OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

RYEDALE
DISTRICT
COUNCIL

REPORT TO:	**COUNCIL**
DATE:	**4 SEPTEMBER 2014**
REPORT OF THE:	**FINANCE MANAGER (s151)** **PETER JOHNSON**
TITLE OF REPORT:	**TREASURY MANAGEMENT ANNUAL REPORT 2013-14**
WARDS AFFECTED:	**ALL**

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

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).

2.0 RECOMMENDATIONS

2.1 That Council is recommended to:
(i) Note the annual treasury management report for 2013/14; and

(ii) Approve the actual 2013/14 prudential and treasury indicators in this report.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

5.0 POLICY CONTEXT AND CONSULTATION

5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.

5.2 The Council uses the services of Capita Treasury Services Limited to provide treasury management information and advice.

REPORT

6.0 REPORT DETAILS

6.1 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 February 2013)
- A mid year (minimum) treasury update report (Council 9 January 2014)
- An annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, treasury management update reports were received by the Policy and Resources Committee.

6.2 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 outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

6.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 5 October 2011 in order to support Members' scrutiny role.

6.4 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position and the impact on investment balances;
- Summary of interest rate movement in the year;
- Detailed investment activity.

The Council's Capital Expenditure and Financing 2013/14.

6.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

6.6 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2013/14 Actual (£)	2012/13 Actual (£)
Total Capital Expenditure	**3,331,140**	**1,968,149**
Resourced by:		
Capital receipts	320,836	0
Capital grants and contributions	1,884,635	532,034
Capital reserves	1,125,669	1,436,115
Total	3,331,140	1,968,149

Treasury Position as at 31 March 2014

6.7 The Council's treasury management and investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Treasury Management Practices. At the beginning and the end of 2013/14 the Council's treasury position was as follows:

	31 March 2014 (£)	31 March 2013 (£)
Internally Managed Investments	4,910,000	5,750,000
Total	4,910,000	5,750,000

6.8 The maturity of the investment portfolio was as follows;

	31 March 2014 (£)	31 March 2013 (£)
On-call Investments	60,000	50,000
Fixed Term Deposits:		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	2,850,000	3,200,000
Repayable 3 months to 6 months	500,000	1,500,000
Repayable 6 months to 12 months	1,500,000	1,000,000
Repayable 12 months to 24 months	0	0
Total	4,910,000	5,750,000

6.9 Investments were placed with the following institutions:

Type of Institution	31 March 2014 (£)	31 March 2013 (£)
UK Clearing Banks	4,910,000	5,750,000
Foreign Banks	0	0
Building Societies	0	0
Local Authorities	0	0
Total	4,910,000	5,750,000

The Strategy for 2013/14

6.10 The Treasury Management Strategy for 2013/14 was approved by members at full Council on 26 February 2013.

6.11 The expectation for interest rates within the strategy for 2013/14 anticipated no movement in the Bank rate within the year, the first anticipated increase being in Q1 of 2015. This forecast rise has now been pushed back to a start in Q3 of 2015.

The Economy and Interest rates

6.12 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.

6.13 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.

6.14 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. 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

6.15 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.

Compliance with Treasury Limits

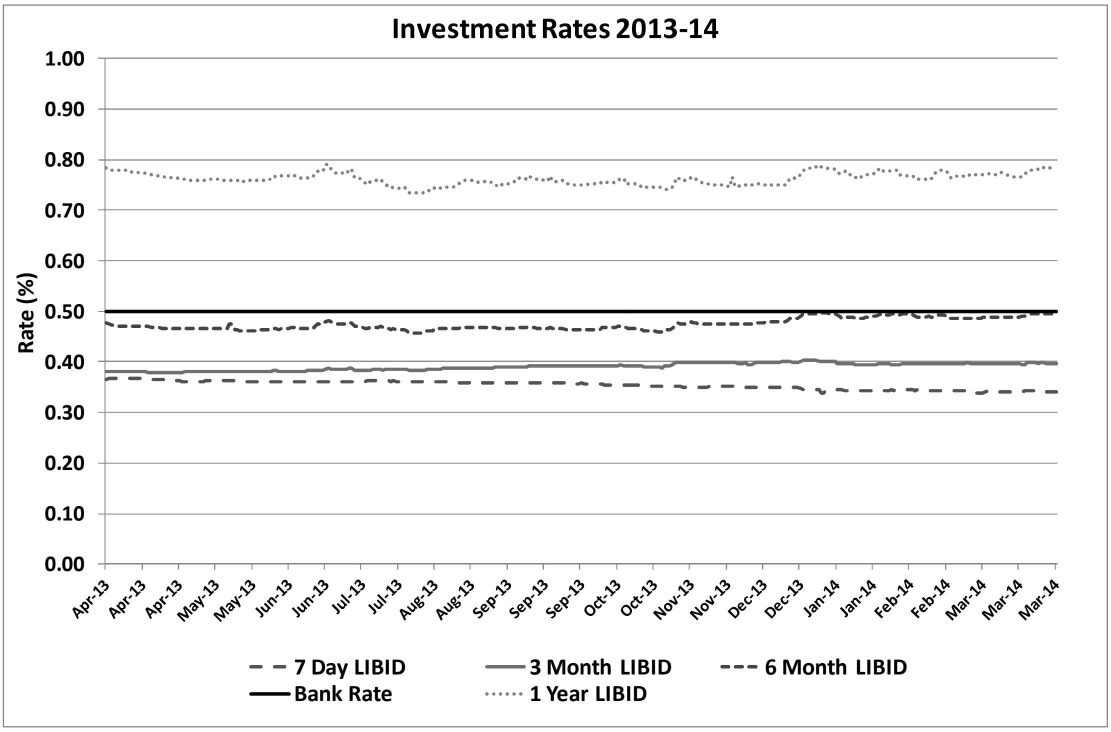
6.16 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (annex B).

6.17 The Council has no long-term borrowing and there were no temporary borrowing transactions in the year. However, the Council has a number of lease agreements that were initially entered into as operating leases but following the implementation of International Financial Reporting Standards (IFRS) are now reclassified as finance leases. As a consequence the Council does not have a nil Capital Finance Requirement.

Investment Rates in 2013/14

6.18 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. 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.

6.19 The summary below shows the movement of investment rates in 2013/14:



Investment Outturn for 2013/14

6.20 The Council's investment policy is governed by DCLG guidance, which was been implemented in the Annual Investment Strategy approved by the Council on 26 February 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, credit default swaps, bank share prices etc).

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

6.22 The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the internally managed funds against the 7-day LIBID uncompounded rate bench mark:

	Average Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary & On-Call Investments	4,368,082	0.54%	n/a	n/a
Fixed Term Deposits	844,005	0.79%	n/a	0.35%

6.23 The interest received by the Council from investments and loans in 2013/14 totalled £64k; this compares to an original estimate of £90k.

7.0 IMPLICATIONS

7.1 The following implications have been identified:

a) Financial
The results of the investment strategy effect the funding of the capital programme.

b) Legal
There are no legal implications within this report

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no additional implications within this report.

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Background Papers:
None