

**REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT****TREASURY MANAGEMENT OUTTURN REPORT 2014/15****1. Purpose**

To provide a review of the Council's treasury management activities for the year to 31 March 2015.

**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 2014/15, 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.
  - The Council's net borrowing position increased by £56m in 2014/15.
  - The Council earned 0.61% on its cash investments, compared with the average 7-day London Interbank BID (LIBID) rate for 2014/15 which was 0.3%.
  - 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 2014/15 were approved in February 2014 by Full Council. The Service Director (Finance & Procurement) complied with the strategy throughout the financial year 2014/15. The Council's treasury portfolio position at 31 March 2015 is shown in Table 1 below.

<b>Table 1. Treasury Position at 31 March 2015</b>		<b>£m</b>	<b>£m</b>	<b>Average Interest Rate</b>
<b>EXTERNAL BORROWING</b>				
<b>Long-term</b>				
Fixed Rate	PWLB	303.1		5.15%
	LOBOs	100.0		3.85%
	Other	5.0	408.1	2.08%
<b>Short-term</b>				
Fixed Rate	Other	0.0	0.0	
<b>Total</b>			<b>408.1</b>	4.79%
<b>Other Long-Term Liabilities</b>			<b>127.0</b>	
<b>Total Gross Debt</b>			<b>535.1</b>	
Less: Investments			70.2	1.13%
<b>Total Net Debt</b>			<b>464.9</b>	

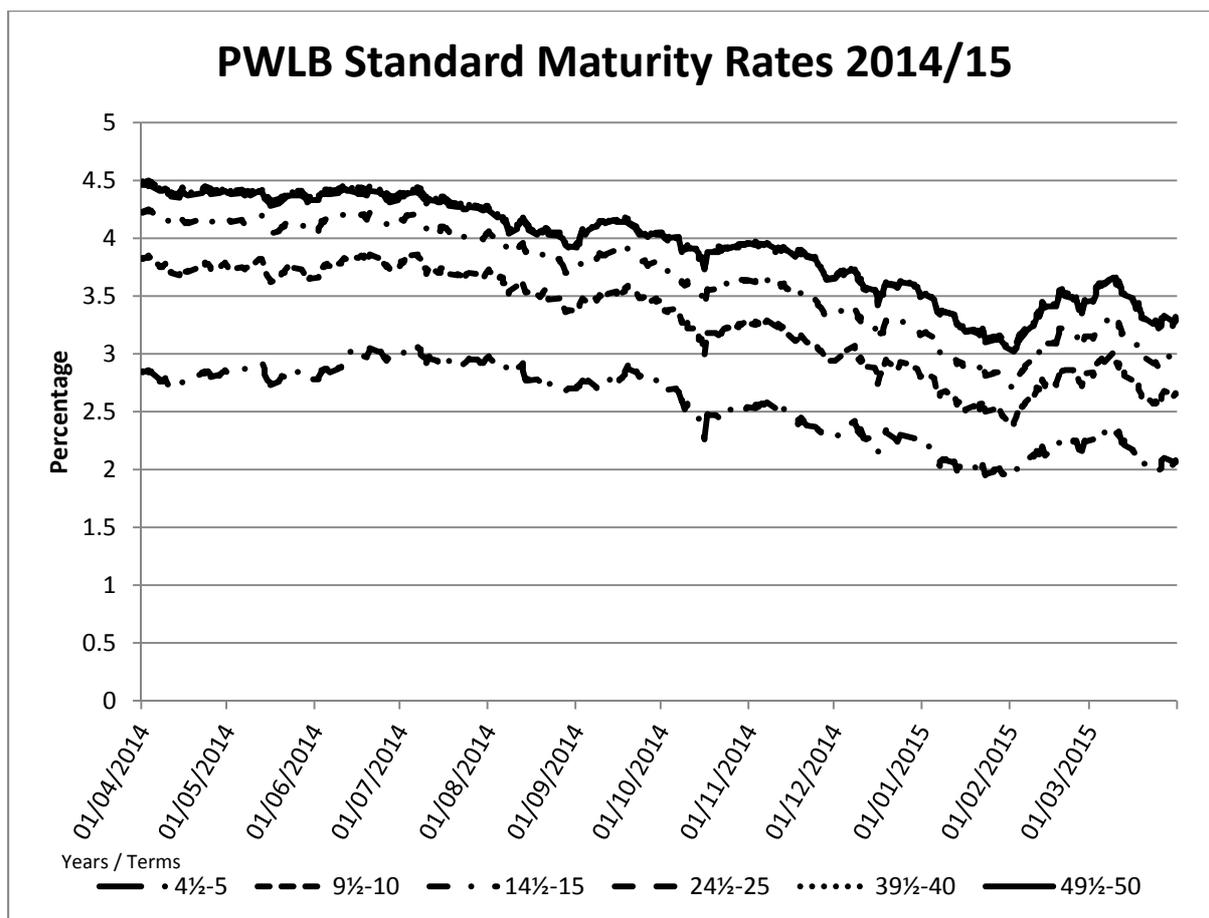
Notes: PWLB = Public Works Loans Board

LOBOs = Lenders' Option, Borrowers' Option loans

Other = market loans taken directly from banks or via brokers

#### 4. Economic Background

- 4.1 The performance of the UK economy slightly improved during 2014/15. While there were a few areas with room for improvement there were few headaches for policymakers. The recovery in GDP growth that had commenced in the closing stages of 2012 persisted, growing by 2.3% during the course of the financial year. GDP finally rose above its pre-crisis level in the first quarter.
- 4.2 Short-term interest rates remained stable throughout the year, anchored by the persistence of the official bank rate at 0.5%. The Governor of the Bank of England's hints of a potential policy change did result in some firming in longer term money market rates, although this was very modest and short-lived.
- 4.3 Longer-term rates in 2014/15 were a little more volatile. Initially, gilt yields rose in response to the strengthening economy and expectations of an eventual return to higher inflation and a tightening of official monetary policy. However, the influence of these negative considerations was both limited and weak. The lowering of domestic inflation expectations, weaker activity in China, sluggish growth and the threat of deflation in the Euro-zone and the emergence of fresh political uncertainties in the Middle-East and Eastern Europe reinforced demand for safe-haven instruments, thereby reducing yields.
- 4.4 This movement was reflected in PWLB standard maturity rates over 2014/15 as shown in the chart below.



## 5. Treasury Management Activities 2014/15

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 may be utilised to cover short-term 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.

<b>Table 2 Temporary Borrowing and Lending</b>	<b>Borrowing £m</b>	<b>Lending £m</b>	<b>Net Position £m</b>
Outstanding 31 March 2014	23.0	(18.5)	4.5
Raised/ (lent) during period	0.0	(943.2)	(943.2)
Repayments during period	(23.0)	896.0	873.0
Outstanding 31 March 2015	0.0	(65.7)	(65.7)

5.2 The Council's average investment level over 2014/15 was £84.4m. This was an increase of 40% on the previous year (when the average balance was £60.5m) as the Council took advantage of falling PWLB rates over the course of the year to borrow in line with the agreed strategy.

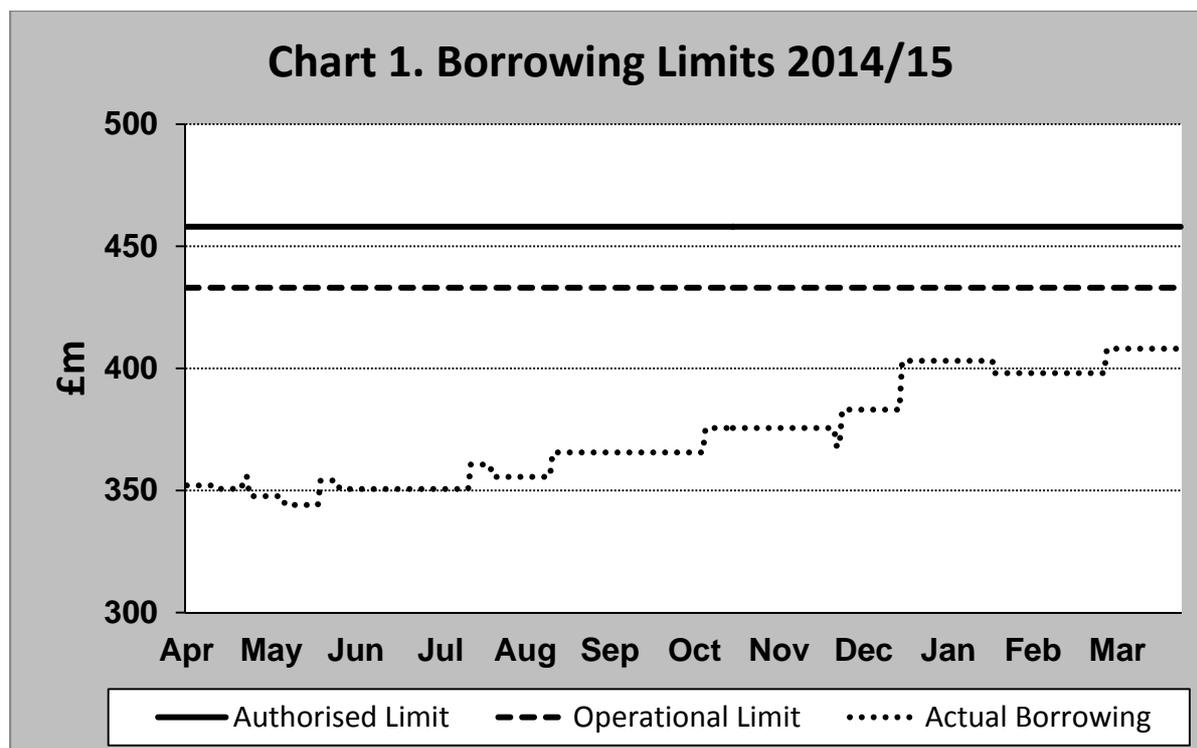
- 5.3 The Council achieved investment returns of 0.61% for the year against the benchmark (7-day LIBID) which averaged 0.30%. Investment rates available in the market remain at historic lows as a result of central bank policies.
- 5.4 Table 3 shows the returns achieved by type of deposit. The table shows 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.

<b>Table 3 Returns on Investments</b>	<b>Average Balance £ 000's</b>	<b>Interest Earned £ 000's</b>	<b>Average Return %</b>
Fixed Term Investments (under 364 days)	31,973	192	0.60%
Fixed Term Investments (over 364 days)	4,500	117	2.60%
Call Accounts / Money Market Funds	47,946	207	0.43%
<b>Total</b>	<b>84,419</b>	<b>516</b>	<b>0.61%</b>

- 5.5 No temporary borrowing was undertaken during the year. The Council took advantage of declining PWLB long-term rates to ensure there were no cashflow shortfalls during the course of the year.

## 6. Long Term Borrowing

- 6.1 The Treasury Management Strategy for 2014/15 presented to Council in February 2014 outlined the Council's long term borrowing strategy for the year. Long-term borrowing is sourced from either the market (including other local authorities) or from the PWLB.
- 6.2 The Council's treasury management strategy for 2014/15 assumed £67m of new long-term borrowing. Actual new long-term borrowing was £90m, taken at an average rate of 3.59%.
- 6.3 Total external borrowing stood at £408.1m on the 31 March 2015 which is within the authorised limit agreed by the Council. The following chart 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 F.

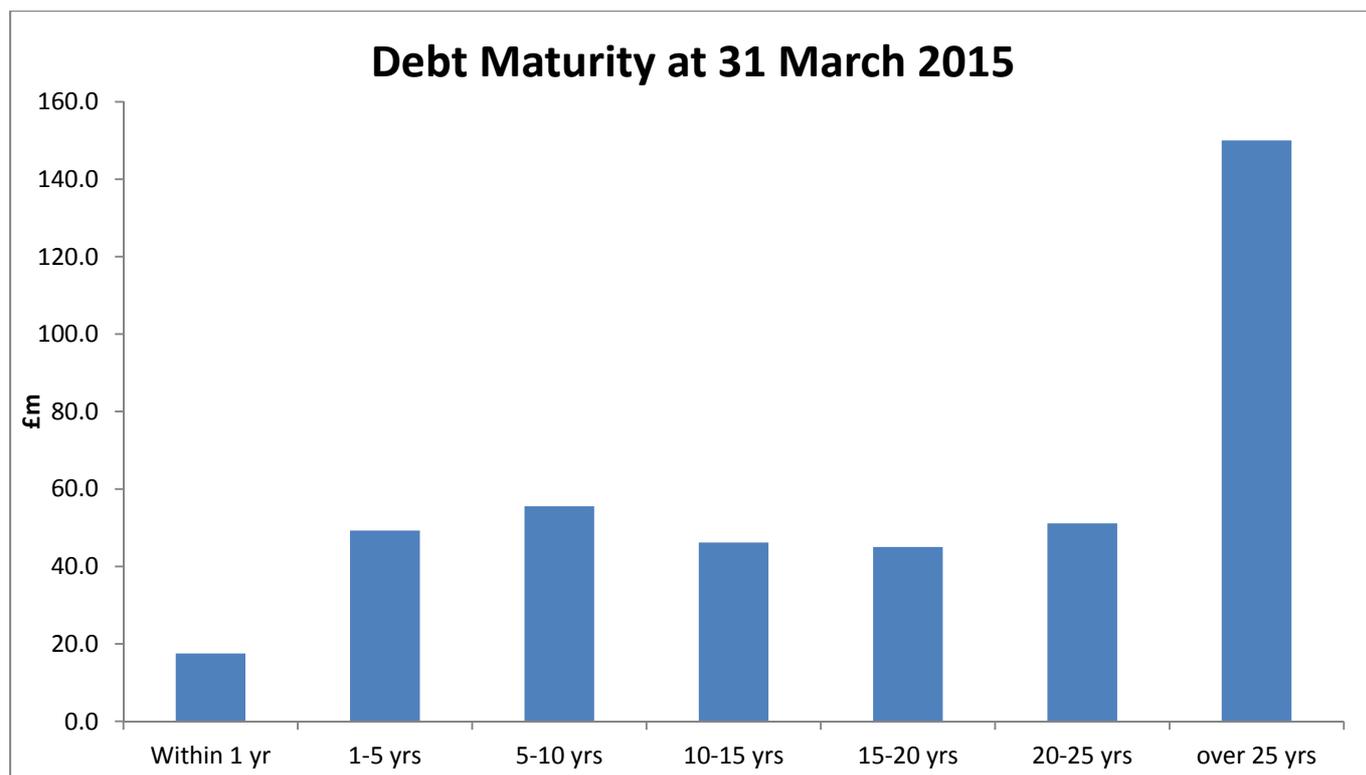


- 6.4 Table 4 shows the movement in long-term borrowing during 2014/15. The loan portfolio still includes 10 LOBOs (£10m each), whereby the lender can opt, at specified dates, to increase the interest rate payable and the borrower can either accept the increased rate or repay the loan in full. Future 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 2014/15**

Lender	B/fwd 31/03/14 £m	Advances 2014/15 £m	Normal Repayments 2014/15 £m	Premature Repayments 2014/15 £m	C/fwd 31/03/15 £m
PWLB	229.0	85.0	(11.0)	0.0	303.0
LOBO	100.0	0.0	0.0	0.0	100.0
Other	23.0	5.0	(23.0)	0.0	5.0
<b>Total</b>	<b>352.0</b>	<b>90.0</b>	<b>(34.0)</b>	<b>0.0</b>	<b>408.0</b>

- 6.5 The chart below shows that the debt maturity profile is fairly evenly spread over the next 25 years. The £150m shown in the over 25 year category comprises mainly 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 4.90% compared to 5.04% 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 5 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.

<b>Table 5 TREASURY MANAGEMENT INDICATORS 2014/15</b>	<b>Approved limits</b>	<b>Outturn</b>
<b>Authorised Limit for external debt</b>	£458m	£408m
<b>Operational Boundary for external debt</b>	£433m	£408m
<b>Upper limit for Rate Exposure</b>		
Fixed Rate	100%	100%
Variable Rate	75%	0%
<b>Upper limit for principal sums invested for over 364 days</b>	Higher of £20m and 15%	£4.5m

## APPENDIX D

<b>Maturity structure of fixed rate borrowing</b>	<b>Approved Lower limit</b>	<b>Approved Upper limit</b>	<b>Outturn</b>
under 12 months	0%	25%	4.2%
12 months and within 24 months	0%	25%	2.6%
24 months and within 5 years	0%	75%	9.3%
5 years and within 10 years	0%	100%	13.4%
10 years and above	0%	100%	70.5%
Adoption of CIPFA's Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes			Adopted