

FULL COUNCIL REPORT

Date Written	16 th December 2014
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Service Area	Finance
Exempt/Non Exempt	Non Exempt
Committee Date	28 th January 2015

To: Mayor, Ladies and Gentlemen

Annual Treasury Report 2013/14

PURPOSE OF THE REPORT:

To advise Members of the Annual Treasury Report for 2013/14

1.0 INTRODUCTION AND BACKGROUND

- 1.1 The Annual Treasury Report for 2013/14 is attached at Appendix 1 for Members' attention and is a requirement of the Chartered Institute for Public Finance and Accountancy's Code of Practice on Treasury Management 2009
- 1.2 As Members are aware, the Council employs Capita Treasury Solutions Limited as its Treasury Management consultant to give specialist advice on all Treasury Management matters including borrowing and investment requirements. This advice has been followed in producing the Annual Treasury Report.

2.0 ANNUAL TREASURY REPORT 2013/14

- 2.1 The Annual Treasury Report outlines the Council's performance in respect of:
 - The management of the organisation's cash flows, its banking, money market and capital market transactions
 - The effective control of the risks associated with those activities
 - The pursuit of optimum performance consistent with those risks

3.0 FINANCIAL IMPLICATION(S)

3.1 Financial information and performance is included within the body of the report.

4.0 SINGLE INTEGRATED PLAN AND SUSTAINABILITY IMPACT SUMMARY

4.1 The Single Integrated Plan & Sustainability Impact Assessment has been completed and the proposals positively impact on a number of aspects of the Corporate Plan and Single Integrated Plan, in particular the financial sustainability of public services. No negative impacts have been identified.

5.0 EQUALITY IMPACT ASSESSMENT

5.1 An Equality Impact Assessment (EqIA) screening form has been prepared for the purpose of this report. It has been found that a full report is not required at this time. The screening form can be accessed on the Council's website/intranet via the 'Equality Impact Assessment' link.

6.0 RECOMMENDATION(S) that

6.1 The Annual Treasury Report for 2013/14 be received.

6.2 The actual 2013/14 prudential and treasury indicators be approved.

GARETH CHAPMAN
CHIEF EXECUTIVE

BACKGROUND PAPERS		
Title of Document(s)	Document(s) Date	Document Location
Prudential Indicators – Council Tax 2013/14	Council 27 th March 2013	Accountancy / Intranet Committee Agendas and Minutes
Treasury Management Policy and Annual Investment Strategy 2013/14	Council 27 th March 2013	Accountancy / Intranet Committee Agendas and Minutes
Audited Statement of Accounts for Year Ended 31 March 2014	24 th September 2014	Accountancy
Final Accounts 2013/14 Working Papers	April 2014 to September 2014	Accountancy

Consultation has been undertaken with the Corporate Management Team in respect of each proposal(s) and recommendation(s) set out in this report.

MERTHYR TYDFIL COUNTY BOROUGH COUNCIL ANNUAL
TREASURY REPORT 2013/14

1.0 Introduction and background

- 1.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2013/14. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2013/14 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 27/03/2013)
- a mid year (minimum) treasury update report (Council 04/12/2013)
- an annual report following the year describing the activity compared to the strategy (this report)

- 1.2 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This report summarises:

- the Council's current treasury position;
- performance measurement;
- the strategy for 2013/14;
- the economy during 2013/14;
- the borrowing outturn for 2013/14;
- compliance with treasury limits and Prudential Indicators;
- investment outturn for 2013/14;
- debt rescheduling;

2.0 Treasury Position as at 31 March 2014

2.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2013/14 the Council's treasury position was as follows:

Table 1 – Treasury Position 31st March 2014

Description	31 st March 2014 £m	Rate/ Return %	Average Life Years	31 st March 2013 £m	Rate/ Return %	Average Life Years
Borrowing						
Public Works Loan Board	56.57	7.87	12.17	55.57	7.30	13.03
EuroHypo Bank	12.00	4.50	34.87	12.00	4.50	35.89
Short Term Loans	3.00	0.29	0.16	6.00	0.37	0.06
Total Borrowing	71.57	6.99	12.46	73.57	6.28	13.03
Short Term Investments	0.30	0.40	0.06	3.50	0.35	0.21

3.0 Performance Measurement

3.1 One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide (*as incorporated in Table 1*). The Council's performance indicators were set out in the Annual Treasury Strategy.

3.2 The net interest on borrowing during 2013/14 was £4.939 million with the breakdown of outturn against estimate shown in Table 2.

Table 2 – Net Interest on Borrowing 2013/14

Description	Estimate £'000	Outturn £'000
Public Works Loan Board Debt (PWLB)	4,595	4,413
EuroHypo Bank Debt	540	540
Short-term Borrowing	2	7
Short-term Investments	(88)	(21)
Total	5,049	4,939

3.3 The expectation for interest rates within the strategy for 2013/14 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2013/14. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

4.0 The Strategy for 2013/14

4.1 Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

4.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and reduce counterparty risk.

5.0 The Economy and Interest Rates

5.1 The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

6.0 Borrowing Outturn for 2013/14

6.1 The Authority undertook short-term borrowing (less than 6 weeks) of £44.175 million during 2013/14 with UK building societies and other local authorities. A summary analysis is included in Table 3.

Table 3 – Analysis of Treasury Borrowing 2013/14

Date	Advance £million	Average Interest Rate %
April 2013	5.00	0.31
May 2013	3.00	0.27
June 2013	4.18	0.27
July 2013	4.00	0.30
August 2013	5.00	0.33
September 2013	1.00	0.30
October 2013	3.00	0.43
November 2013	8.00	0.32
December 2013	1.60	0.50
January 2014	3.20	0.31
February 2014	3.70	0.41
March 2014	2.50	0.36
Total	44.18	0.33

6.2 As highlighted in Table 1 the average debt portfolio interest rate during the year was 6.99%.

7.0 Compliance with Treasury Limits

7.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Policy Statement and Annual Investment. The outturn for the Prudential Indicators is shown in Appendix 1.

8.0 Investment Outturn for 2013/14

8.1 The Council manages its investments in-house and invests with the institutions listed in Appendix 2. The Council invests for a range of periods from overnight to 364 days, dependent on the Council's cash flows, its interest rate view and the interest rates on offer.

8.2 The Council's Investment Strategy was for investments to be kept short, typically within one to three months, with a view to enabling returns to be compounded more frequently.

8.3 The Authority invested a total of £85.200 million on a short-term basis with banks, building societies and other local authorities. A summary analysis is included in Table 4.

Table 4 – Analysis of Investments 2013/14

Date	Invested £million	Average Interest Rate %
April 2013	14.00	0.39
May 2013	7.00	0.45
June 2013	5.60	0.44
July 2013	6.60	0.40
August 2013	6.50	0.43
September 2013	5.40	0.36
October 2013	6.40	0.51
November 2013	4.20	0.41
December 2013	7.50	0.37
January 2014	8.50	0.39
February 2014	7.00	0.45
March 2014	6.50	0.47
	85.20	0.42

A total of £300,000 investments remained outstanding at 31st March 2014.

- 8.4 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.0 Debt Rescheduling

- 9.1 Debt rescheduling opportunities were limited during 2013/14 due to the current economic climate and consequent structure of interest rates. As a result no debt rescheduling was undertaken during the 2013/14 financial year.

Appendix 1: Prudential and treasury indicators

Prudential Indicator	2013/14 Estimate	2013/14 Outturn
Capital Expenditure	£'000 13,858	£'000 23,147
Ratio of Financing Costs to Net Revenue Stream	7%	6%
Net Borrowing Requirement Brought Forward 1 April 2013 Carried Forward 31 March 2014 In Year Borrowing Requirement	£'000 69,208 73,948 -4,740	£'000 70,679 72,183 -1,504
Capital Financing Requirement	£'000 81,196	£'000 78,894
Operational Boundary for External Debt	£'000 80,148	£'000 80,148
Authorised Limit for External Debt	£'000 84,125	£'000 84,125

Appendix 2 : Approved Organisations for Investment

The investment of monies temporarily surplus to requirements can only be made to the following organisations, with the maximum period of investment defined as 364 days.

Institution	Council 27/03/2013 Maximum Loan £
UK Local Authorities	5,000,000
UK Bank or Building Society	5,000,000
HSBC (the Council's Bankers)	5,000,000
UK Government	As required