Havering
LONDON BOROUGH

Cabinet

10 December 2014

Subject Heading:	**Annual Treasury Management Report 2013/14**
Cabinet Member:	**Councillor Clarence Barrett**
CMT Lead:	**Andrew Blake-Herbert**
Report Author and contact details:	Mark White Capital & Treasury Manager
Policy context:	The code of practice on treasury management 2009 requires a report to full Council on the treasury performance for the previous year
Financial summary:	There are no direct financial implications from the report

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[X]

SUMMARY

The Authority’s treasury management activity is underpinned by CIPFA’s Code of Practice on Treasury Management (“the Code”), which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.

This report fulfils the Authority’s legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Investment Guidance.

The Authority has [borrowed and/or invested] substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority’s treasury management strategy.

RECOMMENDATIONS

1. To approve the final 2013/14 prudential and treasury indicators in this report
2. To recommend this annual treasury management report for 2013/14 to full Council.

REPORT DETAIL

Contents

1. The Borrowing Requirement and Debt Management

1. 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), which have no impact on the Council's borrowing need; or
   - If there is insufficient financing, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
2. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a measure of the Council's debt position.
3. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council. The Authority's chief objective when borrowing money has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Given the significant cuts to public expenditure and in particular to local

government funding, the Authority's borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

	Balance on 01/04/2013 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2014 £m	Avg Rate
CFR	**239.4**				**238.0**	
Short Term Borrowing[1]	12.7	14.4	-	2.1	0.4	0.4%
Long Term Borrowing	210.2	-	-	-	210.2	3.6%
TOTAL BORROWING	**222.9**	**14.4**	**-**	**2.1**	**210.6**	3.6%
Other Long Term Liabilities	-	-	-	-	-	-
TOTAL EXTERNAL DEBT	**222.9**	**14.4**	**-**	**2.1**	**210.6**	3.6%
Increase/ (Decrease) in Borrowing £m					(12.3)	

4. The Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31/03/2014 was £238 million. The 2013/14 capital expenditure plans and treasury strategy did not imply a need to borrow over the 3-year forecast period as capital receipts, grants and revenue contributions were used to finance the capital programme rather than prudential borrowing.

5. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR each year. This effectively is a repayment of the non-Housing Revenue Account (HRA) borrowing need.

6. The only movement in the CFR for 2013/14 was a reduction of £1.4m as a result of the statutory MRP repayment. The total CFR can also be reduced by:
   - the application of additional capital financing resources such as unapplied capital receipts; or
   - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

7. The Council's 2013/14 MRP Policy (as required by Communities & Local Government Guidance) was approved as part of the Treasury Management Strategy Report for 2012/13.

[1] Loans with maturities less than 1 year.

2. Investment Activity

8. Both the CIPFA and the CLG's Investment Guidance require the Authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.

Investment Counterparty	Balance on 01/04/2013 £m	Investments Made £m	Investments Matured £m	Balance on 31/03/2014 £m
UK Central Government	-	119.7	(119.7)	-
UK Local Authorities	6.0	30.7	(10.7)	26.0
Banks and building societies and other organisations	105.7	608.9	(611.6)	103.0
TOTAL INVESTMENTS	111.7	759.3	742.0	129.0
Increase/ (Decrease) in Investments £m				17.3

Security

9. Security of capital remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14 which defined "high credit quality" organisations as those having a long-term credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher.

10. Investments with banks and building societies were primarily call accounts and fixed-rate term deposits. The maximum duration of these investments was for 12 months in line with the prevailing credit outlook during the year as well as market conditions.

11. Investments with other Local Authorities were all fixed-rate term deposits and due to the added security of the counterparty, the maximum duration of these investments was for 3 years.

12. In addition to credit ratings the Authority assessed and monitored counterparty credit quality using criteria such as credit default swaps, GDP of the country in which the institution operates, share price and market intelligence.

Liquidity

13. In keeping with the CLG's Guidance on Investments, the Authority maintained a sufficient level of liquidity through the use of overnight deposits, call accounts and temporary borrowing. The Authority uses purpose-built cash flow forecasting software and detailed spreadsheets to determine the maximum period for which funds may prudently be committed. By keeping a balanced portfolio with evenly spread maturities a sufficient level of liquidity is maintained.

Yield

14. The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates as a result also remained at very low levels which continued to have a significant impact on investment income. The average 3-month LIBID rate during 2013/14 was 0.45%, the 6-month LIBID rate averaged 0.53% and the 1-year LIBID rate averaged 0.78%.

15. The average rate of return achieved on the Authorities cash balances for 2013/14 was 0.95%. The low rates of return on the Authority's short-dated money market investments reflect prevailing market conditions and the Authority's objective of optimising returns commensurate with the principles of security and liquidity.

3. Compliance

16. The Authority confirms that it has complied with its Prudential Indicators for 2013/14, which were approved on 27th February 2013 as part of the Authority's Treasury Management Strategy Statement. Details can be found in Appendix B.

17. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2013/14. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

18. The Authority also confirms that during 2013/14 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

4. Other Items

Authority's Banker

19. Natwest/RBS is currently the Authority's banker and whilst currently the bank does not meet our strict investment criteria, the bank will continue to be used for operational and liquidity purposes whilst carefully being monitored.

Investment Training

20. The needs of the Authority's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

21. During 2013/14 staff attended training courses, seminars and conferences provided by Arlingclose, CIPFA and other treasury organisations. In addition treasury management staff also attend the London Treasury Officers Forum, a group set up for networking and sharing best practice. Relevant staff are

also studying professional qualifications from the Association of Corporate Treasurers

REASONS AND OPTIONS

Reason for the Decision

By approving the final 2013/14 prudential indicators and recommending this annual treasury management report to full Council the Authority is fulfilling it's legal obligations under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Investment Guidance.

Other Options Considered

There were no other options considered.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no other financial implications other than those stated in the main report

Legal implications and risks:

There are no apparent legal implications or risks

Human Resources implications and risks:

There are no HR implications arising directly from this report

Equalities implications and risks:

There are none arising from this report

BACKGROUND PAPERS

There are no background papers associated with this report

Appendix A : Debt and Investment Portfolio Position 31/3/2014

	31/3/2014 Actual Portfolio £m	31/3/2014 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	203.2	3.6
PWLB – Variable Rate	-	-
Local Authorities	-	-
LOBO Loans	7.0	3.6
Other short term borrowing	0.4	0.4
Total External Borrowing	**210.6**	**3.6**
Investments:		
Short-term investments	115.0	0.67
Long-term investments	14.0	1.16
Total Investments	129.0	0.72
Net Debt	81.6	

Appendix B Prudential Indicators

(a) Capital Financing Requirement (CFR)

Estimates of the Authority's cumulative maximum external borrowing requirement for 2013/14 to 2015/16 are shown in the table below:

Capital Financing Requirement	31/03/2014 Approved £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
General Fund	46.2	**66.1**	44.9	43.6
HRA	191.9	**171.9**	191.9	191.9
Total CFR	**238.1**	**238.0**	**236.8**	**235.5**

The difference between the actual CFR for the 31st march 2104 and the approved is he actual includes the appropriation of the investment properties from the HRA to GF.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31/03/2014 Approved £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Borrowing	210.2	210.2	210.2	210.2
Other Long Term Liabilities	-	-	-	-
Total Debt	**210.2**	210.2	210.2	210.2
Borrowing in excess of CFR?		No	No	No

Total debt is expected to remain below the CFR during the forecast period.

(b) Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The report confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2013/14; borrowing at its peak was £223m.

	Operational Boundary (Approved) 31/03/2014	Authorised Limit (Approved) 31/03/2014	**Actual External Debt 31/03/2014**
Borrowing	262.0	288.5	210.6
Other Long-term Liabilities	2.0	2.0	-
Total	**264.0**	**290.5**	**210.6**

(c) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed.

	Approved Limits for 2013/14	Maximum during 2013/14
Upper Limit for Fixed Rate Exposure	100%	100%
Compliance with Limits:		Yes
Upper Limit for Variable Rate Exposure	25%	1%
Compliance with Limits:		Yes

(d) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	**Actual Fixed Rate Borrowing at 31/03/2014 £m**	% Fixed Rate Borrowing at 31/03/2014	Compliance with Set Limits?
under 12 months	40%	0%	**7.0**	3.3%	Yes
12 months and within 24 months	40%	0%	**-**	-	Yes
24 months and within 5 years	60%	0%	**-**	-	Yes
5 years and within 10 years	75%	0%	**1.1**	0.5%	Yes
10 years and within 20 years	100%	0%	**202.1**	96.2%	Yes

(The 2011 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 on which the lender can require payment, i.e. the next call date[2]

[2] Page 15 of the Guidance Notes to the 2011 CIPFA Treasury Management Code

(e) Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Authority tax and in the case of the HRA, housing rent levels.

Capital Expenditure	31/03/2014 Approved £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Non-HRA	49.0	36.7	28.4	22.7
HRA	36.9	32.4	45.5	20.2
Total	**85.9**	**69.1**	**73.9**	**42.9**

Capital expenditure has been and will be financed or funded as follows:

Capital Financing	31/03/2014 Approved £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Capital receipts	16.8	8.1	10.3	7.0
Government Grants	47.2	38.1	41.7	15.7
Reserves	-	3.1	-	-
Revenue contributions	21.9	19.8	21.9	20.2
Total Financing	**85.9**	**69.1**	**73.9**	**42.9**
Prudential borrowing	-	-	-	-
Total Funding	-	-	-	-
Total Financing and Funding	**85.9**	**69.1**	**73.9**	**42.9**

(f) Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31/03/2014 Approved %	**31/03/2014 Actual %**	31/03/2015 Estimate %	31/03/16 Estimate %
Non-HRA	2.02	1.57	2.18	2.61
HRA	6.26	6.0	6.79	8.11
Total	**8.28**	**7.57**	**8.97**	**10.72**

(g) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority adopted the principles of best practice.

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* on the 27th February 2002.

(h) Upper Limit for Total Principal Sums Invested Over 364 Days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

	31/03/2014 Approved £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Upper limit on investments over 364 days	75.0	14.0	75.0	75.0

(i) HRA Limit on Indebtedness

HRA Debt Cap (as prescribed by CLG)	£ 209.0m			
	31/03/2014 Approved £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
HRA CFR	191.9	**171.9**	191.9	191.9
Difference	17.1	**37.1**	17.1	17.1