TRAFFORD BOROUGH COUNCIL

Report to:	**Accounts & Audit Committee 26 June 2014** **Council Meeting 16 July 2014**
Report for:	**Information**
Report of:	**The Executive Member for Finance and the Director of Finance**

Treasury Management Annual Performance 2013/14 Report

Summary

In accordance with the CIPFA Code of Practice, as adopted by the Council, this report has been prepared to review treasury activities for the past financial year.

During 2013/14 the Council complied with its legislative and regulatory requirements, including compliance with all treasury management prudential indicators.

In 2013/14 the Council's external debt decreased by £3.1m to £97.4m through maturing debt and the level of investments fell by £1.3m to £50.9m.

At 31 March 2014 the average rate for borrowings was 5.95% an increase of 0.70% from the previous year resulting from low rate debt maturing together with the switch of a Market loan going from fixed to variable rate interest. The average rate for investments as at 31 March 2014 was 0.79% representing a reduction of 0.09% from the same position reported at 31 March 2013, of 0.88%.

Recommendations

That the Accounts & Audit Committee advise the Council;

1. of the Treasury Management activities undertaken in 2013/14,
2. that no prudential limits were breached during 2013/14,
3. that both the CIPFA Code of Practice on Treasury Management and CIPFA Prudential Code for Capital Finance were fully complied with.

Contact person for background papers:
Graham Perkins – Technical Accountant - Extension: 4017

Background papers: None

Relationship to Policy Framework/Corporate Priorities	Value for Money
Financial	In 2013/14 the Council paid loan interest of £5.2m and received £0.5m from money market investments, both of which are in line with that budgeted for.
Legal Implications:	No legal implications arising from this report
Equality/Diversity Implications	Not applicable
Sustainability Implications	Not applicable
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities. The main risks are of adverse or unforeseen fluctuations in interest rates and security of capital sums.
Health and Safety Implications	Not applicable

Other Options

This report has been produced in order to comply with Financial Regulations and relevant legislation and provides an overview of the treasury management transactions undertaken during 2013/14.

Consultation

Advice has been obtained from Capita, the Council's external advisors.

Reasons for Recommendation

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

1. INTRODUCTION AND BACKGROUND

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

1.2 In 2013/14, the Accounts & Audit Committee together with the Executive and Full Council received the following reports:

- annual treasury strategy for the year ahead (February 2013)
- mid-year update report (November / December 2013)
- annual outturn report describing the activity undertaken compared to the strategy (June 2014 i.e. this report)

1.3 The figures in this report are based on the actual amounts borrowed and invested and as such will differ from those stated in the final accounts which are shown in compliance with International Financial Reporting Standards.

1.4 The report comprises of the following sections;

- Economic background & impact on the Strategy (Section 2),
- Treasury Position (Section 3),
- Borrowing Position (Section 4),
- Investment Position (Section 5),
- Related Treasury Issues (Section 6),
- Prudential and Performance indicators (Section 7),
- Appendices.

2. ECONOMIC BACKGROUND & IMPACT ON 2013/14 STRATEGY

2.1 The financial year of 2013/14 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk did subside. A brief summary of the main events which occurred during the year are highlighted below;

UK: -

- economic growth (GDP) surged at its fastest rate in 6 years registering positive growth in all 4 quarters of 2013-14;
- there was no additional quantitative easing undertaken by the Bank of England during 2013/14;
- Bank Rate ended the year unchanged for the fifth successive year at 0.5%,
- CPI inflation fell from 2.8% in April 2013 to below the Government's target rate of 2.0% to 1.7% by March 2014;
- unemployment rate fell from 7.8% in April 2013 to 6.9% in March 2014, its lowest level in 5 years;
- the Funding for Lending Scheme, introduced by the Bank of England in July 2012, continued to provide cheap credit to the banks resulting in low money market investment rates being available. However 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;
- the Government announced in both its Autumn Statement & March budget that the forecast for total borrowing over the next 5 years was to fall by £97bn, culminating in a £5bn surplus in 2018-19.

EU:-

- sovereign debt crisis subsided during the year;
- confidence in the ability of the Eurozone to remain intact increased substantially.

2.2 The expectation for interest rates was that the first Bank Rate rise would not occur until quarter 3 2015 at the earliest. However at the recent annual Mansion House dinner, the Bank of England Governor Mark Carney hinted that a rise in rates could happen sooner than markets expected. This will be kept under review.

2.3 The actual movement in interest rates when compared to the expectations in the strategy are shown below and a more detailed analysis detailing how investment rates moved during the course of the year is provided at Appendix A;

	2013/14	1 April 2013	31 March 2014	2013/14
	Forecast Average	Actual	Actual	Actual Average
	%	%	%	%
UK Bank Rate	0.50	0.50	0.50	0.50
Investment Rates				
3 month	0.50	0.51	0.53	0.52
1 Year	1.00	0.91	0.94	0.89
Loan Rates				
5 Year	1.65	1.75	2.87	2.46
25 Year	3.80	4.07	4.51	4.43

For reference, the 2013/14 budget assumed an average investment rate of 1.00% and that no new borrowing would be undertaken.

3. TREASURY POSITION

3.1 The Council's debt and investment position is controlled in order to ensure that security of funds and adequate liquidity for revenue and capital activities are maintained at all times. This function is undertaken by the Council's Treasury Management team. Procedures and controls to achieve these objectives are well established both through Member reporting and officer activity.

3.2 At the beginning and end of 2013/14 the Council's treasury position was as follows:

	31 March 2014 Principal	Total	Interest Rate	31 March 2013 Principal	Total	Interest Rate
DEBT						
Fixed rate:						
-PWLB	£41.4m			£44.5m		
-Market	£5.0m	£46.4m	6.83%	£25.0m	£69.5m	5.55%
Variable rate:						
-PWLB	£0m			£0m		
-Market	£51.0m	£51.0m	5.14%	£31.0m	£31.0m	4.58%
Total debt		**£97.4m**	**5.95%**		**£100.5m**	**5.25%**
Capital Financing Requirement (to finance past capital expenditure)		**£143.2m**			**£147.6m**	
Over/ (under) borrowing		**(£45.8m)**			**(£47.1m)**	
INVESTMENTS						
- Fixed rate	£26.9m			£32.4m		
- Variable rate	£24.0m			£19.8m		
Total investments		**£50.9m**	**0.79%**		**£52.2m**	**0.88%**

4. BORROWING POSITION

4.1 During the year the Council's external debt levels reduced by £3.1m to £97.4m, following repayments made to the Public Works Loan Board for annual and maturing debt. Of the debt outstanding of £97.4m, £1.0m is administered on behalf of Greater Manchester Probation Service which leaves £96.4m in respect of the Council's own long term requirement.

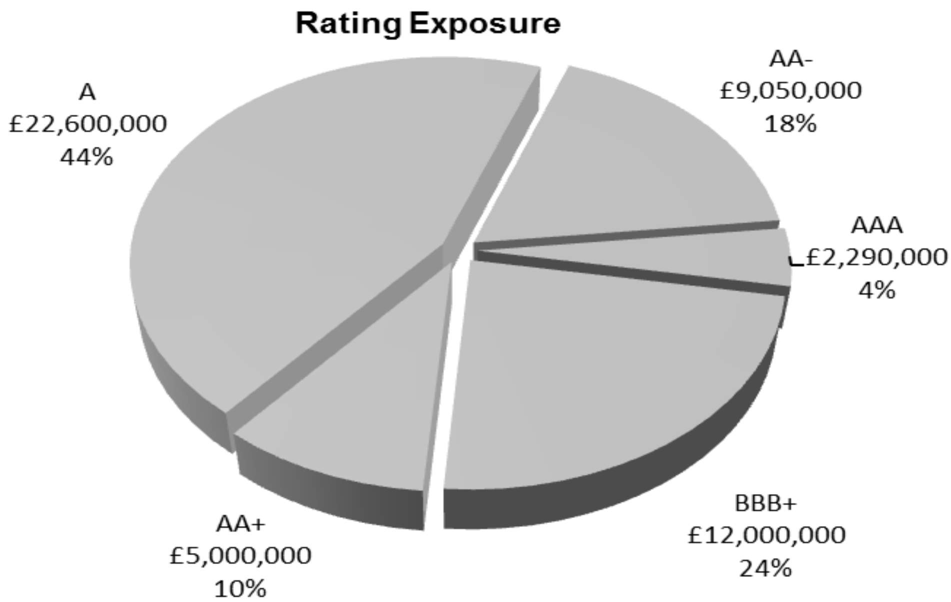
4.2 A maturity profile of the Council's debt can be found at Appendix B & C for reference.

4.3 During 2013/14 and in response to the continuing interest rate differential between the cost of long term debt (3.9% to 4.7%) compared to the levels of return available from short term investments (under 1%) together with investment counterparty risk, the Council continued with its the strategy, adopted since 2010, of borrowing internally (using cash backed reserves) to fund its long term borrowing requirement and maturing debt. This course of action continues to be widely followed by Councils nationally and was undertaken in conjunction with advice obtained from the Council's external advisers Capita.

4.4 Due to the high breakage costs (premium) payable no rescheduling on any of the Council's loans was undertaken in the year.

5. INVESTMENT POSITION

5.1 The Council's investment policy is governed by CLG guidance issued in March 2010 and which was implemented in the annual investment strategy approved by Council on 20 February 2013. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.). The table below provides a breakdown of the Council's investments placed as at 31 March 2014 by long term credit rating and further information detailing the make-up of this can be found at Appendix C & D;



5.2 The in-house treasury management team manages the investments using the institutions listed in the Council's approved lending list and funds can be invested for a range of periods from overnight to 3 years dependant on cash flow requirements, duration and counterparty limits set out in the approved investment strategy, its interest rate view and the interest rates on offer. Investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

5.3 The in-house team also continually monitors the markets and during the year there was very little movement in both credit ratings and interest rates highlighting the continuing movement by financial institutions to realign their balance sheets following the economic downturn.

5.4 The Council's main bank account, held with the Co-operative Bank, is non-interest bearing and consequently if no investments were undertaken by the Council's in house treasury management team, the Council would miss the opportunity to generate a substantial amount of income.

5.5 During 2013/14 an investment rate of return was 0.74% was achieved through proactive investment management generating £(0.5m) of interest, which was 0.38% or £(0.3m) above the comparable performance indicator of the average 7-day London Interbank BID (LIBID) rate, of 0.35% and in-line with the original budget assumption. Though the rate of interest earned of 0.74% was below that originally budgeted for of 1.00%, the level of investment interest received was not affected as a result of balances invested being higher than originally forecasted due to external grants / contributions / monies being received ahead of spend requirement.

5.6 A maturity profile of the Council's temporary investments can be found at Appendix C together with a further breakdown at Appendix D which details the historic risk of default.

6. RELATED TREASURY ISSUES

6.1 The Co-operative bank - Since 2002 the Council has used the services of The Co-operative Bank for its day to day banking requirements. During April and May 2013, two of the three main credit rating agencies, Fitch and Moody's, both revised down their credit ratings assigned to the bank to that of sub-investment grade. In response to this downgrade the Council undertook to place no further investments with the bank and remove it from the authorised lending list of institutions with whom investments could be placed. This is the normal course of action adopted in this scenario. However the Council did continue to use the bank for its day to day banking requirements. During the course of the year, The Co-operative Bank announced it was, over the next few years, to withdraw from the Local Authority banking market and in order to ensure that the banking requirements for the Council were met, it is participating in the current AGMA Procurement exercise taking place seeking a replacement bank, the results of which will be produced in August 2014.

6.2 Local Authority Mortgage Scheme – In 2012/13, the Council participated in the national Local Authority Mortgage Scheme using the cash backed option with Lloyds bank by advancing £2m for a period of 5 years at an interest rate of 4.41%. Due to the success of this scheme, a further £1m was advanced to Lloyds bank in 2013/14 at an interest rate of 2.7% again for a period of 5 years. These deposits provide an integral part of the mortgage lending, and are classified as being a service investment, rather than a treasury management investment, and is therefore outside of the specified / non specified investment categories.

7. PRUDENTIAL AND PERFORMANCE INDICATORS

7.1 Within the Treasury Management Strategy for 2013/14, approval was given to the treasury management prudential & performance indicators for the period 2013/14 – 2016/17. All indicators and benchmarks set for 2013/14 were complied with and details of these are shown in Appendix E.

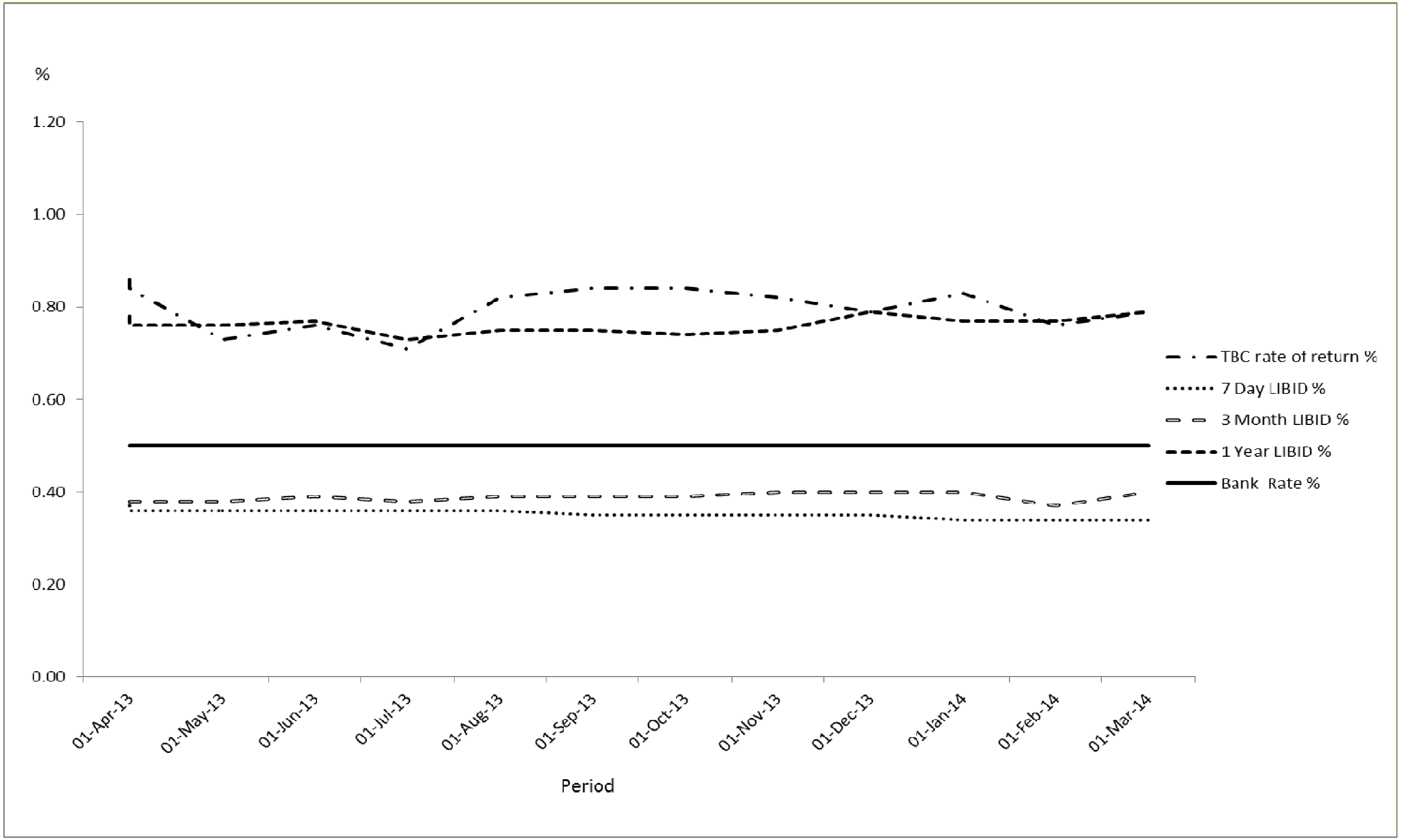
Finance Officer Clearance …*GB*………

Legal Officer Clearance ...JL.........

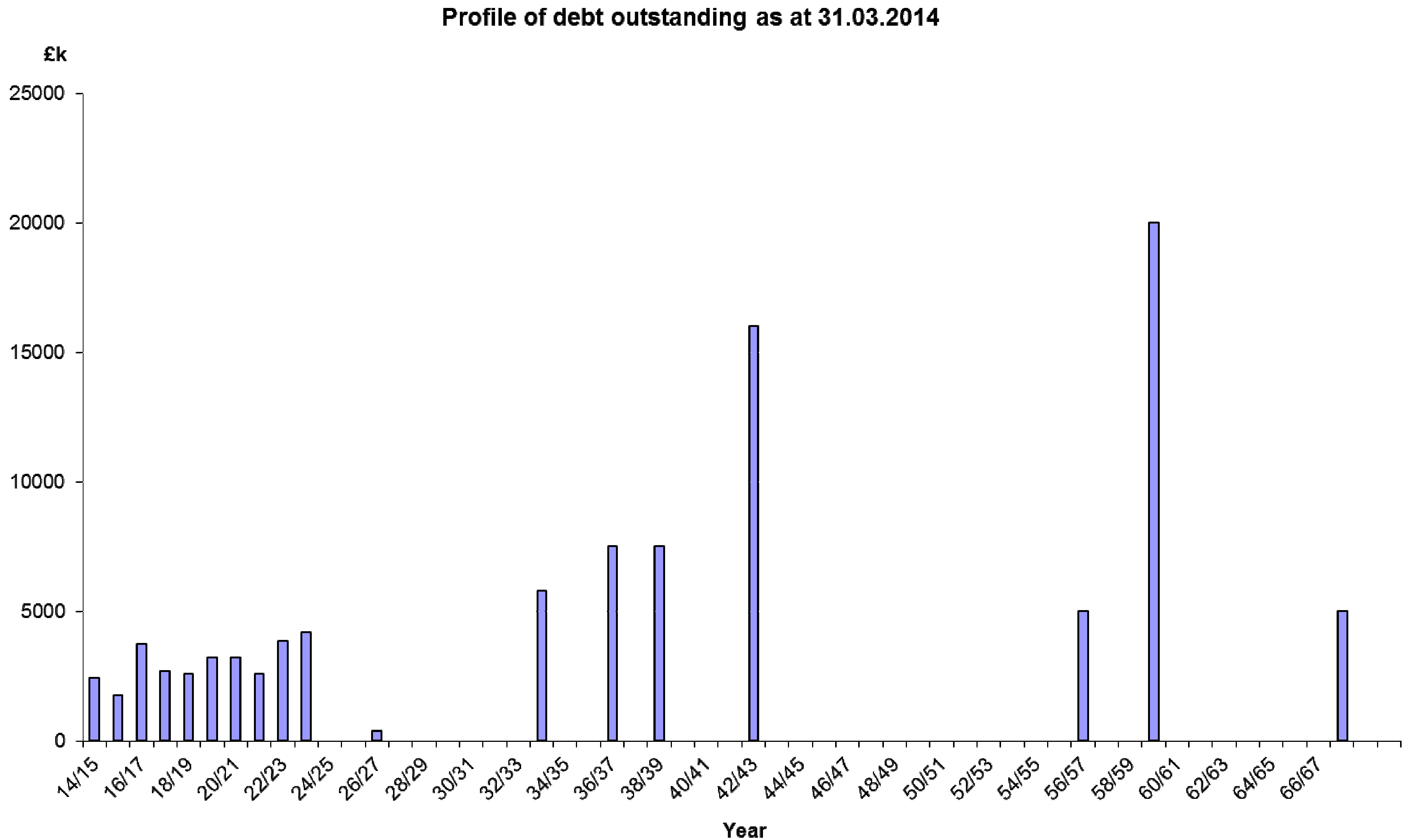
Director of Finance Signature ………………

Appendix A

Investment Interest rate movements in 2013-14



Appendix B


Profile of debt outstanding as at 31.03.2014
£k
25000
20000
15000
10000
5000
0
14/15
16/17
18/19
20/21
22/23
24/25
26/27
28/29
30/31
32/33
34/35
36/37
38/39
40/41
42/43
44/45
46/47
48/49
50/51
52/53
54/55
56/57
58/59
60/61
62/63
64/65
66/67
Year

Appendix C

Maturity Profile

Debt portfolio:

	31 March 2014 Actual	31 March 2013 Actual
Under 12 months	£2.4m	£3.1m
12 months and within 24 months	£1.8m	£2.4m
24 months and within 5 years	£9.0m	£8.2m
5 years and within 10 years	£17.1m	£15.5m
10 years and above	£67.1m	£71.3m
Total	**£97.4m**	**£100.5m**

Investment portfolio:

	31 March 2014 Actual	31 March 2013 Actual
Instant Access	£24.0m	£19.4m
Up to 3 Months	£3.5m	£14.0m
3 to 6 Months	£2.3m	£3.0m
6 to 9 Months	£2.2m	£5.6m
9 to 12 months	£13.9m	£10.2m
Over 1 year	£5.0m	£0.0m
Total	**£50.9m**	**£52.2m**

Appendix D

Breakdown of Investments as at 31 March 2014

Counterparty	Amount £	Interest rate	Lowest Long Term Credit Rating*	Historic Risk of Default**
Barclays Bank – call account	5,000,000	0.65%	A	0.000%
Greater Manchester Waste Disposal Authority	5,000,000	1.60%	AA+	0.080%
Federated Investors – Money Market Fund	1,930,000	0.41%	AAA	0.000%
Ignis – Money Market fund	80,000	0.42%	AAA	0.000%
Lloyds Bank	1,500,000	0.65%	A	0.005%
Lloyds Bank	2,500,000	0.95%	A	0.076%
Lloyds Bank	1,600,000	0.95%	A	0.079%
Lloyds Bank	2,700,000	0.94%	A	0.080%
Lloyds Bank	2,600,000	0.95%	A	0.083%
Lloyds Bank	2,500,000	0.95%	A	0.084%
Lloyds Bank	2,000,000	0.95%	A	0.087%
Morgan Stanley - Money Market Fund	280,000	0.37%	AAA	0.000%
Nationwide BS	2,200,000	0.69%	A	0.058%
Royal Bank of Scotland – call account	10,000,000	0.60%	BBB+	0.001%
Royal Bank of Scotland – 60 day notice	2,000,000	0.70%	BBB+	0.035%
Total UK	**41,890,000**	**0.84%**		
Svenska Handelbanken – call account	6,750,000	0.55%	AA-	0.000%
United Overseas Bank	2,300,000	0.51%	AA-	0.008%
Total Non UK	**9,050,000**	**0.54%**		
Grand Total	**50,940,000**	**0.79%**		

* The minimum Long term credit rating required by the Council is A- unless the bank is part nationalised.

**Historic Risk of Default – this is an average % risk for each investment based on 30 years of data provided by Fitch, Moody's & S&P. It simply provides a calculation of the possibility of average default adjusted for the time period within each year according to the maturity of the investment.

Appendix E

Prudential Indicators for 2013/14

Figures are for the financial year	2013/14 Forecast	2013/14 Actual
Authorised Borrowing Limit (**Maximum** level of external debt & other long term liabilities (PFI & leases) that the Council requires – this is a statutory limit under Section 3(1) of the Local Government Act 2003).	£126m	£104m
Operational Boundary (This is calculated on a similar basis as the authorised limit & represents the expected level of external debt & other long term liabilities (PFI & leases) may reach during the year, it is not a limit).	£107m	£104m
Upper limits on fixed interest rates **(Maximum** limit of net fixed interest rate exposure - debt less investment)	£3.6m	£3.4m
Upper limits on variable interest rates **(Maximum** limit of net variable interest rate exposure – debt less investment)	£1.9m	£1.5m
Gross debt and Capital Financing Requirement (A new indicator implemented from 1 April 2013 highlighting that all gross external borrowing is prudent, for capital purposes only and does not exceed the capital financing requirement – figures reflect amount capital financing requirement exceeds gross external borrowing.	£37m	£40m
Maturity structure of fixed rate borrowing **(**These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing – these are required for upper, as shown and lower limits which were set at 0%).		
Under 1 year (this includes the next call date for Market loans)	70%	54.8%
1 year to 2 years	25%	1.8%
2 years to 5 years	25%	14.4%
5 years to 10 years	25%	17.5%
10 years to 20 years	25%	6.3%
20 years to 30 years	25%	0.0%
30 years to 40 years	25%	0.0%
40 years and above	25%	5.2%
Maximum principal funds invested exceeding 364 days (excluding Manchester International Airport shares) **(**These limits are set to reduce the need for early sale of an investment)	£50m	£5m

Performance Indicators for 2013/14

Indicator	Target	Actual
Security – potential default rate of the Council's investment portfolio based on default rates from the 3 main credit rating agencies – inclusion is recommended by CIPFA.	Max 0.09%	Max 0.03%
Liquidity – investments available within 1 week notice	£20m min.	Achieved
Liquidity – Weighted Average Life of investments	6 months	6 months
Yield – Investment interest return to exceed 7 day **L**ondon **I**nterbank **BID** rate	0.35%	0.74%
Origin of investments placed - maximum investments to be directly placed with non-UK counterparties.	UK institutions 100% Non UK institutions 40%	Min 71% Max 29%