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**Report to** Council

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**Date:** 26th June 2014

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**Subject:** Annual Treasury Report 2013/14

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**Report by:** Depute Chief Executive

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## **1.0 Purpose**

- 1.1. The purpose of this report is to detail the Treasury Management activities for the Council for 2013/14.

## **2.0 Recommendations**

- 2.1. It is recommended that the Council note and consider the Annual Report 2013/14 of the Council's Treasury Management activities.

## **3.0 Considerations**

### **3.1. Background**

- 3.2. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Council be updated on treasury management activities regularly (Treasury Management Strategy Statement, annual and midyear reports). This annual report therefore ensures the Council is implementing best practice in accordance with the Code.

- 3.3 The report covers the following:

- The Economy and Interest Rates
- Interest Rate Forecast
- Investment Outturn for 2013/14
- Borrowing Requirement and Debt
- Borrowing Outturn for 2013/14
- Compliance with Treasury and Prudential Limits

### **3.4 The Economy and Interest Rates**

- 3.5 The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk had subsided. The original expectation for 2013/14 was that the Bank Rate would not rise during the year and that it would only start to gradually rise from quarter 1, 2015. This forecast rise has now been pushed back to start in quarter 3, 2015, though recent speculation suggests that this may change yet again.
- 3.6 Economic growth (GDP) in the UK was virtually flat during 2012/13 but improved during the year. Consequently there was no additional quantitative easing during 2013/14 and the Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained substantially above the 2% target during 2012, by January 2014 it had fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is expected to remain slightly below the 2% target rate for most of the two years ahead.
- 3.7 Gilt yields were on a rising trend during 2013 but volatility returned in the first quarter of 2014. The Funding for Lending Scheme, announced in July 2012, resulted in low cost credit being made available to banks. This in turn resulted in money market investment rates falling 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.
- 3.8 The UK Government maintained its fiscal policy but recent economic growth has led to a cumulative reduction in the forecasts for total borrowing (in the Autumn Statement and the March Budget) of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.
- 3.9 Confidence in the ability of the Eurozone to remain intact increased during the year. Perceptions of counterparty risk improved with a return of confidence in the Euro banking system which has continued into 2013/14 and led to a move away from only 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.
- ### **3.10 Interest Rate Forecast**
- 3.11 The Council's treasury advisors - Capita Asset Services, have provided the following interest rate forecast which shows an expected increase in Bank rate in the third quarter of 2015.

### 3.12 Investment Forecast provided by Capita Asset Management

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
<b>Bank rate</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
<b>5yr PWLB rate</b>	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
<b>10yr PWLB rate</b>	3.70%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%
<b>25yr PWLB rate</b>	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.90%
<b>50yr PWLB rate</b>	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%

### 3.13 Investment Outturn for 2013/14

- 3.14 The Treasury Management Strategy Statement (TMSS) for 2013/14, which includes the Annual Investment Strategy, was approved by the Council on 14th March 2013. It can be confirmed that the approved limits within the Annual Investment Strategy were not breached during the year ended 31st March 2014.
- 3.15 The 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 an increase to this rate have been pushed back to the third quarter of 2015. However, the preferential rate secured with its current bankers throughout the first half of the year which has now come to an end has protected the Council from these low rates.
- 3.16 The level of funds available for investment purposes during the year was £18m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of payments, receipt of grants and progress on the Capital Programme. Of this the Council holds £10m core cash balances for investment purposes (i.e. funds available for up to one year).
- 3.17 The benchmark investment returns over the last quarter of the 2013/14 financial year are illustrated in the undernoted table:

Benchmark	Benchmark Return
<b>7 day</b>	0.35%
<b>1 month</b>	0.36%
<b>3 month</b>	0.39%
<b>6 month</b>	0.47%
<b>12 month</b>	0.76%

3.18 The Council's budgeted cash investment return for 2013/14 was 1.5% based on total investments of £30m. The Council achieved an actual investment return of 0.77% for the year ended 31st March 2014 on investment balances of £24m. A breakdown of these investments can be seen in appendix 1. This variance from budget was as a result of the cessation of a preferential investment interest rate part way through the year and a reduction in cash balances in line with the Council's strategy to reduce cash balances before taking on additional borrowing. However, the rate achieved still outperformed the benchmark by between 0.01% and 0.42%.

### 3.19 Borrowing Requirement and Debt

The Council's underlying need to borrow to finance capital expenditure, termed the Capital Financing Requirement (CFR), is shown below. This shows a reduction in actual CFR from Budget mainly due to slippage in Capital programme.

	<b>31 March 2013 Actual £000</b>	<b>31 March 2014 Budget £000</b>	<b>31 March 2014 Actual £000</b>
CFR General Fund	134,020	150,436	142,723
CRA HRA	32,127	34,344	30,754
<b>Total CFR</b>	<b>166,147</b>	<b>184,780</b>	<b>173,477</b>

### 3.20 Borrowing Outturn for 2013/14

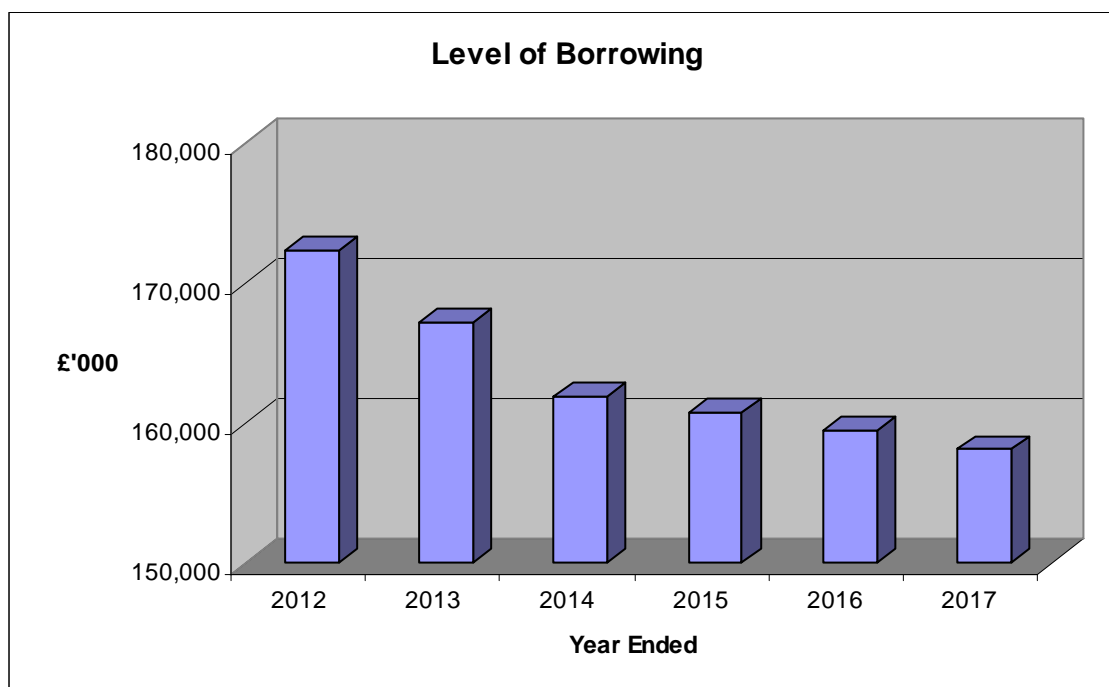
#### New Borrowing

3.21 No new borrowing was undertaken during the year, and in line with the borrowing strategy the Council had reduced its overall debt liability by repaying £4m of external debt and £1.2m toward finance lease repayment.

3.22 The Council's external borrowing position as at 31 March 2014 is illustrated in the undernoted table:

	<b>March 2013 £000</b>	<b>March 2014 £000</b>
Public Works Loan Board	95,702	91,702
Market Loans	24,024	24,018
Other long term liabilities	47,476	46,248
<b>Total</b>	<b>167,202</b>	<b>161,968</b>

3.23 This continues a trend in reducing the Council's overall level of borrowing in line with our Treasury strategy. This is illustrated in the following chart, demonstrating actual and forecast level of debt up to 2016/17. In line with the Treasury Strategy maturing debt in the current and previous year has not been replaced due to the running down of internal cash balances. Maturing debt in future years is assumed to be replaced as cash balances are now at a sufficient level. The level of cash balances and interest rates will continue to be monitored and reviewed if significant changes occur.



### **Borrowing in advance of need**

3.24 The Council has not borrowed in advance of need during 2013/14 and has no intention to borrow in advance in 2014/15.

### **Debt Rescheduling**

3.25 Debt rescheduling opportunities have been limited in the current economic climate as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable. Consequently no debt rescheduling was undertaken during the year.

### **3.26 Compliance with Treasury and Prudential Limits**

3.27 It is a statutory duty for the Council to determine and keep under review the affordable capital expenditure limits. The Council's Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement.

3.28 During the financial year the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in appendix 2.

#### 4.0 Conclusions

4.1 No additional borrowing has been undertaken in 2013/14.

4.2 The Council's strategy to reduce external debt has delivered a reduction of £5.2 over the last 12 months.

4.3 The Council continues to outperform the benchmark return in interest on investments and cash balances remain strong at a level of c£24m which contributes to supporting the Council's capital financing requirement internally.

#### 5.0 Sustainability Implications

5.1 None

#### 6.0 Resource Implications

##### 6.1 *Financial Details*

6.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes

6.3 Finance have been consulted and have agreed the financial implications as set out in the report. Yes

##### 6.4 *Staffing*

6.5 None

#### 7.0 Exempt Reports

7.1 Is this report exempt? Yes  (please detail the reasons for exemption below)  
No

#### 8.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please tick )

The area has a positive image and attracts people and businesses

Our communities are more cohesive and inclusive

People are better skilled, trained and ready for learning and employment

Our communities are safer

Vulnerable people and families are supported

- Substance misuse and its effects are reduced
- Health is improving and health inequalities are reducing
- The environment is protected and enhanced for all
- The Council is effective, efficient and recognised for excellence

**(2) Council Policies** (Please detail)

Treasury Management Policy Statement and Practices

**9.0 Equalities Impact**

9.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes  No

**10.0 Legality**

10.1 In adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

**11.0 Appendices**

11.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix 1 - Investment Portfolio as at 31st March 2014

Appendix 2 - Prudential and Treasury Indicators as at 31st March 2014

**17.0 Background Papers**

17.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)


Yes  (please list the documents below) No


**Treasury Management Strategy 2013/14 - report to Council March 2013**

**Author(s)**

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**Approved by**

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Depute Chief Executive	

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## APPENDIX 1: Investment Portfolio as at 31st March 2014

Borrower	Principal (£000)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Bank of Scotland Plc	5,000	1.01%	03/07/2013	03/07/2014	A	0.023%
Bank of Scotland Plc	5,000	0.98%	03/10/2013	03/10/2014	A	0.045%
Bank of Scotland Plc	8,030	0.49%	Instant Access		A	0.000%
Other Accounts	124	-				-
<b>Total Cash and Cash Equivalents</b>	<b>18,154</b>	<b>0.77%</b>				<b>0.019%</b>

Long Term Investments	Principal (£000)	
CSPB Developments Ltd	564	-
CSPB Investments	1	
Clackamannanshire Regeneration	4,906	-
<b>Total Long Term investements</b>	<b>5,471</b>	

<b>TOTAL INVESTMENTS</b>	<b>23,625</b>
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## APPENDIX 2: Prudential and Treasury Indicators as at 31st March 2014

Treasury Indicators	2013/14 Budget £'000	2013/14 Actual £'000
Authorised limit for external debt	184,000	184,000
Operational boundary for external debt	167,000	167,000
Gross external debt	163,000	161,968
Investments	30,000	23,625
Net borrowing	133,000	138,335

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	11,500	11,243
12 months to 2 years	7,000	7,290
2 years to 5 years	14,500	14,541
5 years to 10 years	8,000	7,617
10 years and above	122,000	121,277

<b>Prudential Indicators</b>	<b>2013/14 Budget £'000</b>	<b>2013/14 Actual £'000</b>
<b>Capital expenditure - General Fund Services</b>	19,453	11,916
<b>Capital expenditure - Housing Revenue Account</b>	10,127	7,788
<b>Capital Financing Requirement (CFR) - General Fund</b>	150,436	142,723
<b>Capital Financing Requirement (CFR) - HRA</b>	34,344	30,754
<b>Annual change in CFR - General Fund</b>	10,209	2,496
<b>Annual change in CFR - HRA</b>	2,218	(1,372)
<b>In year borrowing requirement</b>	12,427	1,124
<b>Ratio of financing costs to net revenue stream - General Fund</b>	8.51%	6.59%
<b>Ratio of financing costs to net revenue stream - HRA</b>	18.02%	8.00%