F

Report of the Director, Finance, Property
and Information Services

Audit Committee 19th September 2014

ANNUAL TREASURY MANAGEMENT REPORT 2013/14

1. Purpose of Report

1.1 The purpose of this report is to present to Audit Committee the Treasury Management Annual Report for 2013/14 for information and comment. The report was taken to Cabinet on 30 July 2014.

2. Background

2.1 The Treasury Management Code of Practice requires local authorities to produce an Annual Treasury Management Report.

2.2 The Council adopted the CIPFA Code of Practice on 13th February 2002, and the attached Treasury Annual Management Report has been prepared in compliance with the Code.

2.3 A summary of the main points of the report are included below.

3. Economic Outlook

3.1 The UK economy steadily strengthened throughout the year with the rate of growth at its fastest rate since 2007.

3.2 In July 2013, a new Governor of the Bank of England was appointed, Mark Carney. The base rate remained at 0.5% during 2013/14 and a number of targets were introduced which would act as triggers for a consideration of interest rate increases. The Bank of England has implied that any increases will be gradual.

3.3 As a result of stubbornly low interest rates and a lack of investment opportunities, the rate of return on Council investments remained low.

3.4 Against this backdrop of historically low rates and continuing concerns over sovereign and counterparty creditworthiness, managing the Council's treasury activities continued to present a significant challenge.

4. Treasury Activity 2013/14

4.1 The 2013/14 Treasury Strategy was based around two key themes:

- Minimising interest costs using internal resources in lieu of external borrowing.
- Maximising investment returns within the key principle of capital preservation and increased diversification of the investment portfolio.

4.2 Borrowing costs were kept low during the year primarily through a combination of internal borrowing and temporary borrowing from other local authorities at low rates. To remove an element of refinancing and interest rate risk associated with temporary borrowing, loans have been taken from other local authorities for periods in excess of a year. These loans continue to represent excellent value and remove an element of refinancing risk from 2014/15.

4.3 No long-term fixed rate borrowing was undertaken during 2013/14.

4.4 During 2013/14 assets, predominantly vehicles but also including wheeled bins, with a capital cost of £3.2M were tested to determine the most appropriate method of financing, comparing leasing against the cost of borrowing.

4.5 The 2013/14 Annual Investment Strategy emphasised that security of capital remained the Council's primary objective. As a result the Council adopted a conservative investment strategy, and all fixed term deposits were placed with highly rated institutions.

4.6 With regard to the key investment principles of security, liquidity and yield:

- Capital remained secure and no deposits were considered to be at immediate risk during the year.
- Sufficient liquidity was maintained through the use of money market funds and temporary borrowing from other local authorities.
- An average yield of 0.62% was achieved on investments for the year. This exceeded the benchmark based on market rates by over 0.2%.

4.7 The capital financing budget was £5.2M underspent at the end of the financial year, largely attributable to internal and short-term borrowing as highlighted above.

5. Prudential Indicators and Compliance

5.1 Appendix B of the full report demonstrates compliance with the Prudential Indicators.

5.2 All borrowing and investment transactions undertaken during the year were in accordance with agreed policy / strategy.

6. Recommendation

6.1 Audit Committee to note the Council's Annual Treasury Report for 2013/14.

Officer Contact: Ian Rooth **Tel:** 773213

This matter is not a Key Decision within the Council's definition and has not been included within the relevant Forward Plan

Cabinet: **Report of the Director, Finance, Property and Information Services**

ANNUAL REPORT ON TREASURY MANAGEMENT AND LEASING ACTIVITIES AND ACTUAL PRUDENTIAL INDICATORS 2013/14

1. Purpose of Report

1.1 The purpose of this report is to review the treasury management and leasing activities of the Council and actual performance against Prudential Indicators for 2013/14. The Council's treasury management activity is underpinned by the CIPFA Code of Practice on Treasury Management and this report is prepared in accordance with the Code.

1.2 This report will cover the following:

- agreed strategy for 2013/14;
- economic review;
- a review of Council's capital expenditure and capital financing requirement for both the General Fund (GF) and Housing Revenue Account (HRA);
- summary of the Council's net debt position;
- review of the borrowing activity for the GF & HRA (including leasing) and GF investment activity for the year;
- compliance with Prudential Indicators for 2013/14;

2. Recommendations

2.1 It is recommended that;

- **Members note the treasury management and leasing activities undertaken for the period.**
- **Approve the actual 2013/14 Prudential Indicators within the report.**

3. The Strategy Approved for 2013/14

3.1 Given the significant cuts to public expenditure and in particular to local government funding, the key aim of the Council's GF borrowing strategy was to minimise debt interest payments without compromising the longer-term stability of the portfolio.

3.2 The HRA takes a longer-term view of debt management and therefore the key aim of the borrowing strategy was to manage the affordability of debt repayments within the 30 year business plan.

3.3 With regard to investments, the key aim was to maximise investment returns whilst maintaining security of capital.

4. Economic Review for the Year Ending 31 March 2014

4.1 At the beginning of 2013-14 the Bank of England's Monetary Policy Committee had concerns about a lack of growth in the UK economy, falling 'real' wages (i.e. after inflation) and low levels of business investment. In addition to the UK, there was lacklustre growth in the Eurozone and Japan. During 2013-14 there were only two major economies, the US and Germany, who had growth above pre financial crisis levels.

4.2 Throughout the year, the UK economy steadily strengthened. The final estimate showed Q4 year-on-year growth at 2.7%, higher than the anticipated growth for any other European country. The economy is now growing at its fastest rate since 2007, with the service sector being the main driver of growth. There has been an increase in housing transactions driven by higher consumer confidence, greater availability of credit and strengthening house prices which were boosted by government initiatives such as Help-to-Buy. Despite improving activity and growth, business investment has yet to recover convincingly and productivity growth remains sluggish.

4.3 The 1st July 2013 saw a new Governor of the Bank of England appointed, Mark Carney. As part of the forward guidance issued in August, the Bank pledged it would not consider raising interest rates until unemployment fell below a threshold of 7%. In the Bank's initial forecast this level was not expected to be reached until 2016, but by January 2014 unemployment was already down to 7.2%. The Office for Budget Responsibility has predicted that 1.5 million new jobs will be created in the next five years and earnings will grow faster than inflation in 2014.

4.4 The Bank of England has stressed that the 7% unemployment target was a *threshold* for consideration of rate increase rather than an automatic trigger and more complex measures such as spare capacity within the economy have been introduced. The Bank has also implied that when official interest rates are raised, the increases would be gradual.

4.5 CPI fell from 2.8% in March 2013 to 1.7% in February 2014, the lowest rate since October 2009, helped largely by the easing commodity prices and discounting by retailers, reducing the pressure on the Bank to raise rates.

4.6 On the international front, the US Federal Reserve held its first policy meeting under the new chairmanship of Janet Yellen in March 2014. The central bank announced a further reduction in its monthly Asset Purchase Programme to $55bn per month, cut from $75bn per month, which was very much in line with market expectations. Further expectations are that Quantitative Easing will end by October 2014 which may lead to rapid rises in interest rates in the US.

4.7 With the Eurozone struggling to show sustainable growth, the European Central Bank cut interest rates by 0.25% to 0.25%. Markets were disappointed by a lack of action by the ECB in recent months and many analysts believe that at some stage there must be measures announced in order to boost activity in a large cross-section of the Euro-zone and avoid the threat of a slide into deflation.

4.8 Data pointed to an economic slowdown in China through the year, but this has reinforced hopes that the government will shortly announce measures to stem the decline in growth and to support the beleaguered financial system. During March 2014 there was international tension and debate over individual institution's exposure to the Russian economy. The West considered sanctions against Russia, which is the second largest gas producer in the world and any major disruption to their supply would have serious ramifications for energy prices.

4.9 Against this backdrop of historical low rates and ongoing concerns over sovereign and counterparty creditworthiness, managing the Council's debt and investment portfolio's continued to present a significant challenge.

5. Debt Split – Two Pool Approach

5.1 Following the reform of the HRA Subsidy system, the Council adopted the two-pool approach to debt management, maintaining separate pools for the General Fund (GF) and Housing Revenue Account (HRA).

5.2 Maintaining two pools in theory allows decisions on the structure and timing of borrowing to be made independently. Whilst the key issue facing the GF is one of short-term affordability, the HRA has to consider treasury management as a key risk against the viability of the 30 year business plan.

5.3 To address these differing requirements borrowing strategies for both the HRA and GF were produced for 2013/14 and the following sections address the debt management activity of the Council in relation to both debt pools.

6. The Council's Capital Expenditure 2013/14

6.1 The Council incurs expenditure on capital assets. These activities are financed through capital receipts, capital grants and reserves, or if insufficient financing is available the expenditure will give rise to a borrowing requirement.

6.2 One of the Council's treasury activities is to address this borrowing need, either from external bodies or by utilising temporary internal cash resources. The table below shows the respective borrowing positions for the GF and HRA.

	2013/14 GF £M	2013/14 HRA £M	2013/14 Total £M
Total Capital Expenditure	32	20	52
Capital Receipts	(3)	(2)	(5)
Capital Grants	(19)	0	(19)
Revenue & Contributions	(4)	(19)	(23)
Capital Expenditure from borrowing	**6**	**(1)**	**5**

6.3 GF capital expenditure funded through borrowing (internal or external) was £6M for 2013/14. The main expenditure was £1.6M on the re-development of Barnsley Market and £1.3M on Experience Barnsley.

6.4 All HRA capital expenditure was financed through capital receipts, grants or reserves with no borrowing requirement. The application of Right to Buy Receipts (capital receipts) means that the level of available resources has exceeded the level of capital expenditure. As a result, the HRA CFR has been reduced accordingly, as shown below.

7. The Capital Financing Requirement 2013/14

7.1 The underlying need to borrow is called the Capital Financing Requirement (CFR) and represents cumulative capital expenditure that has not been financed through other sources.

7.2 The non-HRA element of the CFR is reduced each year by a statutory revenue charge called the Minimum Revenue Provision (MRP). The MRP policy for 2013/14 was approved as part of the Treasury Management Strategy. There is no such requirement to charge a provision for the HRA.

7.3 The CFR for each of the respective debt pools is shown below and represents a key driver of Treasury Management activity.

	2013/14 GF CFR £M	2013/14 HRA CFR £M	2013/14 Actual £M
Opening Balance	**655**	**289**	**944**
Capital expenditure from borrowing	6	(1)	5
Less MRP	(19)	0	(19)
Closing Balance	**642**	**288**	**930**

7.4 The year-end CFR for 2013/14 was £930M, a reduction of £14M from the previous year. Specifically, the GF CFR reduced £13M to £642M as the revenue provision (MRP) exceeded new borrowing.

7.5 The HRA CFR reduced by £1M to £288M, following the application of Right to Buy Receipts, as highlighted at 5.5.

8. Actual External Debt 2013/14

8.1 The table below summarises the Council's debt position at the 31st March 2014.

	Balance at 31/3/14 £M
External Borrowing GF	271
External Borrowing HRA	282
Other Long-Term Liabilities	236
Actual External Debt	**789**

8.2 A comparison of the CFR figure of £930M against the gross debt position of £789M reveals the Council was internally borrowed (using internal reserves and balances in-lieu of external borrowing) by £141M at year end. The GF internal borrowing position was £135M with the HRA accounting for the remaining £6M.

8.3 The strategy of using internal resources has proved to be an extremely cost effective method of funding capital expenditure and has two main benefits:

- The 'cost of carry' associated with long-term fixed rate borrowing compared to investment returns is such that the use of internal resources remains an attractive means of minimising external debt payments.

- The use of internal resources reduces the funds available for investment thereby reducing credit risk. This is a key consideration given the Council's investment priority of maintaining capital (see section 12).

8.4 It should be noted that the figures in this report are based on the actual principal amounts borrowed and invested and so may differ from those figures published in the Statement of Accounts.

9. Review of GF Borrowing Activities

9.1 The decrease in the Council's GF borrowing position for the year is £11M. The table below summarises the loan transactions undertaken during the period.

	Balance at 1/4/13 £M	New Borrowing £M	Matured / Redeemed £M	Balance at 31/3/14 £M	Increase / (Decrease) £M
PWLB Fixed	163	-	7	156	(7)
PWLB Variable	35	-	-	35	-
Market Loans	27	-	-	27	-
Temporary Borrowing	57	109	128	38	(19)
Temp Borrowing >12 mnths	0	15	0	15	15
Total	**282**	**124**	**135**	**271**	**(11)**

9.2 The reduction in external borrowing (£11M) broadly matches the overall reduction in the CFR (13M). As such, the overall debt position when compared to the CFR remained relatively stable in 20113/14. The main points in relation to borrowing activity are discussed below.

9.3 No long-term fixed rate borrowing was undertaken during 2013/14. PWLB debt of £7M was redeemed during the year. This included the full repayment of a PWLB maturity loan (GF share of £3.5M) with the remainder being part repayments on annuity and equal instalments of principal loans.

9.4 The GF continues to hold £35M of PWLB variable rate debt at an average rate of 0.57%. There is a clear interest rate risk associated with holding variable debt when interest rates will increase. However interest rates remain low and this variable rate debt continues to offer a cost-effective funding option.

9.5 The Council continued to borrowing from other local authorities throughout the year at an average rate of 0.41%. The balance outstanding at the end of the year was £38M.

9.6 The large volume of temporary borrowing does expose the Council to an increased interest rate risk. It is important to view this risk against the cost of shutting that risk down. For example, the rate on the £38M of internal borrowing is 0.41%. A 10 year fixed rate PWLB loan would cost 3.55% in comparison. The cost of eliminating this interest rate risk is roughly 3%, equating to a monthly cost of £95K or £1.14M per annum.

9.7 To remove an element of the refinancing and interest rate risk associated with temporary borrowing, Treasury Officers have taken loans from other LAs for periods in excess of a year, with a value of £15M. Although slightly higher rates (average rate of 0.73%) these loans continue to represent excellent value, and remove an element of the refinancing risk from 2014/15.

9.8 Low interest rates mean the Council's £63M of LOBOs loans (GF share of £27M) are unlikely to be called in 2014/15. The interest rate of 4.75% is above current PWLB levels and therefore the refinancing risk in respect of these loans is low when taking into account of prevailing market conditions. The Council will take the option to repay the LOBO loans at no cost should the opportunity arise to do so.

9.9 A revision to the CIPFA Treasury Management Code now requires the Prudential Indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date at which the lender can require payment i.e. the next call date. This change is reflected in Appendix 1 (Indicator 9).

9.10 All external borrowing in the year was undertaken at the lowest possible cost at the time individual agreements were made, commensurate with the Council's position regarding future risk. Only approved methods of raising capital finance were used during the year.

10. Review of HRA Borrowing Activities

10.1 The decrease in the HRA external borrowing position for the year is £6M. The table below summarises the loan transactions undertaken during the period.

	Balance at 1/4/13 £M	New Borrowing £M	Matured / Redeemed £M	Balance at 31/3/14 £M	Increase / (Decrease) £M
PWLB Fixed	206	-	6	200	(6)
PWLB Variable	46	-	-	46	-
Market Loans	36	-	-	36	-
Total	**288**	**0**	**6**	**282**	**(6)**

10.2 The HRA CFR (£288M) remains relatively close to the level of external borrowing (£282M). As such there is relatively little volatility within the portfolio and the 2013/14 debt costs remained well within the budget of the 30 year business plan. Further detail on the borrowing activity is discussed below.

10.3 No long-term fixed rate borrowing was undertaken during 2013/14. PWLB debt of £6M was redeemed during the year. This included the full repayment of a £8.25M maturity loan with the remainder being part repayments on annuity and equal instalments of principal loans.

10.4 The HRA pool continues to hold £46M of PWLB variable rate debt at an average rate of 0.57%. There is a clear interest rate risk associated with holding variable debt when interest rates will increase. However interest rates remain low and this variable rate debt continues to offer a cost-effective funding option.

10.5 The HRA has £36M of LOBO loans (Lender Option Borrower's Option) all of which were eligible for call in 2013/14. The lenders did not exercise any call options and given the relatively low interest rate environment are unlikely to do so in 2014/15, limiting the Council's refinancing risk.

11. Review of Leasing Activity

11.1 During 2013/14 assets, predominantly vehicles but also including wheeled bins, with a capital cost of £3.2M were tested to determine the most appropriate method of financing, comparing leasing against the cost of borrowing.

11.2 Some of these vehicles were not delivered by the 31st March, but of the £1.8M that were, £1.7M were leased saving approximately £100K over the whole life of the lease compared to borrowing. Leasing remains competitive even though there are less banks in the market.

11.3 It was decided that the remaining £125K should be financed by borrowing to allow greater flexibility over their future usage.

11.4 The remaining £1.4M of vehicles will be leased in 2014/15 as they are delivered.

12. Review of Investment Activities

Investment Policy

12.1 The Council's Annual Investment Strategy (AIS) is prepared in accordance with CLG's revised Investment Guidance and was approved by Council in February 2013.

12.2 **The effective management of counterparty risk and safeguarding the security of the Council's investments was the immediate priority in 2013/14.** This complies with the CLG guidance which emphasised the principles of security and liquidity rather than yield.

Investment Activity

12.3 In accordance with the AIS, Treasury staff continued to invest temporary cash surpluses in the money market during the year. The total value of in-house investments held at the year-end was £32M.

12.4 The net increase in the Council's investment position for the year is £3M and this represents a relatively stable investment position. The Council continues to operate a level of reduced investments through the strategy of internal borrowing. This has the benefit of reducing treasury risk by minimising external debt and the level of temporary investments, and thereby credit risk.

The table below summarises the investment transactions undertaken during the period.

	Balance at 1/4/13 £M	Raised £M	Repaid £M	Balance at 31/3/14 £M	Increase / (Decrease) £M
Short–term Investments	26	71	70	27	1
Long-term Investments	-	5	-	5	5
Money Market Funds / Call Accounts	3	385	388	-	(3)
Total	**29**	**461**	**458**	**32**	**3**

12.5 The above figures demonstrate the large volume of transactions through Money Market Funds and call accounts during the year. There has been a long-term £5M deposit placed with a AAAmmf rated Cash Plus fund, but all other investments have been made for shorter periods, typically 3, 6, 9 or 12 month terms. This reflects the Authority's continuing conservative approach to the investment of funds and not locking out funds for long periods during uncertain economic times.

Security / Credit Risk

12.6 The AIS aims to reduce credit risk by requiring that deposits are not made with financial institutions unless they meet specified criteria. The minimum long-term counterparty credit rating determined by the Authority for the 2013/14 AIS was A- across rating agencies Fitch, S&P and Moody's.

12.7 Whilst credit ratings remain a key source of information, the Council bases investment decisions on a range of other credit indicators and takes account of the following market information:

- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms / potential support from parent institution
- Share Price
- Credit Default Swaps

12.8 Investments in 2013/14 were limited to the following institutions:

- Bank of Scotland
- Barclays Bank
- Commonwealth Bank of Australia
- Credit Agricole
- Natwest Bank
- Nordea Bank
- Royal Bank of Scotland
- Santander UK
- Standard Chartered
- Svenska Handelsbanken
- AAA-rated Money Market Funds

12.9 The Financial Services(Banking Reform) Act 2013 gained Royal Assent in December 2013, legislating for the separation of retail and investment banks and for the introduction of mandatory bail-in in the UK to wind up or restructure failing financial institutions. EU finance ministers agreed further steps towards banking union, and the Single Resolution Mechanism (SRM) for resolving problems with troubled large banks which will shift the burden of future restructurings/rescues to the institution's shareholders, bondholders and unsecured investors. In future, Local Authorities will fall into the institutional investor category and will therefore be eligible for 'bail-in' and potentially be exposed to losing a proportion of funds invested with a failed financial institution.

12.10 Proposals were also announced for EU regulatory reforms to Money Market Funds which may result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper in the future. AAA-rated Money Market Funds have been used throughout the year as a highly liquid and valuable investment tool. Treasury staff are confident that no risk is posed by the plans for reforms as yet and will continue to monitor the situation and take appropriate action if necessary.

12.11 Due to continuing uncertainty within financial markets and changes to regulations, the aim is to create an investment portfolio to deal with the worst case scenario.

Diversification remains a key theme in managing the Council's investments and over the next few years this will result in some significant changes to our approach to the investment of funds.

12.12 Certificates of Deposit have been purchased during 2013-14 which allowed the Council to access some of the larger world banks who are not active in the traditional term deposit market such as Standard Chartered and Nordea Bank. The use of non-UK institutions such as the Commonwealth Bank of Australia and Svenska Handelsbanken also allows diversification away from a heavily UK –based portfolio.

12.13 During the year, there have been material changes to the creditworthiness of several UK banks and this has been monitored by Treasury staff. Lloyds Banking Group has made strong progress in strengthening its balance sheet and the government has reduced its shareholding to under 25%. In contrast, Royal Bank of Scotland announced the creation of an internal bad bank to house its riskiest assets. Substantial losses at the Co-op Bank forced it to undertake a liability management exercise to raise capital and restructure debt.

12.14 In July Moody's placed the long-term ratings of Royal Bank of Scotland and Natwest Bank on review for downgrade amid concerns about the impact of any potential breakup of the bank on creditors. As a precautionary measure the Authority reduced its duration to overnight for new investments with the banks. In March the long term rating of both banks was downgraded to Baa1 and as this rating is below the Authority's minimum credit criterion the banks were withdrawn from the counterparty list for further investment.

12.15 All investments were made in accordance with the Council's 2013/14 AIS and no investments are considered to pose an immediate credit risk. A list of the Council's current investments as at 31st March 2014 can be found at Appendix 2.

Liquidity

12.16 The Council continued to use instant access accounts and Money Market Funds to manage liquidity requirements.

12.17 The Barclays flexible interest bearing current account (FIBCA) continues to be used to move funds between the Authority's accounts, significantly improving the day to day management of cash.

12.18 The Council did not experience any liquidity problems during the year and continue to operate without the use, and cost, of an overdraft facility.

Yield

12.19 The UK Base Rate remained at 0.5% throughout the year and money market rates also remained low. Additionally, Government liquidity schemes have reduced the need for institutions to access the money markets and rates of return have continued to fall.

12.20 Credit risk remains a key concern for the Council and one approach was to keep deposits liquid, illustrated by the fact that a significant number of transactions were processed through money market funds (table 11.4). This approach further impacted on yields.

12.21 The 7 day LIBID rate is used as a performance indicator for measuring the return on in-house investments. The average 7 day LIBID for 2013/14 was 0.41%. The average rate of return on investments for the year was 0.62%. This exceeded the annual performance indicator by 0.21%.

12.22 Treasury Officers continued to examine alternative investment options during 2013/14 including Property Funds and Short Duration Cash funds. In April 2013 a Short Duration Cash fund was opened with Ignis Asset Management which is a secure, low risk alternative to a fixed term bank deposit, with higher yielding returns. Other Cash funds are being considered for 2014/15.

13. Treasury Management Outturn, Prudential Indicators (PIs) and Compliance Issues

Outturn

13.1 The capital financing budget was £5.2M underspent at the end of 2013/14. This is largely attributable to the process of internal borrowing which reduced budgeted interest costs as outlined in Section 9.

13.2 The current debt portfolio, through internal and short-term borrowing, leaves the Council with a significant degree of interest rate exposure. However, this approach has significantly reduced the Council's debt interest payments, resulting in significant savings as highlighted above. Managing this ongoing risk will be a key theme of 2014/15.

13.3 Whilst total investment income fell, this was more than offset by savings achieved through internal borrowing, and the average yield achieved exceeded the benchmark. Crucially, the Council's capital was preserved and no investments are considered to be at risk.

13.4 As such, the Council has achieved the three principal aims of the 2013/14 Treasury Strategy as outlined in Section 3.

Prudential Indicators

13.5 The Council can confirm that it has complied with its Prudential Indicators (PIs) for 2013/14 which were approved in February 2013. A full suite definition of the indicators is shown at Appendix 1.

Governance and Scrutiny

13.6 The Council has strong arrangements around the governance and scrutiny of Treasury Management activities, over and above those prescribed in the Treasury Management Code. Since 2009 the Treasury Management Panel, comprising of Elected Members and Senior Officers from within the Council, meets on a regular basis to oversee operations and to make decisions on strategy.

13.7 The Council has also developed close ties with the Audit Committee with regard to treasury management. Two members of the Council's Audit Committee meet regularly with officers, providing feedback to the full Audit Committee.

13.8 A number of training sessions have been provided in 2013/14 for those with governance and scrutiny roles, and further events are planned for the forthcoming year.

14. Consultations

14.1 This report has been prepared using information supplied by the Council's Treasury Management advisors Arlingclose and approved by the Treasury Management Panel

15. Financial Implications

15.1 The financial implications arising from the treasury management activities for the year have been reported to Cabinet as part of the Council's revenue outturn report for 2013/14.

16. Employee Implications

16.1 None arising from this report.

17. Regulatory Framework & Risk Assessment

17.1 The Council has complied with all of the relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

17.2 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Arlingclose, the Council's advisers, has proactively managed the debt and investments over the year.

17.3 Treasury Management risks are indentified and monitored on the MKI Insight software as part of the Council's overall approach to managing risk.

17.4 Treasury Management is a core system and as such is subject to Internal Audit inspection on an annual basis. The current assessment of Treasury Management systems for 2013/14 is 'substantial', with no outstanding recommendations.

18. Background Papers

18.1 Various Financial Services working papers.

APPENDIX 1

Prudential Indicators 2013/14

1. Actual Capital Expenditure

Capital expenditure is a significant source of risk and uncertainty and it is important that limits are monitored to ensure they remain within sustainable limits.

	2013/14 Actual £M
Actual Capital Expenditure GF	32
Actual Capital Expenditure HRA	20
Total Capital Expenditure	**52**

2. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

Ratio of Financing Costs to Net Revenue Stream	Approved 2013/14 %	Actual 2013/14 %
General Fund	19	16
HRA	47	38

3. Actual Capital Financing Requirement (CFR)

The CFR measures the Council's underlining need to borrow for capital purpose, i.e. its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue.

	2013/14 Actual £M
Actual CFR GF	642
Actual CFR HRA	288
Total CFR	930

4. Actual External Debt

This indicator is obtained directly from the Council's balance sheet and is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit (External Borrowing + Other Long Term Liabilities).

	Balance at 31/3/14 £M
External Borrowing GF	271
External Borrowing HRA	282
Other Long-Term Liabilities	236
Actual External Debt	**789**

5. Authorised Limit for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council.

The Authorised Limit is the statutory limit under the Local Government Act 2003 and must not be exceeded during the year.

	Indicator 2013/14 £M	Actual 2013/14 £M	Compliance with Indicator
Maximum Debt compared to Authorised Limit	965	830	YES

6. Operational Boundary for External Debt

This indicator refers to the means by which the authority manages its external debt to ensure it remains within the statutory authorised limit. It differs from the authorised limit in as far as it is based on the most <u>likely</u> scenario, in terms of capital spend and financing during the year.

Unlike the authorised limit breaches of the operational boundary (due to cash flow movements) are allowed during the year as long as they are not sustained over a period of time.

	Indicator 2013/14 £M	Actual 2013/14 £M	Compliance with Indicator
Average Debt Compared to Operational Boundary	950	800	YES

7. Adoption of CIPFA Code of Practice in TM

The Council adopted the CIPFA Code of Practice on Treasury Management on 13th February 2002

8a. Interest Rate Exposure – GF

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

The limits adopted by Council provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

Separate limits have been set for the GF and HRA debt pools. The level of variable rate exposure is set lower for the HRA, representing the slightly more risk averse and long-term nature of their debt management activity.

	Indicator 2013/14 %	Actual 2013/14 %	Compliance with Indicator
Upper Limit on Fixed Interest Rate Exposure	95	87	YES
Upper Limit on Variable Interest Rate Exposure	30	13	YES

8b. Interest Rate Exposure - HRA

	Indicator 2013/14 %	Actual 2013/14 %	Compliance with Indicator
Upper Limit on Fixed Interest Rate Exposure	95	84	YES
Upper Limit on Variable Interest Rate Exposure	25	16	YES

9a. Maturity Structure of Fixed Rate Borrowing – GF

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, thereby managing the effects of refinancing risks.

Separate limits have been set for the GF and HRA debt pools. The higher percentage of maturities within 12 months in the GF pool is representative of the strategy of short-term borrowing to minimise debt interest costs.

As stated at Section 9.9, the Council's LOBOs are now shown within the 'Less than 12 months' category.

	Indicator 2013/14 %	Actual 2013/14 %	Compliance with Indicator
Less than 12 months	50	29	
12 months to 2 years	25	8	
2 years to 5 years	25	8	
5 years to 10 years	25	12	
10 years to 20 years	75	9	YES
20 years to 30 years	75	0	
30 years to 40 years	75	12	
40 years to 50 years	75	22	
50 years and above	75	0	

9b. Maturity Structure of Fixed Rate Borrowing - HRA

	Indicator 2013/14 %	Actual 2013/14 %	Compliance with Indicator
Less than 12 months	25	17	
12 months to 2 years	25	1	
2 years to 5 years	25	8	
5 years to 10 years	25	8	
10 years to 20 years	75	11	YES
20 years to 30 years	75	0	
30 years to 40 years	75	15	
40 years to 50 years	75	39	
50 years and above	75	0	

10. Maximum Principal Sums Invested

This indicator sets an upper limit for the level of investment that may be fixed for a period greater than 364 days. This limit is set to contain exposure to credit and liquidity risk.

	Indicator 2013/14 £M	Actual 2013/14 £M	Compliance with Indicator
Sums Invested > 364 days	20	0	
Sums Invested > 2 years	15	0	YES
Sums Invested > 3 years	10	0	

11. HRA Limit on Indebtedness

This indicator compares the HRA CFR with the Debt Cap prescribed by the CLG.

	Approved 2013/14 £M	Actual 2013/14 £M	Compliance with Indicator
HRA Debt Cap compared to HRA CFR	301	288	YES

APPENDIX 2

Barnsley MBC Investments 2013/14

Investment portfolio position as at 31st March 2014:

Counterparty	Investment Type	Start Date	Maturity Date	Principal	Interest Rate
Barclays FIBCA	Instant Access	21-May-12		2,378,000	* 0.20
IGNIS Short Duration Fund	Long-term	17-Apr-13		5,000,000	0.69
Santander UK PLC	Short-term fixed	4-Oct-13	4-Apr-14	5,000,000	0.70
Svenska Handelsbanken	Instant Access	4-Oct-13		10,000,000	0.70
Bank of Scotland	Short-term fixed	8-Nov-13	8-May-14	5,000,000	0.75
Bank of Scotland	Short-term fixed	20-Nov-13	20-May-14	5,000,000	0.75
Total as at 31-Mar-14				**32,378,000**	

* Barclays FIBCA - additional 0.40% annual bonus paid on average balance