

REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT

TREASURY MANAGEMENT OUTTURN REPORT 2013-14

1. Purpose

To provide a review of the Council's treasury management activities for the year to 31 March 2014.

Information and Advice

2. Background

2.1 Treasury management is defined as “the management of the council's investments and cashflows; 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”.

2.2 The Council's Treasury Management Strategy is approved annually by Full Council and there will also be a mid-year report which will go to Full Council. Responsibility for the implementation, scrutiny and monitoring of treasury management policies and practices is delegated to the *Treasury Management Group*, comprising the Service Director (Finance & Procurement), the Group Manager (Financial Strategy & Compliance), the Senior Accountant (Pensions & Treasury Management) and the Senior Finance Business Partner (Capital & External Funding).

2.3 In 2013/14, borrowing and investment activities have been in accordance with the approved limits as set out in the Council's Treasury Management Policy and Strategy. The main points from this report are:

- All treasury management activities were effected by authorised officers within the limits agreed by the Council
- All investments were made to counterparties on the Council's approved lending list
- £30m of long-term borrowing was raised in 2013/14
- The Council earned 0.9% on its cash investments, outperforming the average 7-day London Interbank BID (LIBID) rate, which was 0.4%.
- Reports have been submitted to Council and the Finance and Property committee as required.

3. Outturn Treasury Position

3.1 The Council's treasury management strategy and associated policies and practices for 2013/14 were approved in February 2013 by Full Council. The Service Director (Finance & Procurement) complied with the strategy throughout the financial year 2013/14. The Council's treasury portfolio position at 31 March 2014 is shown in Table 1 below.

Table 1. Treasury Position at 31 March 2014		£m	£m	Average Interest Rate
EXTERNAL BORROWING				
Long-term				
Fixed Rate	PWLB	229.0		5.72%
	LOBOs	100.0		3.85%
	Other	10.0	339.0	0.78%
Short-term				
Fixed Rate	Other	13.0	13.0	
Total			352.0	5.02%
Other Long-Term Liabilities			127.4	
Total Gross Debt			479.4	
Less: Investments			23.0	1.13%
Total Net Debt			456.4	

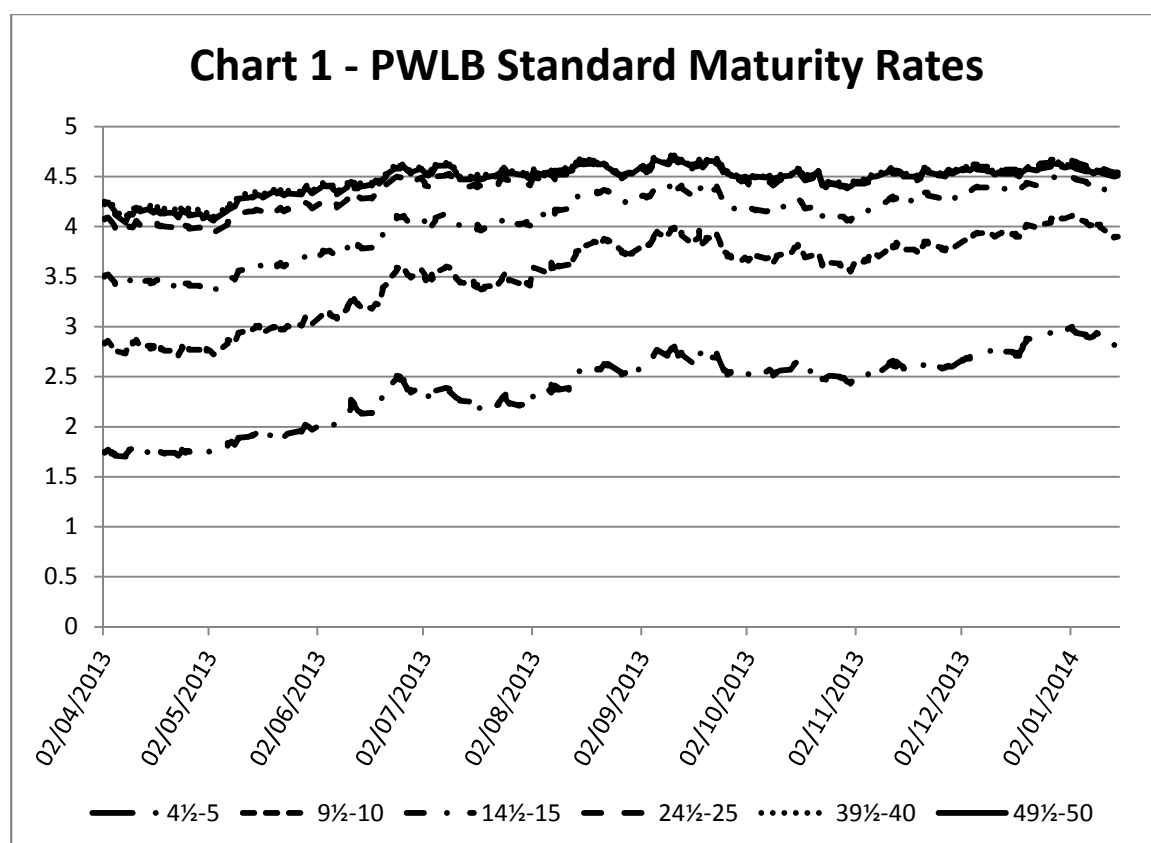
Notes: PWLB = Public Works Loans Board

LOBOs = Lenders' Option, Borrowers' Option loans

Other = market loans taken directly from banks or via brokers

4. Economic Background

- 4.1** UK economic activity recovered during 2013, contrary to expectations at the start of the year. GDP growth accelerated to a year-on-year rate of 3.1% in the final quarter and official forecasts shifted to a more optimistic footing. CPI inflation fell to the government's 2% target rate in December, the first time in more than four years.
- 4.2** Short-term interest rates remained close to the low point that has featured since the early days of the financial crisis. Longer-term rates, on the other hand, rose during the first half of the year and by the close of 2013, 10-year yields were more than a percentage point above the low point reached in March.
- 4.3** Market sentiment altered markedly in late spring, partly on the back of reduced concerns over the Eurozone and in reaction to suggestions by the US Federal Reserve that it might start to reduce its quantitative easing (QE) programme. In addition the revival of the domestic economy prompted investors to start discounting a rise in official rates well before the time implied by the monetary authorities (2016). Yields rose in reaction to these influences.
- 4.4** The movement in PWLB standard maturity rates over 2013/14 is shown in chart 1 below.



- 4.5** Long-term rates are likely to move higher still. This is due to strengthening growth in the developed world and the removal of official support for the markets from QE. This adds to the risk that interest rates on the Council's future borrowing will be higher than current rates.

5. Treasury Management Activities 2013/14

- 5.1** The Council actively manages its cash flows through borrowing and lending activities on the wholesale money markets. The Council has an approved list of counterparties for investment and aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. Temporary borrowing is utilised to cover cash shortfalls. The Council's temporary (for periods less than 365 days) borrowing and lending activity over the year is summarised in Table 2 below. In addition, there is a total of £4.5m invested for periods of 5 years as part of the Council's commitment to the Local Authority Mortgage Scheme.

Table 2 Temporary Borrowing and Lending	Borrowing £m	Lending £m	Net Position £m
Outstanding 31 March 2013	0.0	(39.6)	(39.6)
Raised/ (lent) during period	449.2	(755.8)	(306.6)
Repayments during period	(436.2)	776.9	340.7
Outstanding 31 March 2014	13.0	(18.5)	(5.5)

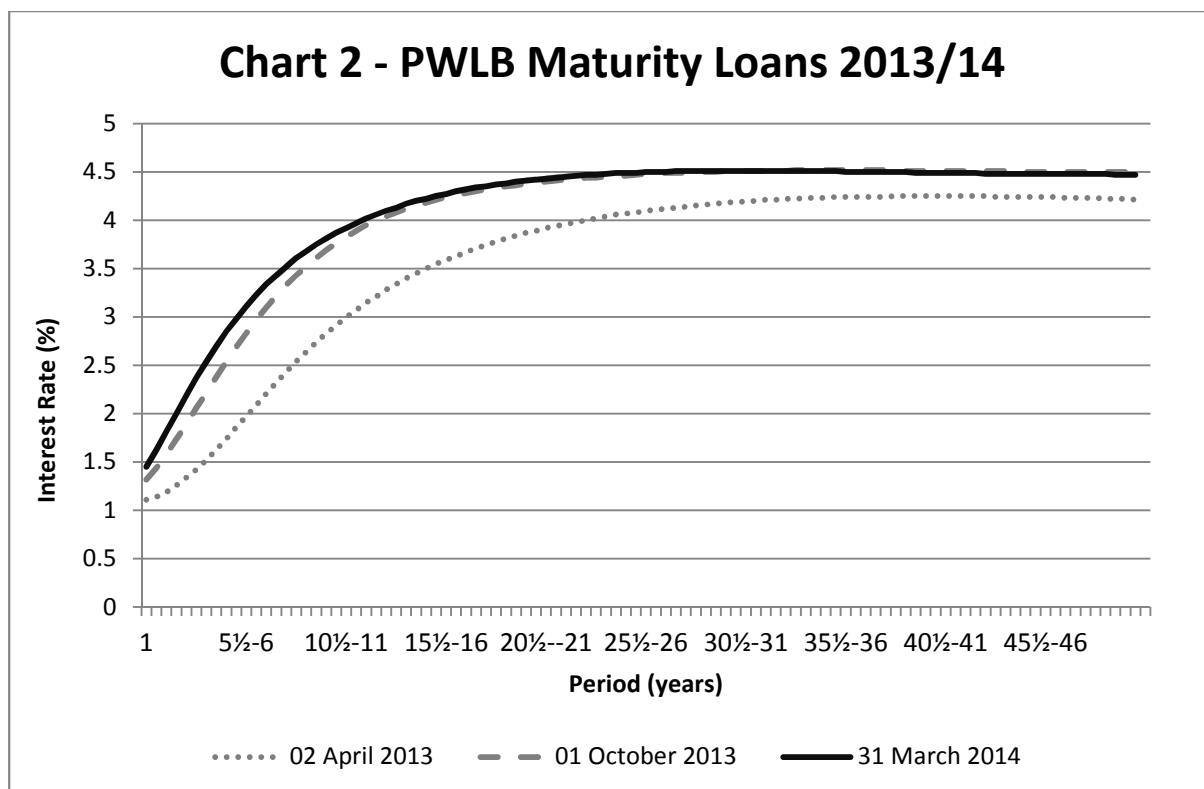
- 5.2** The Council's average investment level over 2013/14 was £60.5m. This was an 18% increase on the previous year (when the average balance was £51.2m) purely because of a more favourable cash flow position stemming from earlier receipt of central government grants during the course of the year.
- 5.3** The Council achieved investment returns of 0.9% for the year against the benchmark (7-day LIBID) which averaged 0.4%, an outperformance of 0.5%. Investment rates available in the market remain at historical lows due to the additional liquidity being pumped into the economy via QE from the central banks.
- 5.4** Table 3 shows the returns achieved by type of deposit. The table shows that the use of fixed term investments does allow a higher return to be achieved but this must always be weighed against the key concerns of security and liquidity. Cash tied up for longer periods is more exposed to credit risk but this is managed through a robust policy for approved counterparties.

Table 3 Returns on Investments	Average Balance £m	Interest Earned £k	Average Return %
Fixed Term Investments (under 364 days)	31.9	301.3	0.94%
Fixed Term Investments (over 364 days)	2.6	61.1	2.37%
Call Accounts / Money Market Funds	26.0	183.8	0.71%
Total	60.5	546.2	0.90%

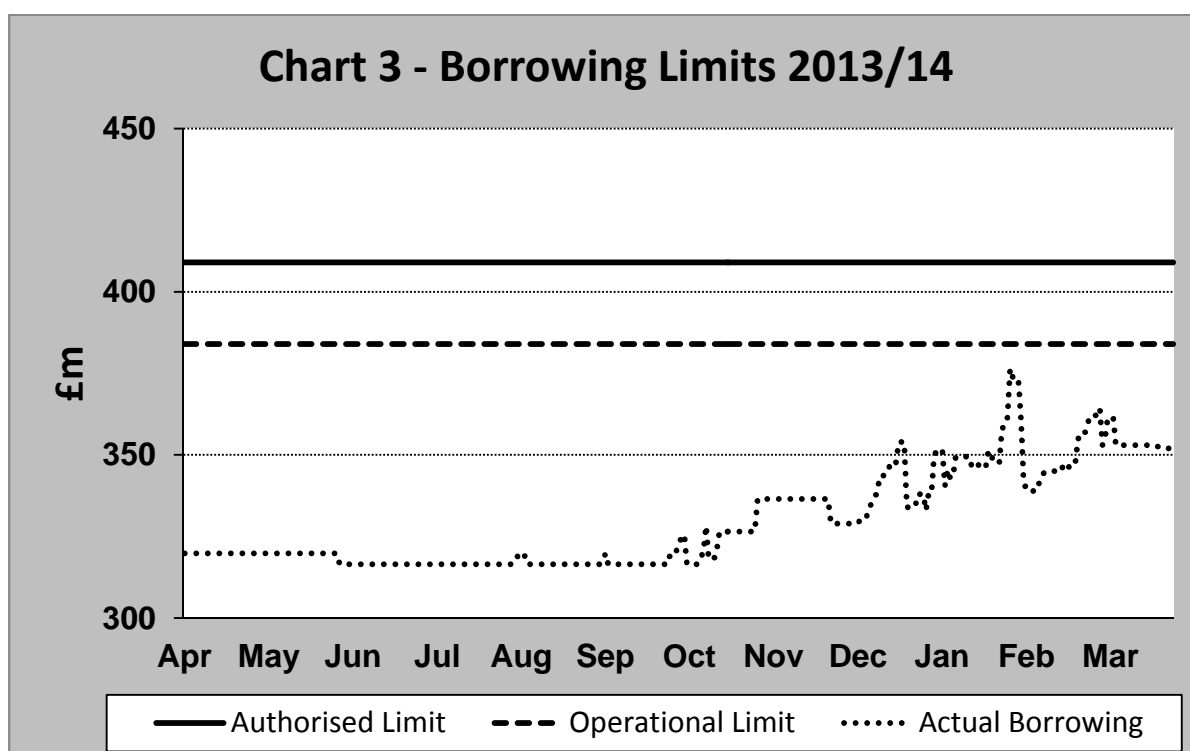
- 5.5** Temporary borrowing was undertaken to cover cash flow shortfalls and to delay longer term borrowing to minimise interest cost for the year. The temporary borrowing was undertaken by the Council at an average rate of 0.43% (before brokerage fees).

6. Long Term Borrowing

- 6.1** The Treasury Management Strategy for 2013/14 presented to Council in February 2013 outlined the Council's long term borrowing strategy for the year. Long-term borrowing is sourced from either the market or from the PWLB. The borrowing rates available from the PWLB reflect gilt yields which increased by around 0.25% in the first half of the year as shown in Chart 2 below.
- 6.2** The Council's revenue budget for 2013/14 assumed up to £40m of new long-term borrowing. Actual new long-term borrowing was £30m, taken at an average rate of 4.19%. Short-term borrowing was also undertaken as described above to take advantage of the very low rates available and minimise interest costs.



- 6.3** Total external borrowing stood at £352.0m on the 31 March 2014 which is within the authorised limit agreed by the Council. Chart 3 below shows that the level of external debt throughout the year was below the key treasury indicators of the authorised limit and the operational boundary, demonstrating that borrowing was within plan during the year. Further details on these treasury prudential indicators are provided in Appendix E.

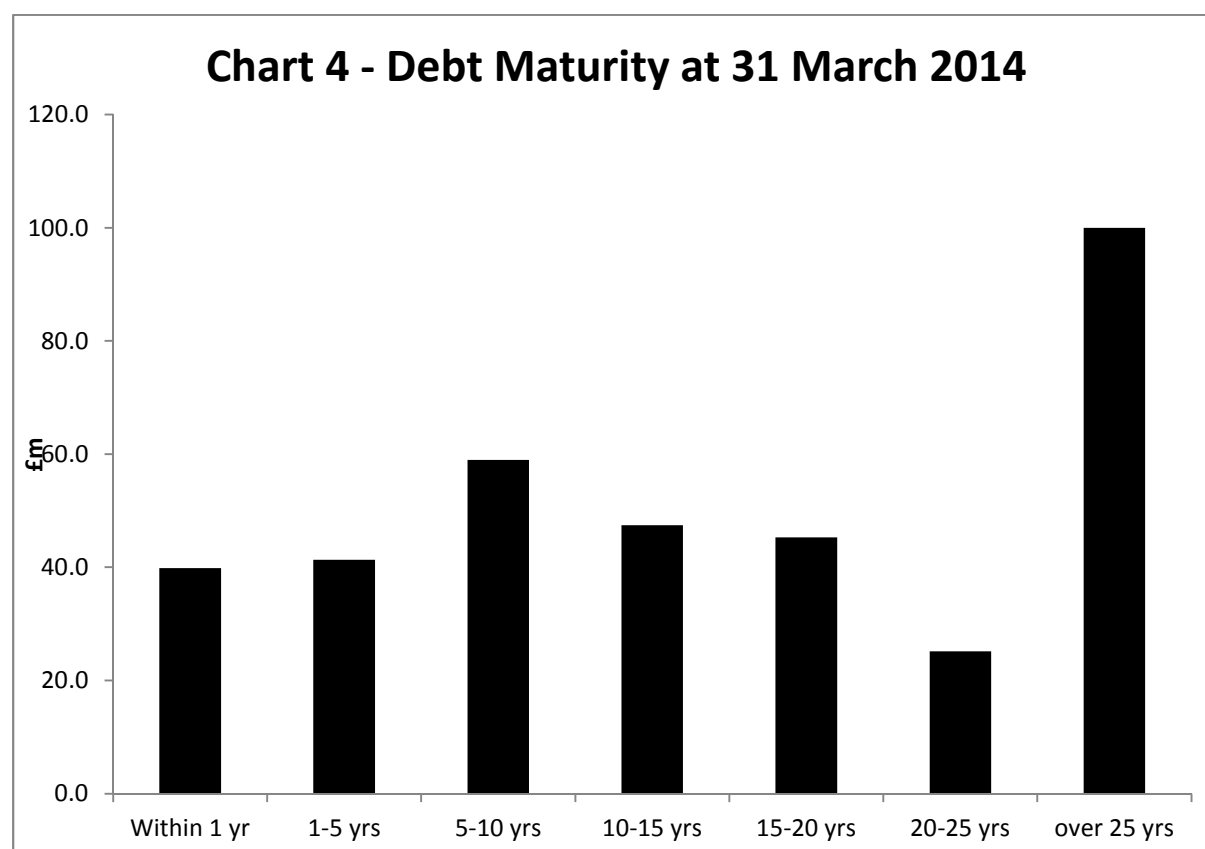


- 6.4** Table 4 shows the movement in long-term borrowing during 2013/14. The loan portfolio still includes 10 LOBOs of £10m each. Two of these had call options in 2013/14 (whereby the lender can opt to increase the interest rate payable and the borrower can opt to repay the loan in full) but these were not exercised. Future call options on these loans constitute a level of interest rate risk for the Council and these will be monitored carefully to ensure the Council is not adversely affected.

Table 4 Movements in Long-term Borrowing 2013/14

Lender	B/fwd 31/03/13 £m	Advances 2013/14 £m	Normal Repayments 2013/14 £m	Premature Repayments 2013/14 £m	C/fwd 31/03/14 £m
PWLB	209.8	30.0	10.8	0.0	229.0
LOBO	100.0	0.0	0.0	0.0	100.0
Other	10.0	0.0	0.0	0.0	10.0
Total	319.8	30.0	10.8	0.0	339.0

- 6.5** The chart below shows that the debt maturity profile is fairly evenly spread over the next 25 years with a maximum duration of 25 years for PWLB debt. The £100m shown in the over 25 year category comprises of LOBOs, which are assumed in this chart to run to maturity, and not called at an earlier date. The average rate on external debt was 5.04% compared to 5.44% in the previous year, reflecting changes both in the rates available to the Council and in the Council's maturity profile.



- 6.6** The Council always has the option of rescheduling its existing PWLB debt should market conditions indicate opportunities for savings. This is achieved by redeeming fixed rate debt and raising new debt at a lower rate of interest, although current PWLB redemption rates usually result in a prohibitive premium being charged. No financially attractive opportunities for debt rescheduling arose over the reporting period.

7. Prudential Indicators for Treasury Management

- 7.1** Table 6 below shows how the treasury management indicators compare with the outturn position. The objective of these indicators is to manage treasury management risks effectively. No indicators were breached during the year.

Table 6 TREASURY MANAGEMENT INDICATORS 2013/14	Approved limits	Outturn
Authorised Limit for external debt	£409m	£352m
Operational Boundary for external debt	£384m	£352m
Upper limit for Rate Exposure		
Fixed Rate	100%	100%
Variable Rate	75%	0%
Upper limit for principal sums invested for over 364 days	Higher of £20m and 15%	£4.5m

Maturity structure of fixed rate borrowing	Approved Lower limit	Approved Upper limit	Outturn
Under 12 months	0%	25%	11.1%
12 months and within 24 months	0%	25%	3.1%
24 months and within 5 years	0%	75%	8.5%
5 years and within 10 years	0%	100%	16.5%
10 years and above	0%	100%	60.9%
Adoption of CIPFA's Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes – Adopted			