



REPORT OF:	BILL PALLETT
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TO:	EXECUTIVE
DATE:	16 JULY 2015
EXECUTIVE MEMBER:	COUNCILLOR G KNIGHT

KEY DECISION REQUIRED:	NO
WARD (S) AFFECTED:	ALL

SUBJECT:	ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY FOR 2014/15
RECOMMENDATION: (i) That the 2014/15 performance and prudential indicators be noted.	
REASONS FOR RECOMMENDATIONS: To comply with the Council's reporting requirements in relation to Treasury Management activity.	
EXECUTIVE SUMMARY: During 2014/15 the Council complied with its legislative and regulatory requirements. The Chief Finance Officer confirms that in-year borrowing was only undertaken for cash flow smoothing purposes and that all borrowing remained within the authorised limit. As at 31 March 2015 the Council's external debt was £0.0m (£0.0m at 31 March 2014) and investments totalled £48.0m (£58.0m at 31 March 2014).	

Executive has authority to approve the above recommendations.
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STATUTORY POWERS

1. The Annual Treasury Report is a requirement of the Council's reporting procedures. It covers treasury performance - and the prudential indicators - for 2014/5.
2. The report meets the requirements of both the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes under the *Local Government Act 2003*.

KEY INFORMATION

Prudential Indicators

3. The Executive approved the 2014/15 Treasury Management Strategy on 20 March 2014 and this included a number of prudential indicators. Performance against these is set out below.

- **Capital Financing Requirement (CFR)** – The Council’s underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council’s debt position. As there was no need to borrow for capital expenditure or capital investment purposes in 2014/15 the CFR was £0.
- **Net Borrowing and the CFR** – In order to ensure that borrowing levels are prudent over the medium-term the Council’s external borrowing, net of investments must only be for a capital purpose. As the Council had no debt, investments exceeded borrowings in 2014/15. This resulted in a negative net borrowing position, as indicated by the figures in brackets in the table below.

	31 March 2014 Actual £m	31 March 2015 Forecast £m	31 March 2015 Actual £m
Table 1: Net Borrowing			
Net borrowing position	(58.0)	(48.0)	(48.0)
CFR	0	0	0

- **The Authorised Limit** – is the “Affordable Borrowing Limit” required by Section 3 of the *Local Government Act 2003*. The Council does not have the power to borrow above this level.
- **The Operational Boundary** – is the expected borrowing position of the Council during the year. Periods where the actual position is over the Operational Boundary are acceptable subject to the Authorised Limit not being breached. The Operational Boundary was not breached during 2014/15.
- The following table demonstrates that during 2014/15 the Council has maintained gross borrowing within its Authorised Limit.

	2014/15 £m
Table 2: Borrowing Limits & Borrowing	
Authorised Limit	25.0
Operational Boundary	15.0
Maximum gross borrowing position	0.0

- **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. Since the Council has no debt this indicator is not relevant.

- An alternative view of this indicator, as shown below, measures the investment income earned by the Council as a percentage of the Council Tax budget requirement, so as to show the level by which the investment income is being used to underpin the Council's operational budget.

Table 3: Investment Income	
2014/15 Budgeted investment income as a proportion of budgeted net revenue	3.3%
Actual investment income as a proportion of actual net revenue	2.9%
2015/16 Budgeted investment income as a proportion of budgeted net revenue	3.6%

- The 2.9% achieved for 2014/15 is slightly below the budget of 3.3% due to investments achieving lower than anticipated returns.

Capital Expenditure & Financing

4. The Council undertakes capital expenditure on long-term assets. These activities may either be:
 - Financed immediately through the use of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no impact on the Council's borrowing need; or
 - If insufficient financing is available, or a decision is made not to apply internal resources, the capital expenditure will give rise to a borrowing need.
5. Actual capital expenditure forms one of the required prudential indicators.
6. The Council fully financed its capital expenditure through the use of its own resources and did not need to borrow, as shown in the following table.

Table 4: Capital Expenditure & Financing	2013/14 Actual £m	2014/15 Estimate £m	2014/15 Actual £m
Total Capital Expenditure	3.9	21.5	15.7
Financed by:			
Grants	0.8	4.2	1.7
Reserves	3.1	8.7	2.5
Capital Receipts	0.0	8.6	11.5
Borrowing Need	0.0	0.0	0.0

Borrowing & Investment Performance

7. The borrowing strategy was to remain free of long-term borrowing and to minimise the cost of temporary borrowing associated with the Council's operational cash flow. No borrowing was undertaken in 2014/15.
8. Counterparty security remains the over-arching investment objective. The current economic environment remains challenging, with interest rates on short term investments continuing to decline. Returns for medium to long term investments have however shown improvement over the last year. Due to continuing low rates the decision was taken to invest a small portion of our investments for a longer period. The majority of investments are still limited to 1 year, but a 2 year deal was taken at the end of 2014/15 allowing access to a higher rate of interest.
9. This should help boost the income for 2015/16 but due to the part year effect was not sufficient to counteract the deficit for 2014/15. Overall there was a £22,000 unfavourable variance for the financial year, which is set out on the table below.

Table 5: Treasury Performance Summary				Budget £m	Actual £m	Variance £m
Earnings from Investment Manager (paragraph 10)				(0.51)	(0.38)	0.13
Earnings from Investment of Surplus cash flow (paragraph 11)				(0.05)	(0.11)	(0.06)
Less: Cost of Borrowing and Other Operational Costs (paragraphs 12 & 13)				0.10	0.05	(0.05)
Total				(0.46)	(0.44)	0.02

10. **Investments Held by Fund Managers** – the Council uses an external cash fund manager, Tradition, to invest part of its cash balances. The performance of the manager is shown below, along with comparable benchmark returns.

Table 6: Fund Manager Performance	Investments Held £m	Return %	Market Benchmark 1 (3 month LIBID %)	Market Benchmark 2 (12 month LIBOR %)
Tradition Ltd	43.0	0.89%	0.50%	0.99%

11. **Investments held by the Council** – investments held by the Council reduced during 2014/15. At the end of 2014/15 there was a single internal investment of £5m remaining. The remaining £10m in investments held at the end of 2013/14 were used to finance the capital programme as they reached maturity during 2014/15. Internal investments generated an income of £106,000 compared to a budget of £49,000.
12. **Borrowing Costs** – as borrowing was not needed in 2014/15 this part of the budget was not used.
13. **Operational and other costs** – these costs, which include the transfer of interest to trust funds, benefitted from low interest rates.

OPTIONS

14. The Executive have two options:

Option 1 accept and note the contents of the report.

Option 2 accept the report, but ask Officers to provide more detail on some specific issues.

LEGAL IMPLICATIONS

15. There are no legal implications.

FINANCIAL IMPLICATIONS

16. These are set out in paragraphs 3 – 13.

EQUALITIES IMPLICATIONS

17. There are no equalities implications.

OTHER IMPLICATIONS

18. There are no other implications.

CONSULTATION

19. This report does not require and formal consultation.

POLICY FRAMEWORK

20. This report is submitted in accordance with the Council's Treasury Management Policy.

Background Papers: Treasury Management Strategy 2014/15