

Report of	Meeting	Date
Chief Finance Officer	Governance Committee	24 June 2015

TREASURY MANAGEMENT ANNUAL REPORT 2014/15

PURPOSE OF REPORT

1. To report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2015.

RECOMMENDATION(S)

2. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

3. This report advises on compliance with Prudential and Treasury Indicators in 2014/15. The return on investments for the year was 0.59%, which exceeded the benchmark of 0.35%. Details of borrowing and investments as at 31 March 2015 are presented.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

4. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	√

BACKGROUND

5. The current regulatory environment concerning treasury management places a greater onus on members to scrutinise treasury policy and activity. To enable that, each year the Council is required to consider, as a minimum, three treasury reports. These consist of an annual strategy statement in advance of the year (Council 25/2/2014), a mid-year review of that strategy (Governance Committee 14/1/2015), and finally this out-turn report.
6. Revised Prudential and Treasury Indicators for 2014/15 were included in the report "Treasury Strategies and Prudential Indicators 2015/16 to 2017/18", presented to Special Council of 3 March 2015. Where relevant, comparisons with 2014/15 indicators in this report are to those approved most recently.

PRUDENTIAL INDICATORS

7. Prudential Indicator: Capital Expenditure and Financing 2014/15

The Council's 2014/15 Capital Programme has been reported to Executive Cabinet and Council at intervals during the year. An analysis of capital expenditure in the year and variances from budgets, including rephasing of expenditure to 2015/16, is given in the report Provisional Revenue and Capital Outturn 2014/15, being presented to the Executive Cabinet meeting of 25 June 2015.

In summary, capital expenditure for 2014/15 was £3.654m, compared to the estimate of £5.368m when the prudential indicator for the year was revised. Proposed financing of capital expenditure in 2014/15 and the impact on the Capital Financing Requirement is shown in the table below.

8. Prudential Indicator: Capital Financing Requirement 2014/15

The Capital Financing Requirement is a measure of the capital expenditure incurred by the Council which still has to be paid for. Financing of such expenditure is by a combination of external borrowing, generally loans from the Public Works Loan Board (PWLb), or temporary use of internal cash balances. Ultimately the expenditure has to be paid for and will be a charge to Council Tax payers. The Minimum Revenue Provision (MRP) charged to the Council's revenue budget each year is based on the CFR. Its impact on reducing the CFR is shown in the following table.

The revised CFR estimated for 2014/15 was £33.239m, therefore the actual CFR is £0.039m less than estimated.

Capital Expenditure and Financing	2014/15 £'000
Opening Capital Financing Requirement 1 April 2014	32,866
Capital investment	
Property, Plant and Equipment	2,724
Revenue Expenditure Funded from Capital under Statute	930
Sources of finance	
Capital Receipts	(163)
Government Grants and Other Contributions	(1,789)
Sums set aside from revenue	
Revenue Financing	(907)
Minimum Revenue Provision – statutory	(461)
Closing Capital Financing Requirement 31 March 2015	33,200
Explanation of movements in year	
Increase in prudential borrowing	795
Provision made for debt repayment	(461)
Increase/(Decrease) in Capital Financing Requirement	334

9. Prudential Indicator: The CFR and Borrowing

In order to ensure that local authorities borrow only for capital purposes, the Prudential Code requires that borrowing net of investments should not exceed the CFR for the preceding year plus any anticipated increase in the current and the next two years.

Total borrowing at 31 March 2015 was £19.042m (excluding accrued interest), all of which was from PWLB. Cash balances (net of bank overdraft) invested at year-end were £1.468m, which meant that borrowing net of investments was £17.574m. This was higher than the estimated net figure of £16.042m because surplus cash available for investment at year end was less than estimated.

10. Compliance with Borrowing Limits (Operational Boundary & Authorised Limit)

The Prudential Indicators include two borrowing limits: the Operational Boundary, which reflects the expected borrowing position; and the Authorised Limit, which provided headroom to cater for unanticipated cash movements.

The revised Operational Boundary for 2014/15 was set at £24.057m, which included £24.042m external borrowing plus £0.015m other long-term liabilities. The actual total for the year was £19.042m (excluding accrued interest), and the reason for the reduction was the continuing use of internal cash balances rather than external borrowing to finance capital expenditure. The prudential borrowing for the year of £0.795m was financed from internal balances. Use of internal cash balances in this way reduces the net cost of financing capital investment for the time being, though in the longer run additional external borrowing will be required.

The revised Authorised Limit was set at £26.057m, to allow a margin for temporary borrowing if required for cash management purposes. Actual borrowing and other long-term liabilities were £19.057m and therefore were below the limit.

11. Prudential Indicator: Ratio of Financing Costs to the Revenue Stream

This indicator identifies the percentage of the Council's income from Government grants and Council Tax that has been used to meet interest costs and debt repayment (MRP). The revised estimate reported in the Treasury Strategy 2015/16 was 9.19%. The actual ratio was 6.69%. The revenue stream reduced because of the need to accrue an increase in the business rates retention levy payable to central government, though this was exceeded by the reduction in financing costs. The reduction in the latter reflected the use of internal cash balances to finance capital expenditure, rather than paying interest on additional external borrowing.

12. Prudential Indicator: Incremental Impact of Capital Investment Decisions

This indicator is concerned with the cumulative impact on the revenue budget of capital expenditure over a number of years. It is not possible to give a meaningful comparison against this indicator, other than when it is restated each year in the Treasury Strategy.

13. Treasury Position as at 31 March 2015

	As last reported (in 2015/16 Treasury Strategy)	Actual value as at 31 March 2015
	£'000	£'000
Borrowing at period start (excluding temporary borrowing for cash flow management)	20,264	20,264
Borrowing repaid in year	(1,222)	(1,222)
Borrowing in year	5,000	0
Total borrowing at period end **	24,042	19,042
** Excluding accrued interest		
Cash & investments	(8,000)	(1,468)
Net Borrowing	16,042	17,574

14. Treasury Indicator: Upper Limit on Fixed Interest Rate Exposure

The Council is exposed to fixed interest rates on its borrowings. The upper limit on fixed interest rate exposure for 2014/15 was set at 100%, that is equivalent to the Operational Boundary. The limit was not breached.

15. Treasury Indicator: Upper Limit on Variable Interest Rate Exposure

The Council is exposed to variable interest rates on cash invested temporarily in money market funds and call accounts. The table below shows that on average £4.143m was invested each day in such funds. The upper limit on variable rate exposure for 2014/15 was set at £20m. This upper limit took account of the potential need for external borrowing to finance capital investment to replace use of internal cash balances. The effect would have been to increase cash available for investment, though at a much lower rate of interest than would have been paid on the new loans. As a consequence, no new loans were taken in 2014/15 and cash invested peaked at £12.8m.

16. Investments and Average Rate Achieved

The following table summarises investment activity and returns during 2014/15:

Details	Average daily Investment £'000	Interest Earned £	Average Rate %
Money Market Funds	500	1,837	0.37
Call accounts	3,643	17,782	0.49
Sub Total – MMF/Call accounts	4,143	19,619	
Short Term deposits	1,721	14,750	1.86
Debt Management Office (DMO)	0	0	n/a
Total	5,864	34,369	0.59

The average interest earned of 0.59% exceeded the performance benchmark of 0.35%, being the 7-day London Inter-Bank Bid Rate (LIBID). However, the average rate achieved has fallen compared to 2013/14, when 1.19% was achieved and the 7-day LIBID was 0.34%. The likelihood is that the average rate achieved in 2015/16 will remain low, which tends to support the strategy of using internal cash balances to minimise additional borrowing required to finance capital investment.

IMPLICATIONS OF REPORT

17. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	√	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

18. This report meets statutory reporting requirements. Its statistical content is consistent with the Council's draft financial accounts for the financial year 2014/15.

COMMENTS OF THE MONITORING OFFICER

19. The Monitoring Officer has no comments.

GARY HALL
CHIEF EXECUTIVE & STATUTORY FINANCE OFFICER

Background Papers			
Document	Date	File	Place of Inspection
Treasury Strategy 2014/15 Treasury Strategy 2015/16	25/2/14 03/3/15		Town Hall

Report Author	Ext	Date	Doc ID
Michael Jackson	5490	14 June 2015	Treasury Management Annual Report 2014-15.docx