Crawley Borough Council

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Report to Overview and Scrutiny Committee

30 June 2014

Report to Cabinet
2 July 2014

Treasury Management Outturn for 2013/14

Report of the Deputy Head of Finance – FIN/335

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1. Purpose

1.1 This 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 the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 26/02/2013)
- a mid-year treasury update report (Council 18/12/2013)
- an annual review following the end of the year describing the activity compared to the strategy (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 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council.

2. Recommendations

2.1 To the Overview and Scrutiny Commission:

That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

2.2 To the Cabinet

The Cabinet is recommended to:

a) To approve the actual 2013/14 Prudential and Treasury Indicators as set out in the report;

b) To note the Annual Treasury Management Report for 2013/14.

3. The Economy and Interest Rates

3.1 The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk had subsided somewhat. The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

3.2 Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality. The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. 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.

3.3 The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.

3.4 The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

4. Overall Treasury Position as at 31 March 2014

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

£000	31 March 2013 Principal	Rate/ Return	Average Life yrs	31 March 2014 Principal	Rate/ Return	Average Life yrs
Total debt	***260,325***	***3.2%***	***18.03***	***260,325***	***3.2%***	***17.03***
CFR	***259,953***			***259,943***		
Over / (under) borrowing	***372***			***382***		
Total investments	***93,569***	***1.37%***	***0.90***	***119,010***	***1.17%***	***0.99***
Net debt	**166,756**			**141,315**		

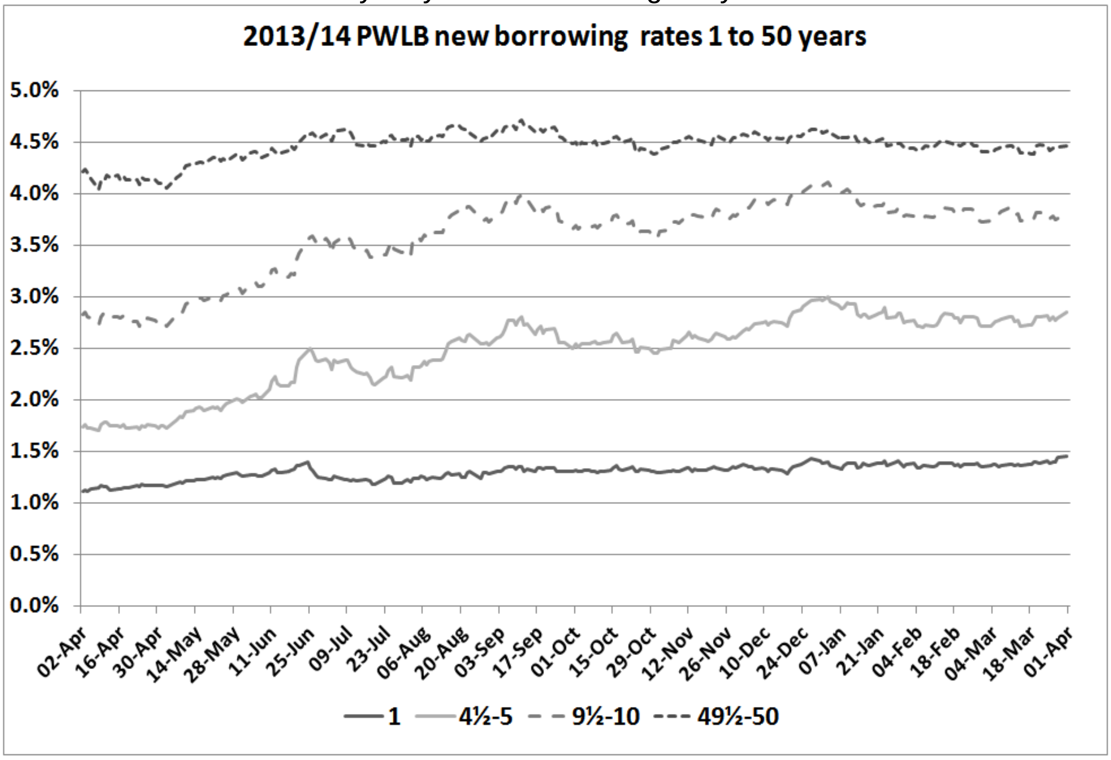
5. The Borrowing Requirement and Debt

5.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31 March 2013 Actual	31 March 2014 Budget	31 March 2014 Actual
CFR General Fund (£m)	-330	-330	-330
CFR HRA (£m)	260,283	260,325	260,273
Total CFR	259,953	259,995	259,943

6. Borrowing Rates in 2013/14

6.1 **PWLB borrowing rates** - the graph below shows how PWLB certainty rates have risen from historically very low levels during the year.

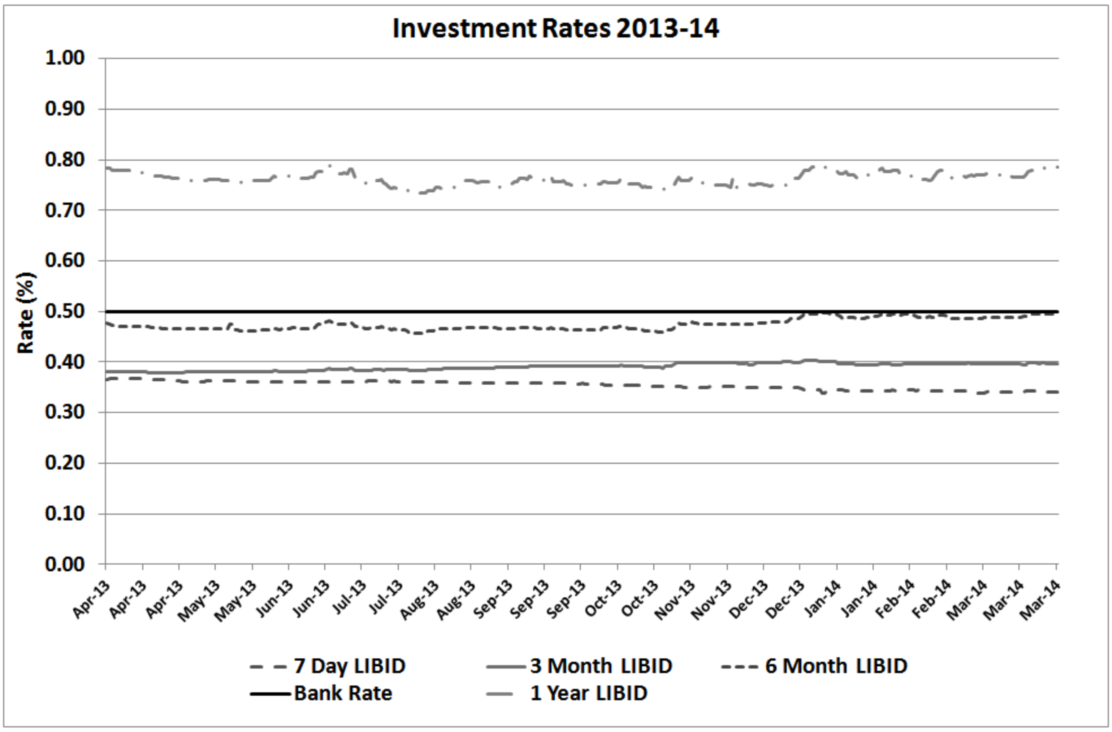


7. Borrowing Outturn for 2013/14

7.1 No borrowing was undertaken during the year.

8. Investment Rates in 2013/14

8.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. Market expectations as to the timing of the start of monetary tightening ended up unchanged at early 2015. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.



9. Investment Outturn for 2013/14

9.1 **Investment Policy** – the Council's investment policy is governed by Government guidance, which was been implemented in the annual investment strategy approved by the Council on 26/02/2013. 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 and credit default swaps.

9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.3 **Investments held by the Council** - the Council maintained an average balance of £91,573,000 of internally managed funds. The internally managed funds earned an average rate of return of 1.26%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.35%. This compares with a budget assumption of £67,510,000 investment balances earning an average rate of 1.46%.

9.4 Investments balances are higher than forecast in the strategy for the following reasons:

- Transfer from the fund manager in the year (see 9.5)

- Underspend on capital expenditure
- A large collection fund surplus which will be distributed in 2014/15 and 2015/16
- Higher capital receipts from right-to-buy sales

9.5 **Investments held by fund managers** – the Council used Investec Asset Management to invest part of its cash balances during the year. This contract was terminated in November and a phased transfer of funds was complete in January 2014. The performance of the managers against the benchmark return was:

Fund Manager	Investments Held	Return	Benchmark
Investec *	£33m	0.11%	0.27%

* to November 2013

10. Implications

10.1 The financial and legal implications are addressed throughout this report.

11. Background Papers

Treasury Management Strategy for 2013/2014 – Cabinet, 13 February 2013 [FIN/291 refers]

Treasury Management Mid-Year Review 2013/2014 – Cabinet, 13 November 2013 [FIN/316 refers]

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Appendix 1: Prudential and Treasury Indicators

During 2013/14, the Council complied with its legislative and regulatory requirements. 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 £000	2013/14 Actual £000
Capital expenditure			
• General Fund	3,099	8,352	4,717
• HRA	7,918	12,498	10,141
• Total	11,017	20,850	14,858
Capital Financing Requirement:			
• General Fund	-330	-330	-330
• HRA	260,283	260,325	260,273
• Total	259,953	259,995	259,943
Gross borrowing	260,325	260,325	260,325
External debt	260,325	260,325	260,325
Investments			
• Longer than 1 year	21,000		23,201
• Under 1 year	72,569		95,809
• Total	93,569	84,574	119,010
Net borrowing	166,756	175,751	141,315

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2013/14) plus the estimates of any additional capital financing requirement for the current (2014/15) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2013/14.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2013/14 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council 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.

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.

	2013/14 £000
Authorised limit	270,325
Maximum gross borrowing position	260,402
Operational boundary	260,325
Average gross borrowing position	260,326

Ratio of financing costs to net revenue stream	31 March 2013 actual	2013/14 original	31 March 2014 actual
Non - HRA	-4.11%	-8.48%	-1.30%
HRA	18.74%	18.33%	17.90%

	31 March 2013 Principal £000	Rate/ Return	Average Life yrs	31 March 2014 Principal £000	Rate/ Return	Average Life yrs
Fixed rate funding:						
-PWLB	260,325	3.2%	18.03	260,325	3.2%	17.03
-Market	0	0%		0	0%	
Variable rate funding:						
-PWLB	0	0%		0	0%	
-Market	0	0%		0	0%	
Total debt	***260,325***	***3.2%***	***18.03***	***260,325***	***3.2%***	***17.03***
CFR	***259,953***			***259,943***		
Over/ (under) borrowing	***372***			***382***		
Total investments	***93,569***	***1.37%***	***0.90***	***119,010***	***1.17%***	***0.99***
Net debt	**166,756**			**141,315**		

The maturity structure of the debt portfolio was as follows:

	Lower limit	Upper limit	31 March 2014 actual
Under 12 months	0%	5%	£0.00m (0%)
12 months and within 24 months	0%	5%	£0.00m (0%)
24 months and within 5 years	0%	5%	£0.00m (0%)
5 years and within 10 years	0%	5%	£23.00m (9%)
10 years and above	0%	100%	£237.33m (91%)

The limit set in the strategy for the 5 to 10 year period has been exceeded. There has been no change to the Council’s debt portfolio during the year, but the limit set in the strategy did not take into account the aging of the existing portfolio.

The maturity structure of the investment portfolio was as follows:

	2012/13 Actual £000	2013/14 Original £000	2013/14 Actual £000
Investments			
Longer than 1 year	21,000		23,201
Under 1 year	72,569		95,809
Total	93,569	84,574	119,010

The exposure to fixed and variable rates was as follows:

Debt portfolio £000	31 March 2013 actual	2013/14 original limits	31 March 2014 actual
Fixed rate	260,325	270,325	260,325
Variable rate	0	10,000	0

Investment portfolio £000	31 March 2013 actual	2013/14 original limits	31 March 2014 actual
Fixed rate	77,337	100,000	101,773
Variable rate	16,232	40,000	17,237

The above prudential indicator on the investment portfolio for fixed rate investments has exceeded the limit set in the strategy by £1.77m. This has been due to the higher level of investments than forecast in the strategy.