

OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

**RYEDALE
DISTRICT
COUNCIL**



REPORT TO:	COUNCIL
DATE:	3 SEPTEMBER 2015
REPORT OF THE:	FINANCE MANAGER (s151) PETER JOHNSON
TITLE OF REPORT:	TREASURY MANAGEMENT ANNUAL REPORT 2014-15
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 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).

2.0 RECOMMENDATIONS

2.1 That Council is recommended to:

- (i) Note the annual treasury management report for 2014/15; and
- (ii) Approve the actual 2014/15 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 2014/15 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 25 February 2014)
- A mid year (minimum) treasury update report (Council 24 February 2015)
- 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 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.

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. Further Member training on treasury management issues will be arranged in the forthcoming year 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;
- Summary of interest rate movement in the year;
- Detailed borrowing activity;
- Detailed investment activity.

The Council's Capital Expenditure and Financing 2014/15.

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.

	2014/15 Actual (£)	2013/14 Actual (£)
Total Capital Expenditure	1,330,779	3,331,140
Resourced by:		
Capital receipts	-	320,836
Capital grants and contributions	318,561	1,884,635
Capital reserves	2,500	1,125,669
External Borrowing	1,009,718	-
Total	1,330,779	3,331,140

The Economy and Interest rates

- 6.7 The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%.
- 6.8 Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.
- 6.9 Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond

Overall Treasury Position as at 31 March 2015

- 6.10 At the beginning and the end of 2014/15 the Council's treasury position was as follows (excluding finance leases):

	31 March 2014 Principal	31 March 2015 Principal
Total Debt	-	£1.75m
CFR	-	£1.01m
Over/(Under) borrowing	-	£0.74m
Total Investments	£4.91m	£9.16m
Net Debt	-£4.91m	-£7.41m

The Strategy for 2014/15

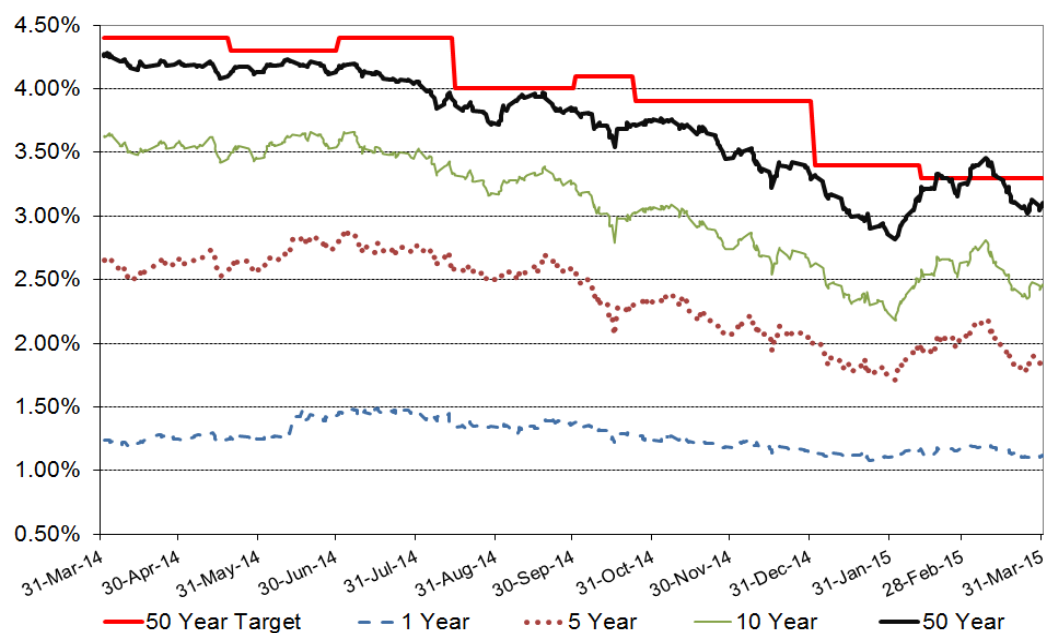
- 6.11 The Treasury Management Strategy for 2014/15 was approved by members at full Council on 25 February 2014.
- 6.12 The expectation for interest rates within the strategy for 2014/15 anticipated a low but rising Bank Rate, and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting a relatively low returns compared to borrowing rates.

The Borrowing Requirement and Debt

- 6.13 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) (excluding borrowing by finance leases).

	31 March 2014 Actual	31 March 2015 Budget	31 March 2015 Actual
Total CFR	-	£2.053m	£1.010m

Borrowing Rates in 2014/15



Borrowing Outturn for 2014/15

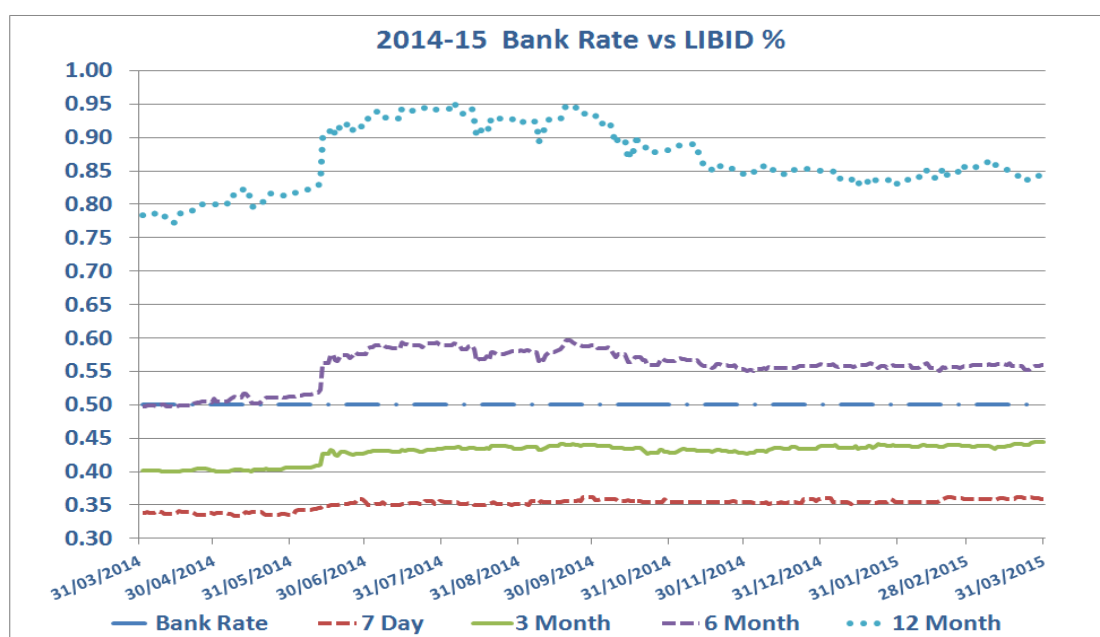
6.14 The following loans were taken out during the year:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£1.00m	Maturity	3.69%	50 years
PWLB	£0.75m	EIP	2.99%	19 years

This compares with a budget assumption of borrowing at an interest rate of 3.85%.

Investment Rates in 2014/15

6.15 Bank rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the continued effects of the Funding for Lending Scheme.



Investment Outturn for 2014/15

6.16 The Council's investment policy is governed by DCLG guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 25 February 2014. 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).

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

6.18 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 un compounded rate bench mark:

	Average Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary & On-Call Investments	5,995,918	0.50%	n/a	n/a
Fixed Term Deposits	869,604	0.75%	n/a	0.35%

6.19 **The interest received by the Council from investments in 2014/15 totalled £71k; this compares to an original estimate of £68k.**

6.20 The Council's investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities and security of investments. 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 2014/15 the Council's investments position was as follows:

	31 March 2015 (£)	31 March 2014 (£)
Internally Managed Investments	9,160,000	4,910,000
Total	9,160,000	4,910,000

6.21 The maturity of the investment portfolio was as follows;

	31 March 2015 (£)	31 March 2014 (£)
On-call Investments	60,000	60,000
Fixed Term Deposits:		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	3,000,000	2,850,000
Repayable 3 months to 6 months	3,600,000	500,000
Repayable 6 months to 12 months	2,500,000	1,500,000
Repayable 12 months to 24 months	0	0
Total	9,160,000	4,910,000

6.22 Investments were placed with the following institutions:

Type of Institution	31 March 2015 (£)	31 March 2014 (£)
UK Clearing Banks	7,160,000	4,910,000
Foreign Banks	1,000,000	0
Building Societies	1,000,000	0
Local Authorities	0	0
Total	9,160,000	4,910,000

Compliance with Treasury Limits

6.23 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).

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