Devon Borough Council lending list as at 31 March 2015.

Barclays Bank Plc
HSBC Bank plc
Lloyds Banking Group Plc: <ul style="list-style-type: none">• Bank of Scotland plc• Lloyds Bank plc
Nationwide Building Society
Royal Bank of Scotland Group Plc: <ul style="list-style-type: none">• The Royal Bank of Scotland plc• National Westminster Bank plc
Government UK Debt Management Facility
Local Authorities (as defined under Section 23 of the Local Government Act 2003)
AAA rated Money Market Funds

APPENDIX C

PRUDENTIAL AND TREASURY INDICATORS 2014/15

CAPITAL PRUDENTIAL INDICATORS

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

Capital Expenditure.

This prudential Indicator is a summary of the Council's capital expenditure.

Capital Expenditure	2013/14 Actual £000	2014/15 Estimate £000	2014/15 Actual £000
Total spend	490	841	473

The table below summarises the financing of the Council's capital programme. Any shortfall of resources would result in a funding need (borrowing).

Capital Expenditure	2013/14 Actual £000	2014/15 Estimate £000	2014/15 Actual £000
Total spend			
Financed by:			
Capital receipts	312	100	259
Capital grants	178	186	186
Revenue reserves	0	0	28
New Homes Bonus	0	555	0
Total funding	490	841	473

Nb. Please note that the estimate for 2014-15 represents the approved capital programme for that year. However, actual capital spend includes not only expenditure on projects within that capital programme, but also expenditure on schemes carried forward from previous capital programmes.

The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). It is essentially a measure of the Council's underlying need to borrow if the figure is greater than zero.

	2013/14 Actual £000	2014/15 Estimate £000	2014/15 Actual £000
Total CFR	1,842	1,800	1,799
Movement in CFR	42	42	42

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the receipt of net investment income against the net revenue stream. It is calculated by dividing investment income and interest received by the Council's Net Budget.

	2013/14 Actual	2014/15 Estimate	2014/15 Actual
Ratio of net investment income to net revenue stream (surplus).	1.65%	1.50%	1.24%

Estimates of the incremental impact of capital investment decisions on council tax

This indicator calculates the notional cost of the impact of lost investment income on the Council Tax, from spending capital resources.

Incremental impact of capital investment decisions on the band D council tax (notional cost as explained above)

	2013/14 Actual £	2014/15 Estimate £	2014/15 Actual £
Future incremental impact of capital investment decisions on the Band D council tax (Notional cost)	0.03	0.03	0.03

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2013/14 £	2014/15 £
Borrowing	3,000,000	3,000,000
Other long term liabilities	-	-
Total	3,000,000	3,000,000

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

Authorised limit	2013/14 £	2014/15 £
Borrowing	6,000,000	6,000,000
Other long term liabilities	0	
Total	6,000,000	6,000,000