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| Agenda Item No: | 14 |
| Committee: | Council |
| Date: | 24 July 2014 |
| Report Title: | Treasury Management Annual Report 2013/14 |

Fenland
CAMBRIDGESHIRE

## Cover sheet:

### 1 Purpose / Summary

The purpose of this report is to consider the overall financial and operational performance of the Council's treasury management activity for 2013/14.

### 2 Key issues

- In accordance with the Treasury Management Strategy approved in February 2014, Council receives an annual report after the financial year-end on its' treasury management activities.
- The Treasury Management Annual Report 203/14 as considered by Cabinet on 19 June 2014 and Corporate Governance Committee on 15 July 2014 is attached.
- The report highlights all the key activities carried out within the Treasury Management function during 2013/14. All activities have been conducted in accordance with the approved strategy and policies.
- 2013/14 has been a challenging year and the report highlights the success in maximising investment income whilst ensuring the security and liquidity of the Council's investments.

### 3 Recommendations

- It is recommended that members note the report.

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| **Wards Affected** | All |
| **Portfolio Holder(s)** | Cllr John Clark, Leader and Portfolio Holder, Marketing and Communications<br>Cllr Chris Seaton, Portfolio Holder for Finance |
| **Report Originator(s)** | Rob Bridge, Corporate Director and Chief Finance Officer<br>Mark Saunders, Chief Accountant |
| **Contact Officer(s)** | Rob Bridge, Corporate Director and Chief Finance Officer<br>Mark Saunders, Chief Accountant |
| **Background Paper(s)** | Treasury Management and Annual Investment Strategy 2013/14 |

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| Agenda Item No: | 9 | |
| Committee: | Corporate Governance Committee | |
| Date: | 15 July 2014 | |
| Report Title: | Treasury Management Annual Report 2013/14 | |

## Cover sheet:

### 1 Purpose / Summary

The purpose of this report is to consider the overall financial and operational performance of the Council's treasury management activity for 2013/14. This report has been considered by Cabinet on 19 June 2014 and will be presented to Council on 24 July 2014.

### 2 Key issues

- Outstanding loans and finance lease liabilities of £8,120,409 and temporary investments of £16,450,000 as at 31 March 2014.
- The average rate on the long term external debt portfolio was 6.10% at 31 March 2014.
- Due to the Council's long term PWLB debt portfolio (£4.5m at 31/03/14) currently attracting excessive premiums it was not financially advantageous for the Council to comply with the Gross borrowing and Capital Financing Prudential Indicator in 2013/14. All other prudential and treasury Indicators were complied with.
- No new borrowing was undertaken and the authorised limit was not breached during 2013/14.
- The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- Amount received from external investments £225,979.
- Overall interest rate achieved from investments 1.08% (7 day LIBID uncompounded rate for 2013/14 0.35%).

### 3 Recommendations

- It is recommended that members note the report.

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## Report:

### 1 Introduction

1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2013/14. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

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

- an annual treasury strategy in advance of the year (Council 21/02/2013);
- a mid-year treasury update report (Council 19/12/2013);
- an annual review following the end of the year, describing the activity compared to the strategy (this report).

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 The Council 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 Corporate Governance Committee before they were reported to Council.

### 2 The Economy and Interest Rates

2.1 The financial year 2013/14 continued the challenging investment environment of the previous years, namely low investment returns, although levels of counterparty risk had subsided somewhat. The original expectation for 2013/14 was that the 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 revised to 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.

2.2 While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had fallen below the target rate to 1.9%. It is expected to remain slightly below the target rate for most of the two years ahead.

2.3 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. 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 investments 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.

2.4 The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative reduction in the forecast for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018/19.

2.5 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 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

3.1 At the beginning and end of 2013/14 the Council's treasury position was as follows.

| | 31 March 2014 Principal £000 | Rate / Return | Average Life years | 31 March 2013 Principal £000 | Rate / Return | Average Life years |
|---|---|---|---|---|---|---|
| Fixed rate funding | | | | | | |
| • PWLB | 4,500 | 7.29% | 16.40 yrs | 4,500 | 7.00% | 17.40 yrs |
| • LOBO | 3,300 | 4.70% | 39.96 yrs | 3,300 | 4.70% | 40.96 yrs |
| • Finance Leases | 320 | 4.67% | 2.18 yrs | 523 | 5.64% | 2.65 yrs |
| Total debt | 8,120 | | | 8,323 | | |
| | | | | | | |
| Investments | (16,450) | 1.08% | | (14,850) | 1.65% | |
| | | | | | | |
| Net debt /(Investments) | (8,330) | | | (6,527) | | |
| | | | | | | |

## 4 The Strategy for 2013/14

4.1 The expectation for interest rates within the strategy for 2013/14 anticipated low but rising bank rate (starting in quarter 1 of 2015) with similar gradual rises in medium and longer term fixed interest rates during 2013/14. Variable or short term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

## 5 The Borrowing Requirement

5.1 The Council's Capital Financing Requirement (CFR) for the year is shown below and represents a key prudential indicator.

| | 31 March 2013 Actual £000 | 31 March 2014 Estimate £000 | 31 March 2014 Actual £000 |
|---|---|---|---|
| | | | |
| CFR opening balance | 531 | 529 | 529 |
| Capital expenditure on finance leases | 164 | 0 | 0 |
| Less finance lease repayments | (166) | (203) | (203) |
| | | | |
| CFR Closing balance | 529 | 326 | 326 |
| | | | |

5.2 The CFR includes finance leases. A finance lease is a commercial arrangement between the Council and a lessor (finance company), where in consideration for a series of payments the Council has the right to use an asset (e.g. refuse vehicle, leisure equipment) for the lease duration (typically 3 to 7 years). The annual lease payment is made up of a capital and interest repayment.

5.3 Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan.

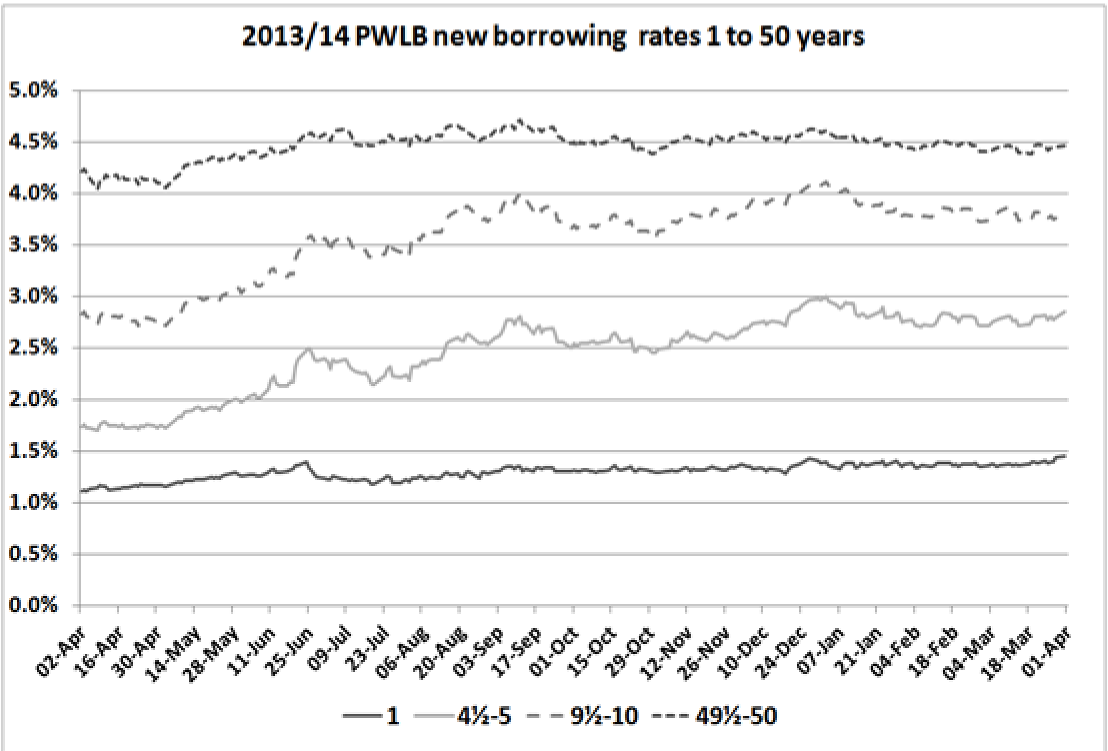
5.4 One of the key prudential indicators is Gross borrowing and the CFR. This indicators is too ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years and ensures that long term borrowing is not undertaken for revenue purposes. Appendix A highlights the Council's borrowing position against the CFR.

5.5 As a result of the Council's long term PWLB debt portfolio (£4.5m at 31/03/14) currently attracting excessive premiums (£2.45m at the time of writing this report), if it were prematurely repaid, it is not financially advantageous for the Council to comply with this prudential indicator.

5.6 The authorised limit is the "affordable borrowing limit" required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. The authorised limit was not breached during 2013/14.

## 6 Borrowing Outturn

6.1 The graph below shows how PWLB certainty rates have risen from historically very low levels during the year.

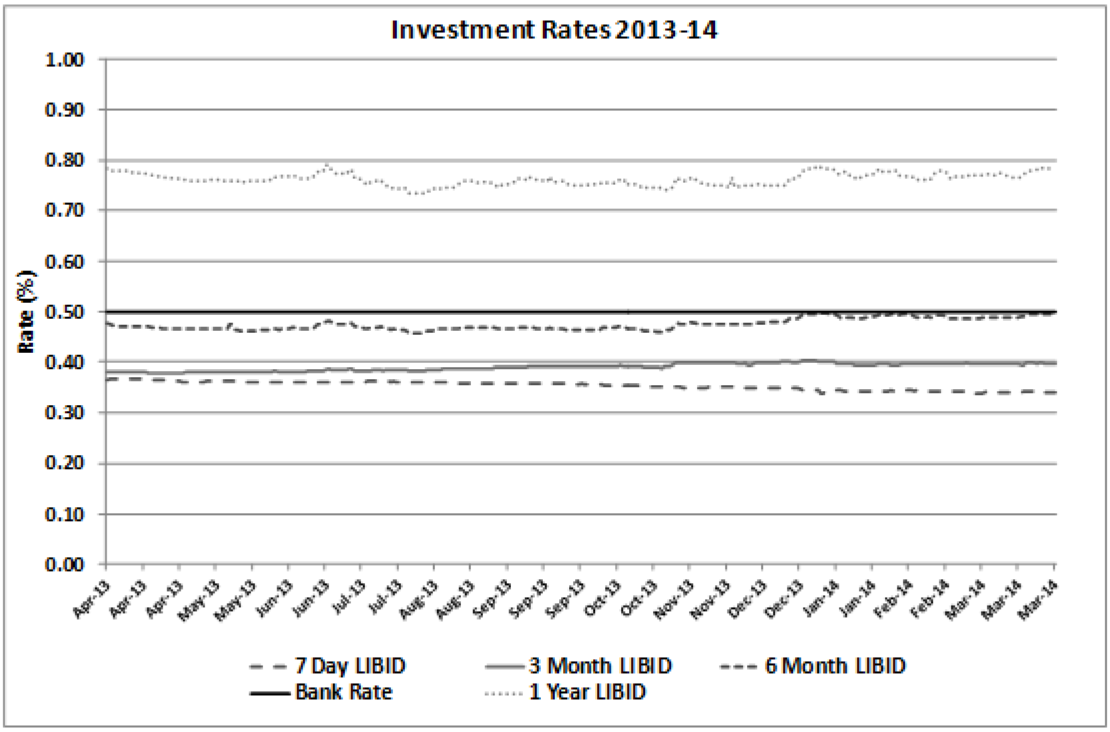


6.2 No long term or temporary borrowing was required. The approach during the year was to use cash balances to finance new capital expenditure, so as to run down cash balances that were earning low investment returns and to minimise counterparty risk incurred on investments.

6.3 No rescheduling was completed during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates and the penalty position which can arise from early repayment of debt, made rescheduling unviable.

## 7 Investment Outturn

7.1 Bank rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. Market expectations as to the timing of the start of monetary tightening remained unchanged at early 2015. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole year, although the part of the scheme supporting provision of credit for mortgages came to end in the first quarter of 2014.




7.2 The Council's investment policy is governed by Communities and Local Government guidance, which has been implemented in the annual investment strategy approved by Council on 21 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 and bank share price). On 15 July 2013 the Council adopted a change to Capita Assets Services creditworthiness service changing the 3 month limit for investments to 100 days, due to a regulatory change imposed by the Financial Conduct Authority on UK banks in terms of which assets counted as being liquid assets on the bank balance sheets.

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

7.4 The Council maintained an average balance of £19.475m of internally managed funds. The internally managed funds earned an average rate of return of 1.08% (£225,979). The comparable performance indicator is the average 7-day LIBID rate, which was 0.35%.

## Appendix A - Prudential Indicators

| | Prudential Indicators | 2012/13 Actual £000 | 2013/14 Estimate £000 | **2013/14 Actual £000** |
|---|---|---|---|---|
| 1 | **Capital Expenditure** | 3,414 | 2,401 | **1,653** |
| 2 | **Ratio of Financing Costs to Net Revenue Stream (external interest – investment income)** | 1.29% | 2.01% | **1.90%** |
| 3 | **Gross Borrowing and the Capital Financing Requirement** | | | |
| | Gross Debt | 8,323 | 8,120 | **8,120** |
| | CFR | 529 | 326 | **326** |

| | Treasury Management Indicators | 2012/13 Actual £000 | 2013/14 Estimate £000 | **2013/14 Actual £000** |
|---|---|---|---|---|
| 4 | **Authorised Limit for External Debt** | | | |
| | Borrowing | 15,000 | 15,000 | **15,000** |
| | Other Long Term Liabilities | 2,000 | 2,000 | **2,000** |
| | Total | 17,000 | 17,000 | **17,000** |
| 5 | **Operational Boundary for External debt** | | | |
| | Borrowing | 10,000 | 10,000 | **10,000** |
| | Other Long Term Liabilities | 2,000 | 2,000 | **2,000** |
| | Total | 12,000 | 12,000 | **12,000** |
| 6 | **Actual External debt (as at 31 March)** | | | |
| | Borrowing | 7,800 | 7,800 | **7,800** |
| | Other Long Term Liabilities | 340 | 320 | **320** |
| | Total | 8,140 | 8,120 | **8,120** |
| 7 | **Interest Rate Exposures** | | | |
| | Upper Limit - Fixed Rates | (2,977) | 120 | **(2,880)** |
| | Upper Limit - Variable Rates | (3,550) | (2,700) | **(2,150)** |
| 8 | **Upper Limit for Total Principal Sums Invested for Periods Longer than 364 Days** | 5,000 | 7,000 | **2,000** |