TRAFFORD BOROUGH COUNCIL

Report to:	**Executive 29 June 2015** **Accounts & Audit Committee 30 June 2015** **Council Meeting 15 July 2015**
Report for:	**Information**
Report of:	**The Executive Member for Finance and the Director of Finance**

Treasury Management Annual Performance 2014/15 Report

Summary

This report has been prepared in accordance with the CIPFA Code of Practice, as adopted by the Council to review treasury activities for the past financial year and during which:

- all legislative and regulatory requirements, including compliance with all treasury management prudential indicators were complied with;
- the average level of external debt for 2014/15 was £96.1m with the average rate being 6.07% reflecting the full year effect of a market loan switching from fixed to variable rates of interest and low rated debt maturing. This position compares to 2013/14 when the respective figures were £99.7m & 5.22%. Interest payable for 2014/15 was in line with budget;
- the average level of investments for 2014/15 was £79.3m with a rate of return of 0.70%, for 2013/14 this was £71.5m and 0.74% respectively. Interest received in 2014/15 was £(0.1)m above budget.

Recommendations

That the Accounts & Audit Committee and Executive advise the Council:

1. of the Treasury Management activities undertaken in 2014/15;
2. that no prudential limits were breached during 2014/15;
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 2014/15 the Council paid loan interest of £5.8m which was in line with that budgeted for and received £(0.5)m from money market investments, which was £(0.1)m above budget.
Legal Implications:	All actions undertaken during the year were in accordance with legislation, CLG Guidance, CIPFA Prudential Code and CIPFA Treasury Management Code of Practice.
Equality/Diversity Implications	Not applicable
Sustainability Implications	Not applicable
Resources Implications e.g. Staffing/ICT/Assets	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities. The Council's in-house treasury management team continually monitor to ensure that the main risks associated with this function of adverse or unforeseen fluctuations in interest rates are avoided and security of capital sums are maintained at all times.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

1. INTRODUCTION AND BACKGROUND

1.1 The Council is required by 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), to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2014/15. This report meets these requirements.

1.2 During 2014/15, the minimum reporting requirements were that the Accounts & Audit Committee together with the Executive and Full Council should receive the following reports:

- annual treasury strategy for the year ahead (issued February 2014);
- mid-year update report (issued November / December 2014);
- annual outturn report describing the activity undertaken compared to the strategy (June 2015 i.e. this report).

1.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore 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.

1.4 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.

1.5 The report comprises of the following sections:

- Economic background & impact on 2014/15 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 2014/15 STRATEGY

2.1 The financial year continued the challenging investment environment encountered since the latter part of 2008, 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;

General: -

- financial markets were caught out by a halving in the price of oil and the problems encountered between the Swiss franc and the euro;
- increased concerns that the European Central Bank was going to do too little too late to ward off the threat of deflation and recession in the Eurozone;
- strong growth in the US caused an increase in confidence, suggesting that it was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central interest rate, probably by the end of 2015;
- by the end of 2014, it was clear that inflation (Consumer Price Index) in the UK was heading towards zero in 2015 and could possibly even turn

negative making it difficult for the Monetary Policy Committee to start raising Bank Rate.

UK: -

- market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 in response to the unemployment rate falling much faster than expected. This did not materialise as a result of factors mentioned above and market expectations are now for the first increase to occur around quarter 3 of 2016.
- economic growth (Gross Domestic Product) registered positive growth for 2014 at 3.2%;
- no additional quantitative easing was undertaken by the Bank of England;
- Bank Rate ended the year unchanged for the sixth successive year at 0.5%,
- Consumer Price Index inflation fell from 1.8% in April 2014 to 0.0% by March 2015;
- unemployment rate fell from 6.9% in April 2014 to 5.6% in February 2015;
- the Funding for Lending Scheme, introduced by the Bank of England in July 2012, continues to provide cheap credit to the banks resulting in low money market investment rates being available;

EU:-

- Fears of a Greek exit from the euro increased after the anti-austerity party won power in January 2015;
- While the UK and its banking system has little direct exposure to Greece, it is difficult to quantify what the effects would be if Greece were to exit from the euro;
- European Central Bank announced in January 2015 that it would start a major programme of quantitative easing, purchasing Eurozone government and other debt in March 2015.

2.2 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;

	2014/15	**1 April 2014**	**31 March 2015**	**2014/15**
	Forecast Average	**Actual**	**Actual**	**Actual Average**
	%	**%**	**%**	**%**
UK Bank Rate	0.50	0.50	0.50	0.50
Investment Rates				
3 month	0.50	0.40	0.44	0.43
1 Year	0.80	0.78	0.84	0.87
Loan Rates				
5 Year	2.90	2.85	2.08	2.56
25 Year	4.75	4.49	3.31	3.93

For reference, the 2014/15 budget assumed an average investment rate of 0.84% and that no new borrowing would be undertaken.

3. TREASURY POSITION

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

3.2 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR) and is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2014/15 unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.3 At the beginning and end of 2014/15 the Council's treasury position was as follows:

	31 March 2015			31 March 2014		
	Principal	**Total**	**Interest Rate**	**Principal**	**Total**	**Interest Rate**
DEBT						
Fixed rate:						
-PWLB	£39.0m			£41.4m		
-Market	£5.0m	£44.0m	6.67%	£5.0m	£46.4m	6.83%
Variable rate:						
-PWLB	£0m			£0m		
-Market	£51.0m	£51.0m	5.50%	£51.0m	£51.0m	5.14%
Total debt		**£95.0m**	**6.05%**		**£97.4m**	**5.95%**
Capital Financing Requirement (to finance past capital expenditure)		**£138.2m**			**£143.2m**	
Over/ (under) borrowing		**(£43.2m)**			**(£45.8m)**	
INVESTMENTS						
- Fixed rate	£39.9m			£26.9m		
- Variable rate	£37.7m			£24.0m		
Total investments		**£77.6m**	**0.71%**		**£50.9m**	**0.79%**

Note - The above interest rates reflect the actual position as at 31 March.

4. BORROWING POSITION

4.1 During the year the Council's external debt levels reduced by £2.4m to £95m, following repayments made to the Public Works Loan Board for annual and maturing debt. Of the debt outstanding of £95m, £1.0m is administered on behalf of Greater Manchester Probation Service which leaves £94m in respect of the Council's own long term requirement.

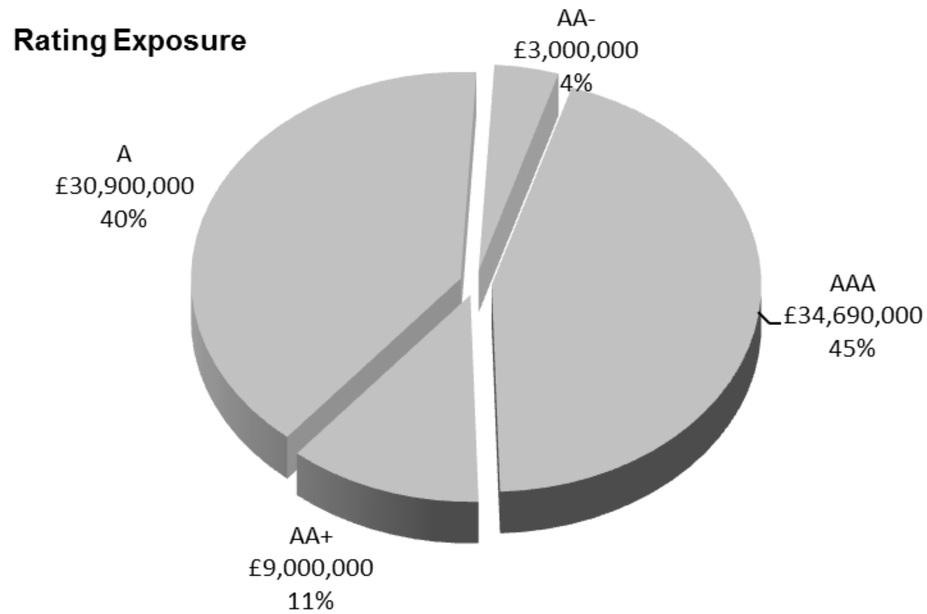
4.2 A maturity profile of the Council's debt can be found at Appendix B & C for reference.

4.3 During 2014/15 and in response to the continuing interest rate differential between the cost of long term debt (3.9%) 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 19 February 2014. 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 2015 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, which successfully transferred from The Co-operative to Barclays on 1st February 2015, 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 Bank Rate remained throughout 2014/15 at its historic low level since March 2008, of 0.5% with market expectations as to when the first increase in rates will now occur being set for quarter 3 2016 from that originally forecasted at quarter 1 2015. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.

5.6 The Council maintained an average balance of £79.3m during 2014/15 with an investment rate of return of 0.70% being achieved through proactive investment management, generating £(0.5m) of interest.

5.7 Whilst the level of return achieved in 2014/15 of 0.70% was slightly below that originally budgeted for of 0.84%, it was 0.36% or £(0.3m) above the comparable performance indicator of the average 7-day London Interbank BID (LIBID) rate, of 0.35% and £(0.1)m above budget.

5.8 The amount of interest earned was above that originally budgeted due to the level of balances invested being higher than originally forecasted due to external grants / contributions / monies being received ahead of spend requirement.

5.9 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 In response to The Co-operative bank's announcement in 2013 that it was withdrawing from the Local Authority banking market, an AGMA procurement exercise was undertaken in 2014 seeking a replacement bank to provide the Council's day to day transactional banking requirements. As a result of this exercise Barclays bank were duly appointed to provide this service and with effect from 1st February 2015. The Council successfully transferred its banking requirements across from The Co-operative to Barclays without any disruption to its customers being incurred. As a further consequence of this transition across to Barclays bank, forecasted annualised revenue savings of £23.5k are to be generated during the initial 5 year period of this contract.

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

7. PRUDENTIAL AND PERFORMANCE INDICATORS

7.1 Within the Treasury Management Strategy for 2014/15, approval was given to the treasury management prudential & performance indicators for the period 2014/15 – 2017/18. All indicators and benchmarks set for 2014/15 were complied with and details of these are shown in Appendix E.

Other Options

This report has been produced in order to comply with Finance Procedure Rules and relevant legislation and provides an overview of the treasury management transactions undertaken during 2014/15.

Consultation

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

Reasons for Recommendation

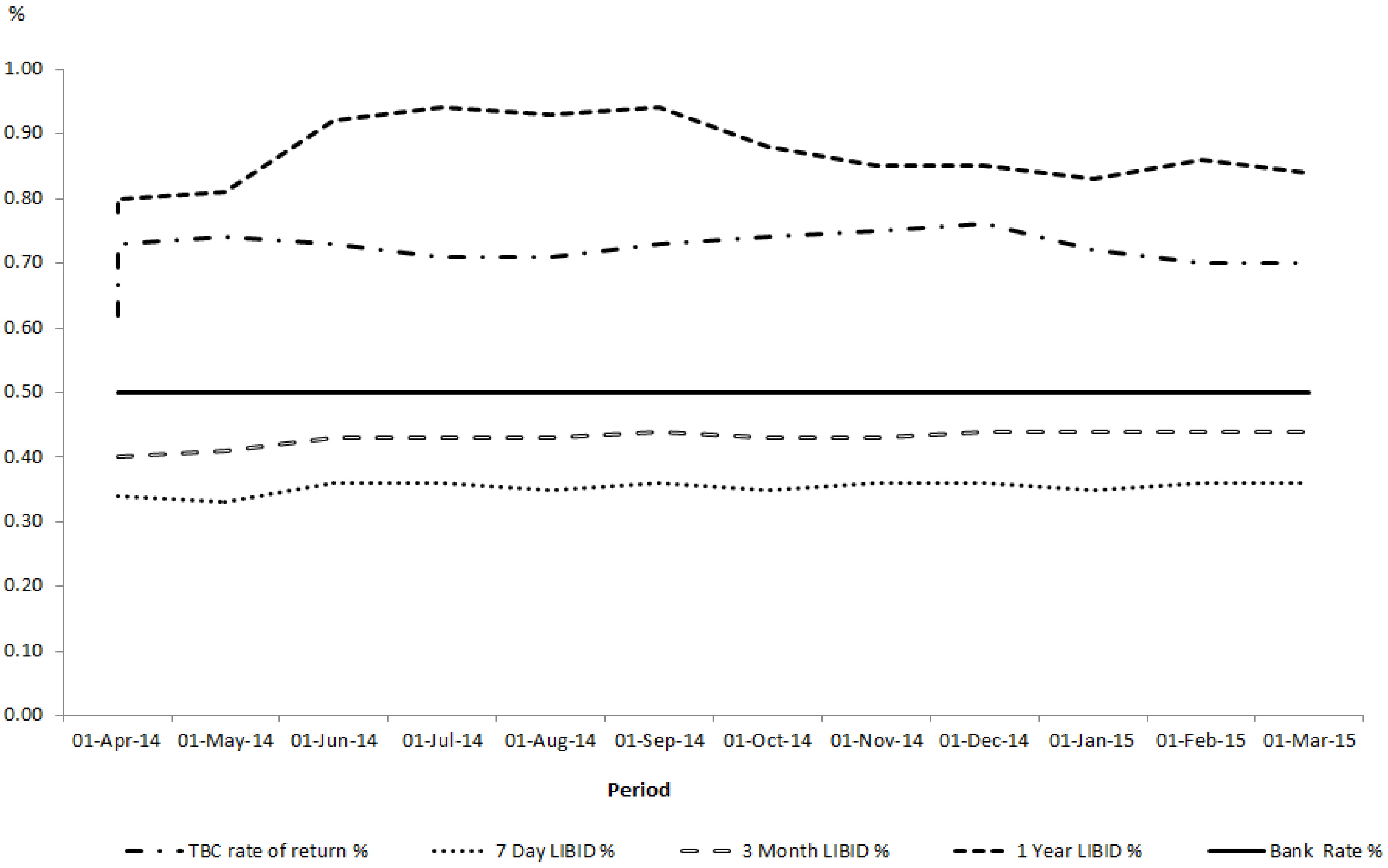
The report has been produced in order to meet the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code and the CIPFA Treasury Management Code.

Finance Officer Clearance *…GB…*

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

Director of Finance Signature ………

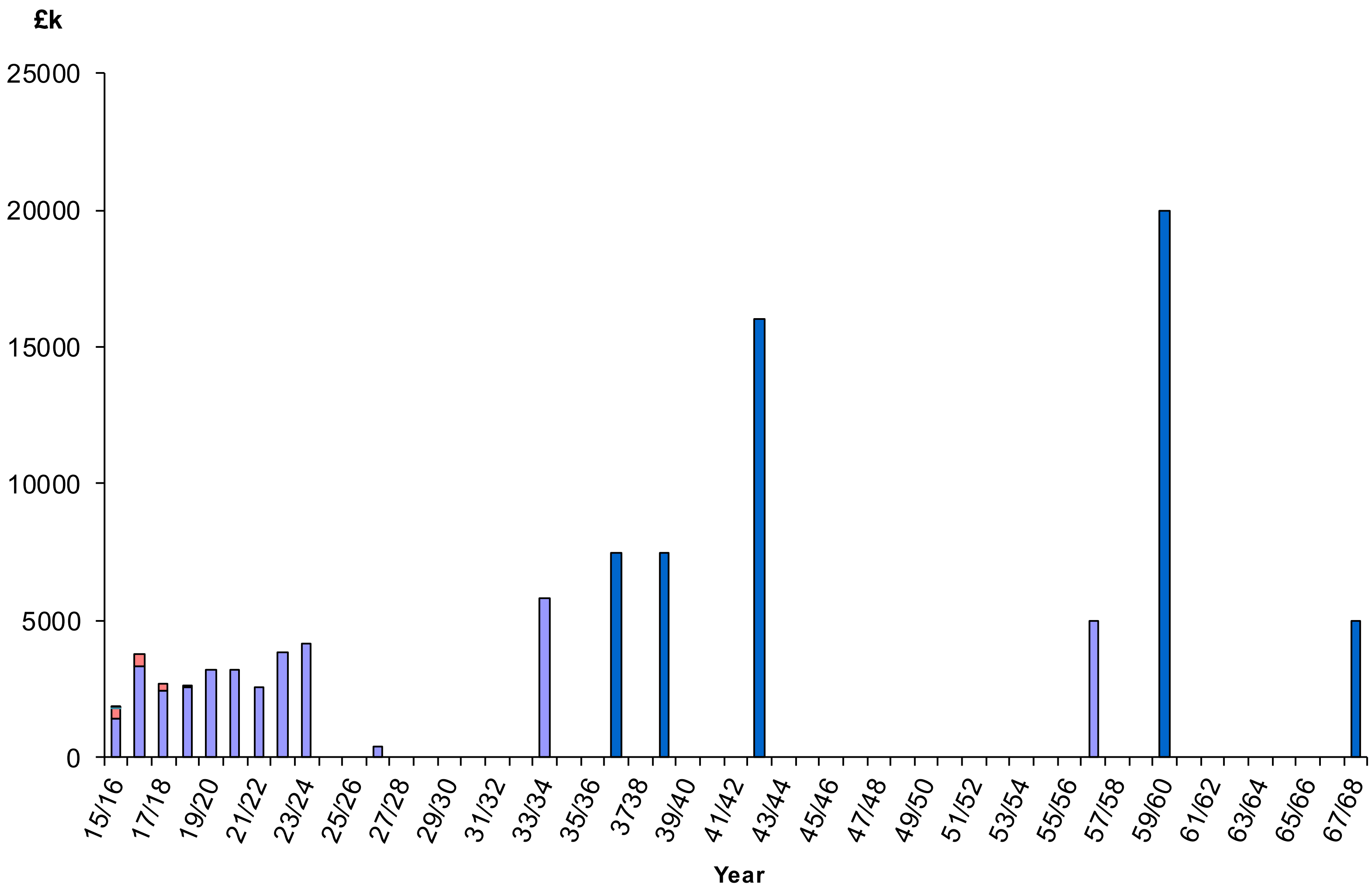
Investment Interest rate movements in 2014-15



Appendix A

Appendix B

Profile of debt outstanding as at 31.03.2015



Appendix C

Maturity Profile

Debt portfolio:

	31 March 2015 Actual	31 March 2014 Actual
Under 12 months	£1.8m	£2.4m
12 months and within 24 months	£3.7m	£1.8m
24 months and within 5 years	£8.5m	£9.0m
5 years and within 10 years	£13.9m	£17.1m
10 years and above	£67.1m	£67.1m
Total	**£95.0m**	**£97.4m**

Investment portfolio:

	31 March 2015 Actual	31 March 2014 Actual
Instant Access	£37.7m	£24.0m
Up to 3 Months	£4.0m	£3.5m
3 to 6 Months	£9.5m	£2.3m
6 to 9 Months	£0.0m	£2.2m
9 to 12 months	£21.4m	£13.9m
Over 1 year	£5.0m	£5.0m
Total	**£77.6m**	**£50.9m**

Appendix D

Breakdown of Investments as at 31 March 2015

Counterparty	Amount £	Interest rate	Lowest Long Term Credit Rating*
Barclays Bank	5,000,000	0.89%	A
Birmingham City Council	2,000,000	0.60%	AA+
Birmingham City Council	2,000,000	0.50%	AA+
Greater Manchester Waste Disposal Authority	5,000,000	1.60%	AA+
Federated Investors – Money Market Fund	14,840,000	0.46%	AAA
Ignis – Money Market fund	18,390,000	0.47%	AAA
Legal & General – Money Market Fund	1,460,000	0.43%	AAA
Lloyds Bank	2,500,000	1.00%	A
Lloyds Bank	2,000,000	1.00%	A
Lloyds Bank	2,600,000	0.80%	A
Lloyds Bank	1,600,000	1.00%	A
Lloyds Bank	2,700,000	1.00%	A
Lloyds Bank	1,500,000	0.80%	A
Lloyds Bank	5,000,000	1.00%	A
Nationwide BS	2,200,000	0.66%	A
Nationwide BS	2,800,000	0.66%	A
Total UK	**71,590,000**	**0.71%**	
National Bank of Abu Dhabi	2,000,000	0.82%	A
National Bank of Abu Dhabi	1,000,000	0.88%	A
Svenska Handelbanken – call account	3,000,000	0.45%	AA-
Total Non UK	**6,000,000**	**0.61%**	
Grand Total	**77,590,000**	**0.71%**	

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

Appendix E

Prudential Indicators for 2014/15

Figures are for the financial year	2014/15 Forecast	2014/15 Actual
Authorised Borrowing Limit Maximum level of external debt, including other long term liabilities (PFI & leases) undertaken by the authority including any temporary borrowing - this is a statutory limit under Section 3(1) of the Local Government Act 2003.	£127m	£101m
Operational Boundary Calculated on a similar basis as the authorised limit but represents the expected level of external debt & other long term liabilities (PFI & leases) excluding any temporary borrowing – this is not a limit.	£107m	£101m
Upper limits on fixed interest rates **(Maximum** limit of net fixed interest rate exposure - debt less investment)	£3.2m	£2.8m
Upper limits on variable interest rates **(Maximum** limit of net variable interest rate exposure – debt less investment)	£3.1m	£2.8m
Gross debt and Capital Financing Requirement (This highlights all gross external borrowing, including other long term liabilities, is prudent, for capital purposes only and does not exceed the capital financing requirement – figures reflect amount capital financing requirement exceeds gross external borrowing).	£33m	£37m
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%	55.6%
1 year to 2 years	25%	3.9%
2 years to 5 years	25%	14.2%
5 years to 10 years	25%	14.6%
10 years to 20 years	25%	0.4%
20 years to 30 years	25%	6.1%
30 years to 40 years	25%	0.0%
40 years and above	25%	5.3%
Maximum principal funds invested exceeding 364 days (including Manchester International Airport shares) - (These limits are set to reduce the need for early sale of an investment)	£50m	£46m

Performance Indicators for 2014/15

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	£15m min.	Achieved
Liquidity – Weighted Average Life of investments	6 months	4.4 months at 31 March 2015
Yield – Investment interest return to exceed 7 day **L**ondon **I**nterbank **BID** rate	0.36% (Avg. 7 day LIBID)	0.71%
Origin of investments placed - maximum investments to be directly placed with non-UK counterparties.	UK institutions 100% Non UK institutions 40%	Min 61% Max 39%