



**AGENDA ITEM: 12**

**SUMMARY**

<b>Report for:</b>	<b>CABINET</b>
<b>Date of meeting:</b>	<b>16 September 2014</b>
<b>PART:</b>	<b>I</b>
If Part II, reason:	

<b>Title of report:</b>	<b>TREASURY MANAGEMENT OUTTURN AND PERFORMANCE INDICATORS 2013/14</b>
Contact:	Cllr Nicholas Tiley, Portfolio Holder for Finance and Resources Martin Hone, Corporate Director (Finance and Operations)
Purpose of report:	To report upon the performance outturn for treasury management in 2013/14.
Recommendations	That Cabinet recommends to Council acceptance of the report on Treasury Management performance in 2013/14 and the Prudential Indicators for 2013/14 actuals.
Corporate objectives:	Dacorum Delivers - Optimising investment income for General Fund and Housing Revenue budgets whilst managing investment risk is fundamental to achieving the corporate objectives.
Financial Implications:	In accordance with Central Government Guidance on Local Government Investments, and the CIPFA Treasury Management Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector.
Risk Implications:	Good corporate governance encompasses risk management and making sure that the Council makes decisions with the full knowledge of the associated risks and opportunities. The risk of not reviewing and updating our corporate governance arrangements have been addressed by this report.
Equalities Implications:	None
Health And Safety	None

Implications:	
Monitoring Officer / S151 Officer Comments:	<b>Deputy Monitoring Officer-</b> No comments to add. <b>Deputy Section 151 officer-</b> This is a S151 Officer report
Consultees:	Capita Treasury Advisors
Background papers:	Cabinet 12 February 2013 – Treasury Management Strategy (Appendix D to Budget 2013/14 Report)

## 1. Regulatory Background

- 1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2013/14. 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).
- 1.2 During 2013/14 the minimum reporting requirements were that Full Council should receive the following reports:
- an annual treasury strategy in advance of the year;
  - a mid-year treasury update report;
  - an annual review following the end of the year describing the activity compared to the strategy (this report).
- 1.3 This report provides the outturn position for the Council's treasury activities and highlights compliance with policies previously approved by Members.

## 2. The Economy and Interest Rates

- 2.1 The financial year 2013/14 continued the challenging environment of previous years, with low investment returns, although levels of counterparty risk did reduce slightly. The expectation for 2013/14 was that Bank Rate would not rise during the year.
- 2.2 Economic growth (GDP) in the UK surged strongly in the last financial year. Consequently there was no additional quantitative easing during 2013/14 and the Bank Rate ended the year unchanged at 0.5% for the fifth successive year. CPI inflation fell below the target rate of 2% down to 1.7% in February.
- 2.3 The expectation for forward interest rates within the strategy for 2013/14 anticipated low Bank Rate, rising in the first quarter of 2015, and gradual rises in medium and longer term fixed borrowing rates during 2013/14. Continued uncertainty in the markets promoted a cautious approach, where investments decisions continued to be dominated by low counterparty risk considerations, resulting in relatively low return.

## 3. Overall Treasury Position as at 31 March 2013 and 31 March 2014

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

	31 March 2013 Principal	Rate/ Return	Average Life years	31 March 2014 Principal	Rate/ Return	Average Life years
<b><u>General Fund</u></b>						
Total debt	-			-		-
Capital Financing Requirement	(£16.3m)			(£4.8m)		
Over / (under) borrowing	(£16.3m)			(£4.8m)		
<b><u>Housing Revenue Account</u></b>						
Total debt	£346.7m	3.35%	17	£346.7m	3.35%	16
Capital Financing Requirement	£352.6m			£351.7m		
Over / (under) borrowing	(£5.9m)			(£5.0m)		
Total investments	£62.7m	0.99%	0.51	£55.3m	0.60%	0.47
Net debt	£284.0m			£291.4m		

### **Borrowing**

3.2 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). There was no new borrowing taken in 2013/14.

### **General Fund**

3.3 The negative Capital Financing Requirement indicates that the Council has capital funds available, and that it has no need to borrow. The General Fund reduction of £11.5m in 2013/14, from £16.3m to £4.8m, relates to the financing of in-year expenditure on the Capital Programme. This left a capital closing balance of £4.8m as at March 2014, for the future financing of the Capital Programme.

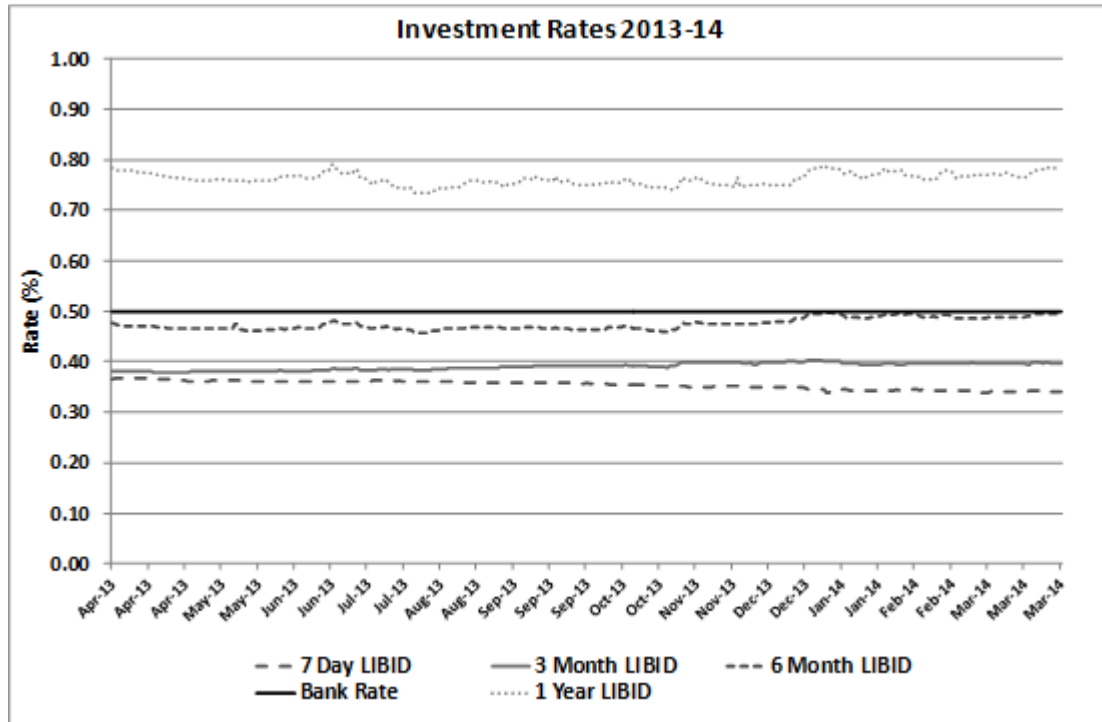
3.4 In addition, the General Fund had £10.3m set aside in the Capital Receipts Reserve as at March 2014 for the future financing of the Capital Programme.

### **Housing Revenue Account**

3.5 HRA funds available for the future financing of the Capital Programme are held outside of the CFR in the Major Repairs Reserve and Earmarked Reserves, totalling £17.12m.

## **4. Investment Rates and Outturn in 2013/14**

4.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. The following table shows bank and LIBID rates during the year.



- 4.2 The Council's investment policy, approved by Council in February 2014, sets out the approach for choosing investment counterparties. It is based on a system of credit ratings provided by the three main credit rating agencies, and supplemented by additional market data (such as rating outlooks, credit default swaps and bank share prices) provided by Capita, the Council's treasury advisors.
- 4.3 The Council maintained an average balance of £64.6m of internally managed funds throughout 2013/14, earning an average rate of return of 0.74%. This compared favourably with the budget assumption of average investment balances of £62.3m at 0.73% investment return.
- 4.4 The weighted average maturity (WAM) in 2013/14 for investments placed by the Council was 77 days. This compares to a weighted average maturity for 2012/13 of 51 days. The increase in WAM between years reflects increased balances placed as fixed term deposits.
- 4.5 Investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

**5. Prudential and Treasury Indicators**

- 5.1 During 2013/14, the Council complied with its legislative and regulatory requirements set out in the Treasury Management Strategy. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2012/13 Actual £000	2013/14 Original Budget Estimate £000	2013/14 Actual £000
Capital expenditure			
• General Fund	9,030	15,072	13,408
• HRA	18,184	23,660	26,956
• <b>Total</b>	<b>27,214</b>	<b>38,732</b>	<b>40,364</b>
Capital Financing Requirement:			
• General Fund	(16,238)	(10,846)	(4,828)
• HRA due to housing finance reform	352,604	351,727	351,727
• <b>Total</b>	<b>336,276</b>	<b>322,943</b>	<b>346,899</b>
External debt	346,739	346,739	346,739
Investments			
• Longer than 1 year			
• 1 Year or less	62,700		55,294
• <b>Total</b>			

5.2 In order to ensure that borrowing levels are prudent over the medium term, Local Authority external borrowing can only be for capital purposes, i.e. it cannot be used to support revenue expenditure. Net borrowing should not, therefore, exceed the Capital Financing Requirement (CFR), i.e. the Council's need to borrow. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The advance borrowing shown above by external debt exceeding the CFR is due to the General Fund currently holding previously set aside capital receipts to support financing the future Capital Programme, instead of applying them to the HRA Self Financing transaction.

5.3 The **Authorised Limit** – this is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. During 2013/14 the Council has maintained gross borrowing within its authorised limit.

5.4 The **Operational Boundary** – the operational boundary reflects the current borrowing position with an allowance for additional borrowing for cash flow purposes during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

2013/14	
Authorised limit	£359.250m
Operational boundary	£346.927m

5.5 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Ratio of financing costs to net revenue stream	31 March 2013 Actual	2013/14 Original Limits	31 March 2014 Actual
Non - HRA	(0.97%)	(0.54 %)	(0.53%)
HRA	22.29%	21.27%	21.25%

5.6 The slight decrease in the negative ratio on the General Fund reflects the slightly increased financing costs against budget. The slight decrease in the ratio on the HRA reflects slightly lower income received against original budget.

5.7 The following table shows the **incremental impact on Council Tax and Housing Rents** on capital decisions.

Incremental impact of capital investment decisions	31 March 2013 Actual	2013/14 Original Limits	31 March 2014 Actual
Increase in council tax (band D) per annum	(£2.93)	£0.56	(£5.00)
Increase in average housing rent per week	£12.26	£293.77	(£170.22)

5.8 The reduced impact on the General Fund against original limits reflects the slippage on the Capital Programme. The reduced impact on Housing Rents reflects an increase in Right to Buy receipts against original budget.

5.9 The following table shows the **net debt position** for the Council. There has been no material change in net debt between years.

	31 March 2013 Principal	Rate/ Return	Average Life years	31 March 2014 Principal	Rate/ Return	Average Life years
Fixed rate funding:						
-PWLB	£346.7m			£346.7m		
-Market	£346.7m	3.35%		£346.7m	3.35%	
<b>Total debt</b>	<b>£346.7m</b>	<b>3.35%</b>	<b>17</b>	<b>£346.7m</b>	<b>3.35%</b>	<b>16</b>
<b>CFR</b>	<b>£336.3m</b>			<b>£346.9m</b>		
<b>Over/ (under) borrowing</b>	<b>£10.4m</b>			<b>(£0.2m)</b>		
<b>Total investments</b>	<b>£62.7m</b>	<b>0.99%</b>	<b>0.51</b>	<b>£55.3m</b>	<b>0.60%</b>	<b>0.47</b>
<b>Net debt</b>	<b>£284.0m</b>			<b>£291.4m</b>		

5.10 The following table shows the **maturity structure of the debt portfolio**:

	<b>31 March 2013 actual</b>	<b>31 March 2014 actual</b>
Under 12 months	-	-
12 months and within 24 months	-	-
24 months and within 5 years	£0.6m	£2.6m
5 years and within 10 years	£15.1m	£15.3m
10 years and above	£331.0m	£328.8m

5.11 The following table shows the **maturity structure of the investment portfolio**:

	<b>2012/13 Actual £</b>	<b>2013/14 Actual £</b>
Investments		
Longer than 1 year	-	-
1 Year or less	62.7m	55.3m
Total	62.7m	55.3m

5.12 The following table shows the **exposure to fixed and variable rates on investments** at year end:

	<b>31 March 2013 Actual</b>	<b>2013/14 Original Limits</b>	<b>31 March 2014 Actual</b>
Fixed rate (principal or interest)	87%	100%	71%
Variable rate (principal or interest)	13%	40%	29%

Appendix A – External Borrowing

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£567,166	Fixed interest rate	1.50%	4 Years
PWLB	£2,068,572	Fixed interest rate	1.76%	5 Years
PWLB	£3,585,697	Fixed interest rate	1.99%	6 Years
PWLB	£4,590,217	Fixed interest rate	2.21%	7 Years
PWLB	£3,480,273	Fixed interest rate	2.40%	8 Years
PWLB	£1,370,129	Fixed interest rate	2.56%	9 Years
PWLB	£2,309,505	Fixed interest rate	2.70%	10 Years
PWLB	£3,334,576	Fixed interest rate	2.82%	11 Years
PWLB	£4,442,038	Fixed interest rate	2.92%	12 Years
PWLB	£5,637,006	Fixed interest rate	3.01%	13 Years
PWLB	£5,110,074	Fixed interest rate	3.08%	14 Years
PWLB	£6,339,797	Fixed interest rate	3.15%	15 Years
PWLB	£7,664,605	Fixed interest rate	3.21%	16 Years
PWLB	£9,089,448	Fixed interest rate	3.26%	17 Years
PWLB	£10,620,253	Fixed interest rate	3.30%	18 Years
PWLB	£12,546,288	Fixed interest rate	3.34%	19 Years
PWLB	£14,313,519	Fixed interest rate	3.37%	20 Years
PWLB	£16,205,585	Fixed interest rate	3.40%	21 Years
PWLB	£18,230,083	Fixed interest rate	3.42%	22 Years
PWLB	£20,394,596	Fixed interest rate	3.44%	23 Years
PWLB	£32,380,217	Fixed interest rate	3.46%	24 Years
PWLB	£35,524,201	Fixed interest rate	3.47%	25 Years
PWLB	£38,864,428	Fixed interest rate	3.48%	26 Years
PWLB	£42,416,950	Fixed interest rate	3.49%	27 Years
PWLB	£45,654,253	Fixed interest rate	3.50%	28 Years