Committee:	**Cabinet**	**Agenda Item**
Date:	**28 October 2014**	**8**
Title:	**2013/14 Treasury Management Outturn Report**	
Portfolio Holder:	**Councillor Robert Chambers**	Key decision: No

Summary

1. It is a requirement of the Council's Constitution that the Cabinet receives an annual statement of the key treasury management activity and outcomes during the year.

2. Treasury Management is the activity of the Council's finance function which manages cash flows, bank accounts, deposits, investments and borrowing. The objective is to manage risk effectively in order to ensure the security of funds, sufficient liquidity to enable commitments to be met, and to generate income/minimise cost.

3. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

4. In summary, during 2013/14:

    a) No other short term or long term borrowing was needed to meet the Council's commitments and no cash flow difficulties were experienced.

    b) The Council continued to operate a cautious approach when lending money to counterparties. All deposits and investments made were in compliance with the Council's approved treasury management strategy.

    c) In early 2014, an opportunity arose to see the residual unpaid sum of the Landsbanki investment to Deutsche Bank. The Council decided to accept the offer and balance was sold on 3 February 2014.

Recommendations

5. The Cabinet is recommended to approve the 2013/14 treasury management outturn as set out in this report.

Financial Implications

1. None.

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Background

2. Treasury management is defined as: “The management of the local authority’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.”

3. The Council’s treasury management activity is underpinned by CIPFA’s Code of Practice on Treasury Management (“The Code”), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy on the likely financing and investment activity. This is approved by the Council as part of the annual budget setting process. Monitoring reports are submitted to the Cabinet as part of regular budget monitoring reports.

4. The Council is supported in its treasury management activity by the independent financial advisers Arlingclose Limited.

5. All responsibility for decision making rests with the Council. Under the Council’s constitution the Assistant Chief Executive – Finance is authorised to make investment and borrowing decisions in line with the policy approved by the Council.

External Context

6. **Economic background**: At the beginning of the 2013-14 financial year markets were concerned about lacklustre growth in the Eurozone, the UK and Japan. Lack of growth in the UK economy, the threat of a ‘triple-dip’ alongside falling real wages (i.e. after inflation) and the paucity of business investment were a concern for the Bank of England’s Monetary Policy Committee. Only two major economies – the US and Germany – had growth above pre financial crisis levels, albeit these were still below trend. The Eurozone had navigated through a turbulent period for its disparate sovereigns and the likelihood of a near-term disorderly collapse had significantly diminished.

Treasury Position

1. The Council's Treasury Position for the year is summarised in the table below, and explained in the following sections of the report.

Balance 1 April 2013 £m		Balance 1 April 2014 £m
(88.407)	Long Term Borrowing	(88.407)
-	Short Term Borrowing	-
(88.407)	Total Borrowing	(88.407)
(5.304)	Other Long Term Liabilities (PFI Contract)	(5.169)
(93.711)	**Total External Debt**	**(93.576)**
3.199	Funds on call	0
8.232	Short Term investments	18.000
0.931	Long Term investments	0
12.362	**Total Investments**	**18.000**
(81.349)	**Net Treasury Position**	**(75.576)**
(98.232)	Capital Financing Requirement ** (notional indicator of underlying need to borrow)	(97.980)

** The capital financing requirement (CFR) measures an authority's underlying need to borrow or finance by other long-term liabilities for a capital purpose.

Borrowing

2. The Council's strategy for 2013/14 was that there was no need to take out external borrowing to finance capital expenditure. This was achieved and the table below shows how capital expenditure was financed.

2012/13 £000's		2013/14 £000's
294	Government Grants	139
0	Capital Receipts	135
2,894	HRA Major Repairs Funding	3,200
856	Section 106 funds	1,724
0	Other Grants &Contributions	950
1,843	Revenue Contributions	2,855
3,509	Internal Borrowing	763
9,396	**TOTAL**	**9,766**

3. The Localism Act enabled the reform of council housing finance and the abolition of the housing subsidy system. This required the Council to make a one off payment of £88.407m to the Government on 28 March.2012. This was funded by loans taken out from the Public Works Loans Board, in accordance with a borrowing strategy approved by the Council on 23 February 2012. The loans taken out were as follows:

Amount (£m)	Loan Type	Remaining Term	Interest rate	Fixed or Variable	Maturity Date
2.000	Maturity	4 years	0.55%	Variable	28/03/2018
2.000	Maturity	5 years	0.55%	Variable	28/03/2019
2.000	Maturity	6 years	0.55%	Variable	28/03/2020
2.000	Maturity	7 years	0.55%	Variable	28/03/2021
2.000	Maturity	8 years	0.55%	Variable	28/03/2022
2.000	Maturity	9 years	2.56%	Fixed	28/03/2023
3.000	Maturity	10 years	2.70%	Fixed	28/03/2024
3.000	Maturity	11 years	2.82%	Fixed	28/03/2025
3.000	Maturity	12 years	2.92%	Fixed	28/03/2026
3.000	Maturity	13 years	3.01%	Fixed	28/03/2027
3.000	Maturity	14 years	3.08%	Fixed	28/03/2028
3.000	Maturity	15 years	3.15%	Fixed	28/03/2029
4.000	Maturity	16 years	3.21%	Fixed	28/03/2030
4.000	Maturity	17 years	3.26%	Fixed	28/03/2031
4.000	Maturity	18 years	3.30%	Fixed	28/03/2032
4.000	Maturity	19 years	3.34%	Fixed	28/03/2033
4.000	Maturity	20 years	3.37%	Fixed	28/03/2034
4.000	Maturity	21 years	3.40%	Fixed	28/03/2035
4.000	Maturity	22 years	3.42%	Fixed	28/03/2036
5.000	Maturity	23 years	3.44%	Fixed	28/03/2037
5.000	Maturity	24 years	3.46%	Fixed	28/03/2038
5.000	Maturity	25 years	3.47%	Fixed	28/03/2039
5.000	Maturity	26 years	3.48%	Fixed	28/03/2040
5.000	Maturity	27 years	3.49%	Fixed	28/03/2041
5.407	Maturity	28 years	3.50%	Fixed	28/03/2042
88.407	**Total**		**2.97%**		

4. The interest cost in 2013/14 for these loans was £2.626m.

5. No short term borrowing was required in order to meet cash flow commitments.

6. The only other debt during the year was the Council's ongoing long term liability relating to the PFI Contract and Finance Leases, which under accounting rules is recognised as a debt on the Council's balance sheet.

Investments

7. The approved investment strategy for 2013/14 is summarised as follows:

   - To prioritise security and liquidity of the investment over yield
   - To place funds with UK Banks and Building Societies that have a minimum credit rating of A-, or to place funds with the UK Government or other UK local authorities
   - To operate a limit of 15% of total investment per banking counterparty or if the total investment is less than £10m, a limit of £2 million per banking counterparty.
   - To operate a maximum deposit term of 6 months.

8. The Council began the year 2013/14 with the following institutions meeting the Council's lending criteria: Debt Management Office, Local Authorities, Barclays, Bank of Scotland (Lloyds), HSBC, Natwest, Royal Bank of Scotland, Standard Chartered and Nationwide BS. During the year Royal Bank of Scotland and Natwest were suspended under delegated authority.

9. There was no appetite from Standard Chartered and HSBC to work with Uttlesford as they will only borrow large sums of cash.

10. All deposits placed during the year complied with the Council's policy. All deposits expected to be repaid during the year were received without difficulty. The table below summarises the investment activity during the year.

	Balance at 01/04/13	**Investments made**	**Investments repaid**	**Balance at 31/03/14**
	£m	**£m**	**£m**	**£**
Local Authority	-	5.0	(5.0)	0
Government deposit a/c.	4.2	178.6	(164.8)	18
Barclays Fixed Deposit	1.2	3.5	(4.7)	0
Bank of Scotland	2.0	6.5	(8.5)	0
Royal Bank of Scotland	2.0	0	(2.0)	0
Nationwide BS	2.0	9.0	(11.0)	0
Long term investment	0.9	0	(0.9)	0
TOTAL	**12.3**	**202.6**	**(196.9)**	**18**

11. The interest income on deposits (excluding Landsbanki) in 2013/14 was £87,000. The Average Rate of Return was 0.41%.

12. The Authority assessed and monitored counterparty credit quality with reference to credit ratings; Gross Domestic Product of the country in which the institution operates; the country's net debt as percentage of GDP and share price. The minimum long term counterparty credit rating determine by the authority for 2013/14 treasury strategy was [A-] across rating agencies Fitch, S&P and Moody's.

13. The debt crisis in Cyprus was resolved by its government enforcing a "haircut" on unsecured investments and bank deposits over €100k. This resolution mechanism, in stark contrast to the bails-outs during the 2008/2009 financial crises, sent shockwaves through Europe but allowed banking regulators to progress reform which will be enforced in January 2015. This will force losses on investors through a "bail-in" before taxpayers are asked to support failing banks. A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders and unsecured investments.

14. Counterparty credit quality was assessed and monitored with reference to credit ratings published by the major agencies Fitch, S&P and Moody's. Counterparty credit quality has been maintained as demonstrated by the credit score analysis in the table below. The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit. The Council aimed to achieve credit rating of at least A- to reflect the Councils overriding priority of security of monies invested with counterparties.

Date	Number of deposits	Value Weighted Average Credit Risk Score	Time Weighted Average Credit Risk Score	Average rate of interest investment	Average number of days to maturity
31.3.2013	7	AA-	A+	0.59%	26
30.9.2013	10	AA	A+	0.36%	52
31.12.2013	12	AA	A+	0.38%	13
31.3.2014	2	AA+	AA+	0.26%	7

Liquidity Management

In keeping with the DCLG's guidance on Investments, the authority maintained a sufficient level of liquidity averaging £859k through the use of call accounts.

Prudential Indicators

15. The Council is required to calculate and publish a set of statutory prudential indicators. These are technical measures of the Council's indebtedness and exposure to risk, and are intended to ensure that treasury management is prudent, sustainable and affordable.

16. The prudential indicators are set out in Appendix A of this report. There are no concerns or issues to highlight for Members' attention.

Compliance

The Authority confirms that it has complied with its Prudential Indicators for 2013/14 which were approved as part of the Council's Treasury Management Strategy Statement (TMSS)

The authority also confirms that during 2013/14 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

Investment Training

The needs of The Authority's treasury management staff for training in investment management are assessed regularly as part of the appraisal process. During 2013/14 staff attended training courses, seminars and conferences provided by Arlingclose, CIPFA and other organisations.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Loss of council funds through failure of banking counterparty	1 (minimal risk due to nature of institutions used)	4 (significant sums are placed on deposit)	Treasury Management Strategy and regular monitoring Arlingclose advice

1 = Little or no risk or impact
2 = Some risk or impact – action may be necessary.
3 = Significant risk or impact – action required
4 = Near certainty of risk occurring, catastrophic effect or failure of project.

APPENDIX A

PRUDENTIAL INDICATORS

INVESTMENTS

	2013/14 Estimate	2013/14 outturn
Upper limit for principal sums invested for over 364 days	£0.9 m	£0 m

INTEREST RATE EXPOSURE

	2013/14 Estimate	2013/14 outturn
Upper limit for fixed interest rate exposure	£78.4m	£78.4m
Upper limit for variable interest rate exposure	£10m	£10m

BORROWING LIMITS

	2013/14 Estimate*	2013/14 outturn
Authorised Limit (maximum level of external borrowing)	£99.9m	£93.6m
Operational Boundary (risk of Authorised Limit breach)	£96.9m	£93.6m

DEBT PORTFOLIO - MATURITY

Maturity structure of fixed rate borrowing	2012/13 Estimate (as per HRA borrowing strategy)	2012/13 outturn (as per actual HRA loans)
Under 12 months	0%	0%
12-24 months	0%	0%
24 months – 5 years	0%	2.3%
5+ -10 years	6.4%	11.3%
10+ - 20 years	44.6%	38.5%
20+ - 30 years	49%	47.9%
30+ years	0%	0%

CAPITAL FINANCING COSTS

	2013/14 Estimate	2013/14 outturn
Incremental impact of capital investment financed from Internal Borrowing – General Fund	£23,006	£2,000
Incremental impact of capital investment financed from Internal Borrowing – Housing Revenue Account	Nil	Nil
Ratio of financing costs to non-HRA net revenue stream **	5.38%	8.71%
Ratio of financing costs to HRA net revenue stream**	45.60.%	17.74%
Minimum Revenue Provision charged to the accounts	£413,000	£885,000

** The ratio between estimate and outturn is not comparable as incorrect income values were used and this was rectified in the 13/14 outturn calculation.

BALANCED BUDGET REQUIREMENT

The Council complied with the statutory requirement to set and remain within a balanced budget.