Audit Committee		Agenda Item:
Meeting Date	**17 September 2014**	
Report Title	**Annual Treasury Management Report 2013/14**	
Cabinet Member	**Cllr. Duncan Dewar-Whalley**	
SMT Lead	**Nick Vickers, Head of Finance**	
Head of Service	**Nick Vickers, Head of Finance**	
Lead Officer	**Olga Cole, Management Accountant**	
Key Decision	**No**	
Classification	**Open**	
Forward Plan	**Reference number**	

Recommendations	1. To note the actual 2013/14 prudential indicators within the report.
	2. To approve the Treasury Management stewardship report for 2013/14.

1 Purpose of Report and Executive Summary

1.1 The Council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.

1.2 Treasury Management is defined as "the management of the local Council's investments and 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 Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

1.4 This report:

- is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
- details the implications of treasury decisions and transactions;
- gives details of the out-turn position on treasury management transactions in 2013/14; and
- confirms compliance with Treasury limits and Prudential and Treasury Management Indicators.

1.5 This report will be submitted to Council on 24 September 2014.

2 Background

Borrowing Requirement and Debt Management

2.1 The overall borrowing position is summarised below:

	Balance on 31/3/2013 £000's	Debt Maturing £000's	New Borrowing £000's	Balance on 31/3/2014 £000's
Capital Financing Requirement	6,298			5,475
Short Term Borrowing	0	0	0	0
Long Term Borrowing	0	0	0	0
TOTAL EXTERNAL BORROWING	**0**	**0**	**0**	**0**
Other Long Term Liabilities	1,328			824
TOTAL EXTERNAL DEBT	**1,328**			**824**

2.2 All borrowing is internally financed and the Council endorsed its approach to remain free from external borrowing as part of its Budget approval in February 2014.

Investment Activity

2.3 The Council held average cash daily balances of £21m during the year. These represented working cash balances / capital receipts, and the Council's reserves.

2.4 The Communities and Local Government's (CLG's) Guidance on Investments, revised during 2009/10, reiterated security and liquidity as the primary objectives of a prudent investment policy. Although the Guidance became operative on 1 April 2010, its principal recommendations run parallel to the credit risk management requirements in the revised Treasury Management Code. In the revised Guidance, Specified Investments are those made with a body or scheme of "high credit quality". Both the Guidance and the revised Treasury Management Code emphasise that counterparty credit criteria should not rely on credit ratings alone but should include a wider range of indicators. The revised Code nonetheless requires that ratings assigned by all three rating agencies – Fitch, Moody's and Standard & Poor's – be taken into account and the lowest rating be used.

2.5 The criteria applied by the Head of Finance for the approval of a counterparty are:

- credit rating- until February 2013 the Council's minimum long term counterparty rating of A+ across all three rating agencies (Fitch, Standard & Poor's and Moody's). However, from February 2013 onwards this was amended to a minimum long-term of A-;
- credit default swaps;
- share price;
- reputational issues;
- exposure to other parts of the same banking group;
- country exposure.

2.6 The investments permissible in 2013/14 were:

Investment Instruments – (in sterling)	Limits and Maturity dates 1 April 2013 to 20 February 2014	Limits and Maturity dates from 21 February 2014
Government backed deposits • The UK government • Gilt Edged Securities	 Unlimited amount and maturity up to 364 days Unlimited amount and maturity up to 364 days	 Unlimited amount and maturity up to 364 days Unlimited amount and maturity up to 364 days
Banking deposits • Money Market Funds and Collective Investment Schemes	£2m limit for AAA rated funds as defined by Fitch, Moody's and Standard and Poor (funds are held on call).	£1.5m limit for AAA rated funds as defined by Fitch, Moody's and Standard and Poor (funds are held on call).
UK Banks and building societies	£4m limit per counterparty for minimum A- rated institutions as defined by Fitch, and/or equivalent ratings by Moody's and Standards & Poor's. Maximum period 364 days.	£3m limit per counterparty for minimum A- rated institutions as defined by Fitch, and/or equivalent ratings by Moody's and Standards & Poor's. Maximum period 364 days.
Svenska Handelsbanken	Not in use	£3m limit
Close Brothers	Not in use	£1m limit
Leeds Building Society	Not in use	£1m limit
Small UK Building Societies	Not in use	£250k each or max £1m in aggregate
Supranational Bonds	Not in use	£6m in aggregate
Certificate of Deposits	Not in use	£3m limit per counterparty

2.7 The UK financial institutions used in 2013/14 were:

- Lloyds TSB Bank Plc
- Barclays Bank Plc
- HSBC Bank Plc
- Royal Bank of Scotland Plc
- National Westminster Bank
- Santander UK Plc
- Nationwide Building Society
- Svenska Handelsbanken
- The Council also makes use of the Debt Management Account Deposit Facility Account with the Debt Management Office

2.8 The Royal Bank of Scotland and National Westminster Bank were suspended for use in March 2014 as they ceased to meet our minimum credit requirement.

2.9 The most important development in the year for selection of counterparties was the move by UK and European Governments away from 'bail out' of funding banks to 'bail in'. Bail in means that holders of bank bonds and commercial depositors take a reduction in the value of their investment in the event of a bank having major funding issues. This argues for greater diversification of holdings into different types of asset and reducing exposure to individual banks – the maximum holding was reduced from £4m to £3m in February 2014 and the group limit was abolished.

2.10 The deposits for the year are summarised below:

Investments	Balance on 31/3/2013 £'000	Investments Made £'000	Maturities £'000	Balance on 31/03/2014 £'000	Average Rate %	Average Life (days)
Short Term Investments	9,950	166,740	158,200	18,490	0.55	52
Long Term Investments	3	0	0	3	3.15	undated
TOTAL INVESTMENTS	9,953	166,740	158,200	18,493		
Increase/ (Decrease) in Investments				8,540		

2.11 **Liquidity:** In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds / overnight deposits / the use of call accounts.

2.12 **Yield:** The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates remained at very low levels which has a significant impact on investment income.

2.13 The Council's budgeted investment income for 2013/14 was £75,000 and the actual income received was £121,000.

2.14 The approach taken to treasury policy is to focus on security of funds. Use of reserves will be a central feature of how the Council manages further funding reductions over coming years and for funding one-off initiatives in the borough in support of the Council's over-arching objectives.

Compliance with Prudential Indicators

2.15 The Council has complied with its Prudential Indicators for 2013/14 which were set as part of the Treasury Management Strategy agreed by Council on 20 February 2013.

2.16 In Appendix I the out-turn position for the year against each Prudential Indicator is set out.

Treasury Advisors

2.17 Arlingclose has been the Council's treasury advisors since May 2009. Officers of the Council meet with them regularly and high quality and timely information is received from them.

3 Proposal

3.1 Members are asked to approve the report.

4 Alternative Proposals

4.1 No alternative proposals have been considered and compliance with the CIPFA Code is mandatory.

5 Consultation Undertaken

5.1 Arlingclose have been consulted.

6 Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	The Council's Treasury Strategy is agreed annually as part of the budget process.
Legal and Statutory	Need to comply with CLG guidance on treasury management.
Crime and Disorder	Not relevant to this report
Risk Management and Health and Safety	Not relevant to this report
Equality and Diversity	Not relevant to this report
Sustainability	Not relevant to this report

7 Appendices

7.1 Appendix I: Treasury Management Prudential Indicators

8 Background Papers

8.1 Treasury Strategy report, Council 19 February 2014

8.2 Treasury Strategy report, Council 20 February 2013

Treasury Management Prudential Indicators for 2013/14

1. Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term net debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Head of Finance reports that the authority had no difficulty meeting this requirement in 2013/14, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

Gross Debt and the Capital Financing Requirement	**31/03/13 Actual £'000**	**31/03/14 Original Estimate £'000**	**31/03/2014 Actual £'000**	**31/03/15 Original Estimate £'000**	**31/03/16 Original Estimate £'000**
Gross CFR	6,298	6,104	5,475	5,805	5,474
Less: Other Long Term Liabilities	(1,328)	(1,205)	(824)	(992)	(774)
Borrowing CFR	**4,970**	**4,899**	**4,651**	**4,735**	**4,700**
Less: Existing Profile of Borrowing	0	0	0	0	0
Cumulative Maximum External Borrowing Requirement.	**4,970**	**4,899**	**4,651**	**4,735**	**4,700**

3. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	**2012/13 Actual £'000**	**2013/14 Original Estimate £'000**	**2013/14 Actual £'000**	**2014/15 Original Estimate £'000**	**2015/16 Original Estimate £'000**
Total	**1,611**	**1,360**	**1,945**	**1,107**	**1,090**

Treasury Management Prudential Indicators for 2013/14

Capital expenditure will be financed as follows:

Capital Financing	2012/13 Actual £'000	2013/14 Original Estimate £'000	2013/14 Actual £'000	2014/15 Original Estimate £'000	2015/16 Original Estimate £'000
Capital receipts	64	102	145	0	0
Government Grants	1,168	1,178	1,535	927	1,040
Revenue contributions	379	80	265	180	50
Total Financing	**1,611**	**1,360**	**1,945**	**1,107**	**1,090**

4. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Actual £'000	2013/14 Original Estimate £'000	2013/14 Actual £'000	2014/15 Original Estimate £'000	2015/16 Original Estimate £'000
Total	**4.76**	**2.99**	**4.35**	**1.81**	**1.91**

5. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	2012/13 Actual £'000	2013/14 Original Estimate £'000	2013/14 Actual £'000	2014/15 Original Estimate £'000	2015/16 Original Estimate £'000
Total CFR	**6,298**	**6,104**	**5,475**	**5,805**	**5,474**

6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This indictor is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2014	£'000
Borrowing	0
Other Long-term Liabilities	824
Total	**824**

Treasury Management Prudential Indicators for 2013/14

7. Authorised Limit and Operational Boundary for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e., not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e., long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indictor separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2013/14 Original Estimate £'000	2014/15 Original Estimate £'000	2015/16 Original Estimate £'000
Borrowing	5,000	5,000	5,000
Other Long-term Liabilities	2,000	2,000	2,000
Total	**7,000**	**7,000**	**7,000**

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt	2013/14 Original Estimate £'000	2014/15 Original Estimate £'000	2015/16 Original Estimate £'000
Borrowing	2,000	2,000	2,000
Other Long-term Liabilities	1,205	992	774
Total	**3,205**	**2,992**	**2,774**

The Head of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2013/14.

8. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted the principles of best practise.

The Council approved the adoption of the revised CIPFA Treasury Management Code at its Council meeting on 22 February 2012.

Treasury Management Prudential Indicators for 2013/14

The Council has incorporated the changes from the revised CIPFA Treasury Management in the Public services: Code of Practice 2011 into its treasury policies, procedures and practices.

9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums (i.e., fixed rate debt net of fixed rate investments).

Upper Limit	**2013/14 Original Estimate %**	**2013/14 Actual %**	**2014/15 Original Estimate %**	**2015/16 Original Estimate %**
Interest on fixed rate borrowing	100	0	100	100
Interest on fixed rate investments	-100	0	-100	-100
Upper Limit for Fixed Interest Rate Exposure	**0**	**0**	**0**	**0**
Interest on variable rate borrowing	100	0	100	100
Interest on variable rate investments	-100	-100	-100	-100
Upper Limit for Variable Interest Rate Exposure	**0**	**-100**	**0**	**0**

As the Council has no borrowing, these calculations have resulted in a negative figure.

10. Maturity Structure of Fixed Rate Borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Maturity structure of fixed rate borrowing	**Existing level at 31/03/14 %**	**Lower Limit for 2014/15 %**	**Upper Limit for 2014/15 %**
Under 12 months	0	0	100
12 months and within 24 months	0	0	0
24 months and within 5 years	0	0	0
5 years and within 10 years	0	0	0
10 years and above	0	0	0

The Council does not have any external borrowing for capital purposes, and did not need to borrow for cash flow purposes during 2013/14.

Treasury Management Prudential Indicators for 2013/14

11. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution (minimum A- or equivalent and its sovereign (minimum AA+ or equivalent for non-UK sovereigns):
- sovereign support mechanisms;
- credit default swaps (where quoted);
- share prices (where available);
- economic fundamentals, such as a country's net debt as a percentage of its GDP;
- corporate developments, news, articles, markets sentiment and momentum; and
- subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indictors of creditworthiness are considered in relative rather than absolute terms.

The Head of Finance confirms that there were no breaches to counterparty limits or credit ratings at the time of placing investments.

12. Upper Limit for Total Principal Sums Invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Total	**7,000**	**7,000**	**7,000**

13. Investment Benchmarking

Average Actual Return on Investments 2013/14	Original Estimate Return on Investments 2013/14	Average Bank Base Rate 2013/14	Average 7 day LIBID Rate 2013/14
0.55%	0.44%	0.50%	0.41%