



AGENDA ITEM: 9
SUMMARY

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| Report for: | CABINET |
| Date of meeting: | 15 September 2015 |
| PART: | I |
| If Part II, reason: | |

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| Title of report: | TREASURY MANAGEMENT OUTTURN AND PERFORMANCE INDICATORS 2014/15 |
| Contact: | Cllr Graeme Elliot, Portfolio Holder for Finance and Resources James Deane, Corporate Director (Finance and Operations) |
| Purpose of report: | To report upon the performance outturn for treasury management in 2014/15. |
| Recommendations | That Cabinet recommends to Council acceptance of the report on Treasury Management performance in 2014/15 and the Prudential Indicators for 2014/15 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 Implications: | None |

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|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Monitoring Officer / S151 Officer Comments: | Deputy Monitoring Officer- No comments to add to the report. Deputy Section 151 officer- This is a S151 Officer report |
| Consultees: | Capita Treasury Advisors |
| Background papers: | Cabinet 11 February 2014 – Treasury Management Strategy (Appendix N to Budget 2014/15 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 2014/15. 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 2014/15 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 original expectation at the start of 2014/15 was for the first increase in Bank Rate to occur in the first quarter 2015. During the year expectations started to recede as it became clear that inflation in the UK was going to head towards zero during 2015, and it is now expected that the first increase will not take place until the third quarter of 2016.
- 2.2 It was announced in January that the European Central Bank would start a major programme of quantitative easing. Strong growth in the US caused an increase in confidence that the US was well on the way to recovery, and would likely be the first country to increase its central rate, probably by the end of 2015. The UK would likely follow due to strong growth in 2013 and 2014 and good prospects into 2015.

3. Overall Treasury Position as at 31 March 2014 and 31 March 2015

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

| | 31 March 2014 Principal | Rate/ Return | Average Life years | 31 March 2015 Principal | Rate/ Return | Average Life years |
|---------------------------------------|-------------------------------|-----------------|--------------------------|-------------------------------|-----------------|--------------------------|
| General Fund | | | | | | |
| Total external debt | - | | | - | | |
| Total internal debt | (£5.0m) | | | (£4.7m) | | |
| Other (finance leases & negative CFR) | £0.2m | | | £0.2m | | |
| Capital Financing Requirement | (£4.8m) | | | (£4.5m) | | |
| Over / (under) borrowing | N/A | | | N/A | | |
| Housing Revenue Account | | | | | | |
| Total external debt | £346.7m | 3.35% | 16 | £346.7m | 3.35% | 15 |
| Total internal debt | £5.0m | | | £4.7m | | |
| Other (finance leases & negative CFR) | - | | | (£0.2m) | | |
| Capital Financing Requirement | £351.7m | | | £351.2m | | |
| Over / (under) borrowing | N/A | | | N/A | | |
| Total investments | £55.3m | 0.60% | 0.47 | £59.2m | 0.51% | 0.24 |
| Net external debt | £291.4m | | | £287.5m | | |

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 2014/15.

General Fund

3.3 The negative Capital Financing Requirement (CFR) indicates that the Council had capital funds available, and that it had no need to borrow. The General Fund reduction of £0.3m in 2014/15, from £4.8m to £4.5m, relates to the financing of in-year expenditure on the Capital Programme. This left a capital closing balance of £4.5m as at March 2015, for the future financing of the Capital Programme.

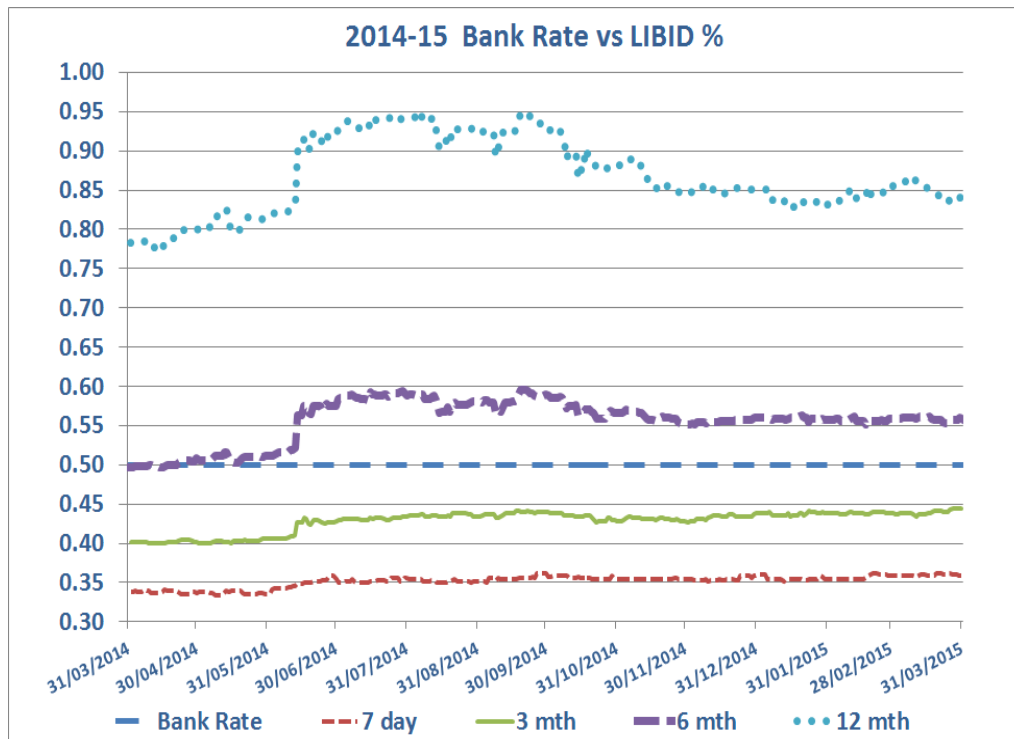
3.4 In addition, the General Fund had £10m set aside in the Capital Receipts Reserve as at March 2015 for the future financing of the Capital Programme.

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 £24.76m.

4. Investment Rates and Outturn in 2014/15

4.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six 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 £70.3m of internally managed funds throughout 2014/15, earning an average rate of return of 0.6%, compared with the budget assumption of average investment balances of £46.6m at 0.45% investment return.

4.4 The weighted average maturity (WAM) for investments held by the Council at 31 March 2015 was 89 days. This compares to a weighted average maturity for 2013/14 of 77 days.

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 2014/15, 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 | 2013/14 Actual £000 | 2014/15 Original Budget Estimate £000 | 2014/15 Actual £000 |
|-------------------------------------------|---------------------|---------------------------------------|---------------------|
| Capital expenditure | | | |
| • General Fund | 13,408 | 17,663 | 16,335 |
| • HRA | 26,956 | 34,454 | 25,468 |
| • Total | 40,364 | 52,117 | 41,803 |
| Capital Financing Requirement: | | | |
| • General Fund | (4,828) | (2,500) | (4,537) |
| • HRA due to housing finance reform | 351,727 | 351,727 | 351,265 |
| • Total | 346,899 | 349,227 | 346,728 |
| External debt | 346,739 | 346,739 | 346,739 |
| Investments | | | |
| • Longer than 1 year | | | |
| • Under 1 year | 55,294 | 45,372 | 59,242 |
| • Total | | | |

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 slightly 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** - the authorised limit 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 2014/15 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.

| | 2014/15 |
|------------------|-----------|
| Authorised limit | £361.250m |

| | |
|----------------------|-----------|
| 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 2014 Actual | 2014/15 Original Limits | 31 March 2015 Actual |
|------------------------------------------------|----------------------|-------------------------|----------------------|
| Non - HRA | (0.53%) | (0.26 %) | (0.41%) |
| HRA | 21.25% | 20.60% | 20.34% |

5.6 The increase in the negative ratio on the General Fund since the original estimate reflects the reduced financing costs against the original estimate. The slight reduction in the ratio on the HRA reflects slightly reduced financing costs and slightly higher income received against original estimate.

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 2014 Actual | 2014/15 Original Limits | 31 March 2015 Actual |
|----------------------------------------------------|----------------------|-------------------------|----------------------|
| Increase in council tax (band D) per annum | (£5.00) | (£11.20) | £33.60 |
| Increase in average housing rent per week | £(170.22) | £350.27 | (£331.32) |

5.8 The increased impact on the General Fund against original limits reflects the reduced receipts received for the year due to the decision to remain in the Civic Centre. The reduced impact on Housing Rents reflects an increase in Right to Buy receipts available 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 2014 Principal | Rate/ Return | Average Life years | 31 March 2015 Principal | Rate/ Return | Average Life years |
|--------------------------------|-------------------------|--------------|--------------------|-------------------------|--------------|--------------------|
| Fixed rate funding: | | | | | | |
| -PWLB | £346.7m | 3.35% | | £346.7m | 3.35% | |
| Total external debt | £346.7m | 3.35% | 16 | £346.7m | 3.35% | 15 |
| CFR | £346.9m | | | £346.7m | | |
| Over/ (under) borrowing | (£0.2m) | | | £0m | | |
| Total investments | £55.3m | 0.60% | 0.47 | £59.2m | 0.51% | 0.24 |
| Net debt | £291.4m | | | £287.5m | | |

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

| | 31 March 2014 actual | 31 March 2015 actual |
|--------------------------------|---------------------------------|---------------------------------|
| Under 12 months | - | - |
| 12 months and within 24 months | - | - |
| 24 months and within 5 years | £2.6m | £6.2m |
| 5 years and within 10 years | £15.3m | £15.1m |
| 10 years and above | £328.8m | £325.4m |

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

| | 2013/14 Actual £ | 2014/15 Actual £ |
|--------------------|---------------------------------|---------------------------------|
| Investments | | |
| Longer than 1 year | - | - |
| Under 1 year | 55.3m | 59.2m |
| Total | 55.3m | 59.2m |

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

| | 31 March 2014 Actual | 2014/15 Original Limits | 31 March 2015 Actual |
|---------------------------------------|---------------------------------|----------------------------------------|---------------------------------|
| Fixed rate (principal or interest) | 71% | 100% | 71% |
| Variable rate (principal or interest) | 29% | 40% | 29% |

Appendix A – External Borrowing

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