

16 JULY 2014

REPORT OF HEAD OF CENTRAL SERVICES

ANNUAL REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND
ACTUAL PRUDENTIAL INDICATORS 2013-14

1.0 PURPOSE

- 1.1 The Annual Treasury Report is a requirement of the Council's reporting procedures and provides a summary of the Treasury activities in 2013-14. The report also covers the actual position on the Prudential Indicators in accordance with the Prudential Code.
- 1.2 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.

2.0 RECOMMENDATIONS

2.1 It is recommended that:

- (a) The Treasury Management Annual Report for 2013-14 be approved and;
- (b) The actual position on Prudential Indicators for 2013-14 is noted.

3.0 KEY ISSUES

- 3.1 The Treasury Management Code of Practice is reviewed and the Strategy is approved at the start of each financial year. These documents in respect of the 2013/14 financial year were approved by Full Council as part of the budget setting process on 6 February 2013:-
1. Borrowing and Investment Objectives.
 2. Capital Finance Objectives.
 3. Investment and Borrowing Strategies.
 4. Borrowing limits.
- 3.2 Updates are currently provided to Members on a quarterly basis through the Members Newsletter
- 3.3 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 year end position for treasury activities and highlights compliance with the Council's policies previously approved by members. The Council has complied with the requirement of the Code to give prior scrutiny to all of the above treasury management reports by the Budget & Strategic Planning Working Group before they were reported to the Full Council.

- 3.4 During 2013-14 the Council complied with the legislation and regulatory requirements which limit the levels of risk associated with its Treasury Management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure was prudent, affordable and sustainable and its treasury practices demonstrated a low risk approach. The key prudential indicators for the year, with comparators, are as follows:

Prudential and treasury indicators	2012/13 Actual £m	2013/14 Original £m	2013/14 Actual £m
Capital expenditure	4.527	2.949	3.553
Capital Financing Requirement:			
• Non-HRA	0.176	0.176	0.163
• HRA	31.890	31.890	31.876
• Total	32.066	32.066	32.039
Net borrowing	18,261	18,261	17,161
External debt	31.861	31,861	31.861
Investments			
• Longer than 1 year	All investments-£13.6m are less than one year	N/A	All investments £14.7m are less than one year
• Under 1 year			
• Total			

No borrowing was undertaken for any further purpose and the Council's maximum actual borrowing position of £31.861m was within its Statutory Borrowing Limit and the Authorised Limit of £44m.

At 31 March 2014, the Council's external debt was £31.861m (£31.861m at 31 March 2013) and its investments totalled £14.7m (£13.6m at 31 March 2013).

- 3.5 The Annual Report provides comprehensive detail of the activities undertaken on treasury management during the last financial year. It provides, at Appendix A, the performance of the prudential indicators against the indices set by the Council as part of the budget setting process.

The key areas to note are:

- The ratio of the financing costs to the net revenue stream has decreased in respect of Non HRA and decreased in respect of HRA when compared to the equivalent figures for 2012-13. (-1.12% for Non HRA and 16.39% for HRA respectively for 2012-13, 2013-14 figures as per Appendix A, page 7). You will notice that there has been very little movement between the two years due to debt levels being stable.
- The net borrowing except in the short term should not exceed the CFR and at the 31 March 2014 was below that figure, primarily due to a higher level of investments and a small amount of internal borrowing on the HRA. This is to ensure that borrowing levels are prudent and over the medium term the Council's external borrowing, net of investments, is only for a capital purpose.
- The overall investment rate was 0.42% when compared to 0.58% in 2012-13 , this was due to higher interest rates in the previous year on longer dated investments.

- 3.6 The 2013-14 financial year has featured one of the most testing and difficult economic and investment environments since the 1930's. It has featured a number of very significant changes in the performance of the UK as well as the global economy. Beneath all of this has been the undercurrent of uncertainty and mistrust in the financial markets. This was not an easy backdrop in which to undertake treasury management activities, particularly investments.
- 3.7 Following the last meeting of the Budget & Strategic Planning Working Group it was requested to discuss with the Council's treasury consultants the possibility of placing funds with an external fund manager. The use of fund managers would be a longer term option and the Council would need to deposit funds for a reasonable length of time in order to take advantage of market movements. Currently and in the present economic climate any funds placed would use a combination of cash and gilts. Cash would be kept short and the fund manager would not use gilts in present market conditions. It is also necessary when considering this option to recognise the fee payable.
- 3.8 The investment portfolio has now changed to incorporate more diversification in terms of both counterparty and maturity. As interest rates are currently at low levels it is not a good time to be locking funds into very long term investments and therefore the recent lengthening of the portfolio out to twelve months is currently as far as is reasonable.

4.0 POLICY AND CORPORATE IMPLICATIONS

- 4.1 The Treasury Management Strategy and Policy is a corporate document which links to the Medium Term Financial Strategy. The Annual Report provides details of all the Treasury Management activities undertaken during the year.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

- 5.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.

6.0 LEGAL IMPLICATIONS/POWERS

- 6.1 The Local Government Act 2003 provides the powers to invest and borrow as well as providing controls and limits on the activity.

7.0 COMMUNITY SAFETY

- 7.1 There are no direct links to community safety arising from this report.

8.0 EQUALITIES

- 8.1 There are no direct equality issues arising from this report.

9.0 RISKS

- 9.1 These are assessed as part of the Central Services Service Plan. The Treasury Management Policy has various limits in place in order to mitigate any likelihood of loss to the Council.

10.0 CLIMATE CHANGE

- 10.1 There are no climate change issues arising from this report.

11.0 **CONSULTATION**

11.1 Consultation takes place with the Council's treasury consultants at regular intervals throughout the year.

12.0 **WARDS AFFECTED**

12.1 To varying degrees, all wards are affected indirectly.

Contact Officer: Robert Child, Senior Accountant – Treasury Management

Date: 11 June 2014

Appendices: Appendix A – Annual Report on Treasury Management & Prudential Indicators

Background Papers: Statement of Accounts
Final Accounts Working Papers

Reference: X: C'tees, Council & Sub-C'tees/Full Council/2014-15/17-07-14/RC –
Treasury Management Annual Report 2013-14