

NAME OF COMMITTEE	EXECUTIVE
DATE	11 SEPTEMBER 2014
REPORT TITLE	ANNUAL TREASURY MANAGEMENT REPORT 2013/14
REPORT OF	Head of Finance and Audit
WARDS AFFECTED	ALL

Summary of report:

To inform the Executive of the results and performance of the Treasury Management activity undertaken in 2013/14.

Financial implications:

Income from Treasury Management activities amounted to £169,000 in 2013/14. 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.

RECOMMENDATIONS:

That the Executive:

- 1. Approves the actual 2013/14 prudential and treasury indicators in this report**
- 2. Notes the Annual Treasury Management Report for 2013/14**

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1. BACKGROUND

- 1.1 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 reporting requirements were that the Executive should receive the following reports:

- an annual treasury strategy in advance of the year (Executive 21/03/13 - E.89/12)
- a mid - year treasury update report (Executive 12/12/13 – E43/13)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

1.2 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.”

1.3 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.

2. THE ECONOMY AND INTEREST RATES

2.1 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 is in line with current thinking. 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. 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.

3. ISSUES FOR CONSIDERATION

Treasury Position at 31 March 2014

3.1 Our investment position at the beginning and the end of the year was as follows:

	As at 31/3/2013		As at 31/3/2014	
	Principal £	Interest %	Principal £	Interest %
Call	5,000,000	0.65	-	-
Short Fixed Money Market Funds	13,000,000	1.36	15,000,000	0.64
Heritable Bank	990,000	0.33	2,950,000	0.32
	282,011	-	72,368	-
Total	19,272,011	0.96	18,022,368	0.59

The following is a list of our fixed investments at 31 March 2014:

	Fixed to	£	Interest rate
Nationwide BS	20.05.14	5,000,000	0.47 %
Barclays Bank	22.04.14	5,000,000	0.44 %
Lloyds Bank	03.09.14	5,000,000	1.01 %

- 3.2 At the 31 March 2014 the Council had £72,368 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that have been affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank Landsbanki.
- 3.3 The Council placed a deposit of £1,250,000 on 25th September 2008. At the time the deposit was placed the risk rating of Heritable was 'A' (long term deposits) and F1 (short term deposits) which were within the deposit policy approved by the Council. Both these ratings indicate low risk.
- 3.4 Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators had paid fourteen dividends at the end of September 2013 amounting to 94% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

Performance Assessment

- 3.5 Investment interest of £169,000 was received during 2013/14 which is £21,000 less than the budget of £190,000. This is a result of historically low interest rates during the past year with a bank base rate of 0.5% together with a risk adverse investment policy.

- 3.6 Industry performance is judged and monitored by reference to a standard benchmark; this is the 7 day London Interbank Bid Rate (LIBID). The average weighted LIBID rate for 2013/14 was 0.35%, which is 0.38% lower than our weighted average return of 0.73%. The reason we exceeded the benchmark is due to the use of fixed term deposits (see paragraph 3.1 above).
- 3.7 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 £5m per counterparty. This has resulted in only a small number of institutions in which we can invest (see Appendix A).

Compliance with Treasury Limits and Prudential Indicators

- 3.8 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix B.

4. LEGAL IMPLICATIONS

- 4.1 Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003.

5. FINANCIAL IMPLICATIONS

- 5.1 Income from Treasury Management activities amounted to £169,000 in 2013/14. 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.

6. RISK MANAGEMENT

The Risk Management implications are shown at the end of this report in the Strategic Risks Template.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	Sound financial management underpins all of the Council's corporate priorities.
Statutory powers:	Local Government Act 1972, s148(5)
Considerations of equality and human rights:	N/a
Biodiversity considerations:	N/a
Sustainability considerations:	N/a
Crime and disorder implications:	N/a
Background papers:	Executive:21/03/13: TMS Executive:12/12/13: Mid-year Review
Appendices attached:	Appendix A - Counterparty List Appendix B - Prudential Indicators

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Security	risk of failure of counterparty	5	3	15	↔	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. The Council employs a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported monthly to SMT and quarterly to the Executive. Audit Committee have a scrutiny role over the Treasury Management operation.	Head of Finance and Audit
2	Liquidity	liquidity constraints affecting interest rate performance	3	3	9	↔	See above	Head of Finance and Audit
3	Yield	volatility of interest rates / inflation	4	4	16	↔	See above	Head of Finance and Audit

Direction of travel symbols ↓ ↑ ↔

APPENDIX A

SOUTH HAMS DISTRICT COUNCIL LENDING LIST AS AT 31 MARCH 2014.

Barclays Bank Plc
Co-operative Bank (the Council's Bank)
HSBC Bank plc
Lloyds Banking Group Plc: <ul style="list-style-type: none">• Bank of Scotland plc• Lloyds TSB 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

PRUDENTIAL AND TREASURY INDICATORS 2013/14**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	2012/13 Actual £000	2013/14 Estimate £000	2013/14 Actual £000
Total spend	2,569	1,594	4,040

The table below summarises the financing of the Council's capital programme. Any shortfall of resources would result in a funding need (borrowing). However, the Council is currently debt-free.

Capital Expenditure	2012/13 Actual £000	2013/14 Estimate £000	2013/14 Actual £000
Total spend	2,569	1,594	4,040
Financed by:			
Capital receipts	743	50	1,455
Capital grants	554	589	1,549
Revenue reserves	1,272	955	1,036
Total funding	2,569	1,594	4,040

Nb. Please note that the estimate for 2013-14 represents the approved programme for that year. However, actual spend includes not only expenditure on projects within that programme, but also on schemes carried forward from previous 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. The negative figure reflects the fact that the Council is debt-free and has a nil borrowing requirement.

	2012/13 Actual £000	2013/14 Estimate £000	2013/14 Actual £000
Total CFR	(98)	(98)	(98)
Movement in CFR	Nil	Nil	Nil
Net borrowing requirement (the Council is debt free)	Nil	Nil	Nil

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.

	2012/13 Actual	2013/14 Estimate	2013/14 Actual
Ratio of net investment income to net revenue stream (surplus).	2.6%	2.1%	1.8%

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)

	2012/13 Actual £	2013/14 Estimate £	2013/14 Actual £
Future incremental impact of capital investment decisions on the Band D council tax (Notional cost)	0.25	0.13	0.30

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	2012/13 £	2013/14 £
Borrowing	2,000,000	2,000,000
Other long term liabilities	-	-
Total	2,000,000	2,000,000

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	2012/13 £	2013/14 £
Borrowing	7,000,000	7,000,000
Other long term liabilities	-	-
Total	7,000,000	7,000,000

