



FULL COUNCIL REPORT

Date Written	17 th November 2015
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Service Area	Finance
Exempt/Non Exempt	Non Exempt
Committee Date	2 nd December 2015

To: Mayor, Ladies and Gentlemen

Annual Treasury Report 2014/15

1.0 SUMMARY OF THE REPORT

1.1 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

2.0 RECOMMENDATION(S)

2.1 The Annual Treasury Report for 2014/15 be received.

2.2 The actual 2014/15 prudential and Treasury Indicators be approved.

3.0 INTRODUCTION AND BACKGROUND

3.1 The Annual Treasury Report for 2014/15 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 (revised 2011).

3.2 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.

4.0 FINANCIAL IMPLICATION(S)

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

5.0 SINGLE INTEGRATED PLAN AND SUSTAINABILITY IMPACT SUMMARY

5.1 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.

6.0 EQUALITY IMPACT ASSESSMENT

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

GARETH CHAPMAN
CHIEF EXECUTIVE

COUNCILLOR PHIL WILLIAMS
CABINET MEMBER FOR GOVERNANCE
AND CORPORATE SERVICES

BACKGROUND PAPERS		
Title of Document(s)	Document(s) Date	Document Location
Prudential Indicators 2014/15	Council 26 th March 2014	Accountancy/Intranet Committee Agendas and Minutes
Treasury Management Policy and Annual Investment Strategy 2014/15	Council 26 th March 2014	Accountancy/Intranet Committee Agendas and Minutes
Audited Statement of Accounts for Year Ended 31 st March 2015	23 rd September 2015	Accountancy
Final Accounts Working Papers 2014/15	April 2015 to September 2015	Accountancy
Does the report contain any issue that may impact the Council's Constitution?		No

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 2014/15

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 2014/15. 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 2014/15 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 26/03/2014)
- a mid year (minimum) treasury update report (Council 28/01/2015)
- 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 2014/15;
- the economy during 2014/15;
- the borrowing outturn for 2014/15;
- compliance with treasury limits and Prudential Indicators;
- investment outturn for 2014/15;
- debt rescheduling;

2.0 Treasury Position as at 31 March 2015

- 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 2014/15 the Council's treasury position was as follows:

Table 1 – Treasury Position 31st March 2015

Description	31 st March 2015 £m	Rate/ Return %	Average Life Years	31 st March 2014 £m	Rate/ Return %	Average Life Years
Borrowing						
Public Works Loan Board	59.78	7.60	11.58	56.57	7.87	12.17
EuroHypo Bank	12.00	4.50	33.87	12.00	4.50	34.87
Short Term Loans	10.80	0.40	0.07	3.00	0.29	0.16
Total Borrowing	82.58	6.21	11.12	71.57	6.99	12.46
Short Term Investments	5.80	0.43	0.05	0.30	0.40	0.06

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 2014/15 was £5.001 million with the breakdown of outturn against estimate shown in Table 2.

Table 2 – Net Interest on Borrowing 2014/15

Description	Estimate £'000	Outturn £'000
Public Works Loan Board Debt (PWLB)	4,463	4,454
EuroHypo Bank Debt	540	540
Short-term Borrowing	3	22
Short-term Investments	(35)	(15)
Total	4,971	5,001

- 3.3 The expectation for interest rates within the strategy for 2014/15 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

4.0 The Strategy for 2014/15

- 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 at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015. In May, however, the Bank revised its forward guidance and expectations for the first increase in Bank rate started to recede. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. This made it clear that the Monetary Policy Committee would have difficulty in raising the Bank Rate in 2015 and the first increase receded back to around quarter 3 of 2016.

6.0 Borrowing Outturn for 2014/15

- 6.1 The Authority undertook short-term borrowing (less than 6 weeks) of £80.820 million during 2014/15 with UK building societies and other local authorities. A summary analysis is included in Table 3.
- 6.2 The Authority undertook new Long Term Borrowing through the Public Works Loan Board Debt (PWLBD) of £3.225 million on 24th March 2015 at a rate of £2.92%. The Authority repaid £8,189.52 principal against an Equal Instalments of Principal Loan (EIP) taken out on 26th October 1989 to fully repay the £3.000 million Loan.

Table 3 – Analysis of Treasury Borrowing 2014/15

Date	Advance £million	Average Interest Rate %
April 2014	2.00	0.29
May 2014	3.20	0.27
June 2014	4.16	0.28
July 2014	14.34	0.32
August 2014	7.00	0.29
September 2014	2.50	0.41
October 2014	8.80	0.34
November 2014	7.02	0.34
December 2014	17.00	0.44
January 2015	3.00	0.38
February 2015	7.00	0.38
March 2015	4.80	0.40
Total	80.82	0.36

A total of £10.800 million short term loans remained outstanding as at 31st March 2015.

- 6.3 As highlighted in Table 1 the average debt portfolio interest rate during the year was 6.21%.

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 2014/15

- 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 £74.000 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 2014/15

Date	Invested £million	Average Interest Rate %
April 2014	9.40	0.41
May 2014	5.80	0.54
June 2014	5.20	0.50
July 2014	3.00	0.43
August 2014	3.30	0.38
September 2014	8.00	0.36
October 2014	5.50	0.39
November 2014	0.00	0.00
December 2014	0.00	0.00
January 2015	11.00	0.39
February 2015	7.00	0.47
March 2015	15.30	0.44
	74.00	0.43

A total of £5.800 million investments remained outstanding at 31st March 2015.

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 2014/15 due to the current economic climate and consequent structure of interest rates. As a result no debt rescheduling was undertaken during the 2014/15 financial year.

Appendix 1: Prudential and treasury indicators

Prudential Indicator	2014/15 Estimate	2014/15 Outturn
Capital Expenditure	£'000 28,388	£'000 30,782
Ratio of Financing Costs to Net Revenue Stream	7%	7%
Net Borrowing Requirement Brought Forward 1 April 2014 Carried Forward 31 March 2015 In Year Borrowing Requirement	£'000 75,048 75,781 -733	£'000 72,183 78,995 -6,812
Capital Financing Requirement	£'000 83,610	£'000 85,427
Operational Boundary for External Debt	£'000 80,346	£'000 80,346
Authorised Limit for External Debt	£'000 84,361	£'000 84,361

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 26/03/2014 Maximum Loan £
UK Local Authorities	5,000,000
UK Bank or Building Society	5,000,000
Barclays Bank (the Council's Bankers)	5,000,000
UK Government	As required