

9 September 2015		ITEM: 11 01104409
Cabinet		
Borrowing and Investment Performance and Policy Review 2014/15		
Wards and communities affected: None	Key Decision: Key	
Report of: Councillor John Kent, Portfolio Holder for Finance and Strategy		
Accountable Head of Service: Sean Clark, Head of Corporate Finance		
Accountable Director: David Bull, Interim Chief Executive		
This report is public		

Executive Summary

The Revised CIPFA Prudential Code requires that a Treasury Management Outturn report is produced as soon after the financial year end as is practicable.

In accordance with the Revised CIPFA Prudential Code, this report

- (a) reviews borrowing and investment activity for 2014/15; and
- (b) reports the treasury outturn position for 2014/15.

1. Recommendation(s)

- 1.1 In line with the Treasury Management Policy Statement approved by Council on 26 February 2014 and the CIPFA Code of Practice, the Cabinet is asked to comment on the borrowing and investment performance for 2014/15.**

2. Introduction and Background

- 2.1 This Borrowing and Investment Performance and Policy Review 2014/15 report is prepared under the terms of the CIPFA Prudential Code.
- 2.2 The report presents details of borrowing and investment transactions that took place in 2014/15 and also reports the outturn position on treasury management transactions for 2014/15.

3. Issues, Options and Analysis of Options

3.1 The Council's borrowing activity during 2014/15 is summarised in table 1 below:

Table 1	Outstanding Debt 1 April 2014	New loans Raised	Loans Repaid	Outstanding Debt 31 March 2015
Source of loan	£000's	£000's	£000's	£000's
Public Works Loan Board (PWLB)	160,889	0	0	160,889
Market Loans	29,003	750	0	29,753
Total long term	189,892	750	0	190,642
Temporary Market Loans	94,000	288,000	262,250	119,750
Total Debt	283,892	288,750	262,250	310,392

3.2 The Council was granted a loan from SELEP in 2014/15 of £0.75m to assist with the refurbishment of Grays Magistrates Court to be repaid by 2020 with no interest costs applicable. The Council continued to fund the £84.5 million of old PWLB debt by taking short term temporary loans at much lower rates.

3.3 The major events during the year are identified below:

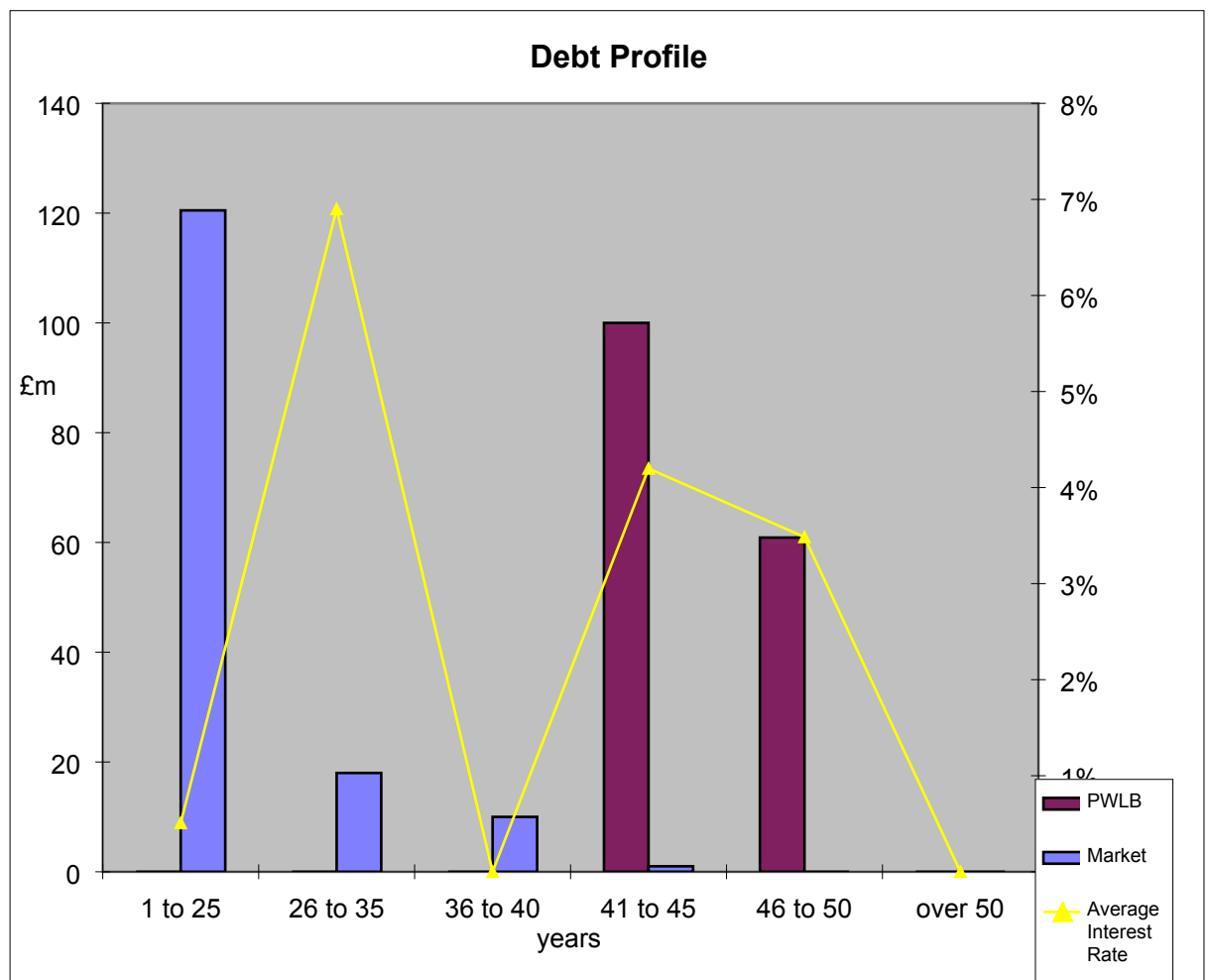
3.4 The Council had a Borrowing Requirement of £21.4m for 2014/15 (the amount that the Council would have been able to increase its debt by over the financial year). This requirement allows the Council to borrow from the PWLB (or money market) the amount that will keep the Council within its estimated Capital Financing Requirement. Known as the CFR, this reflects the Council's underlying need to borrow for Capital purposes at the end of the financial year. In general terms the Council's overall long term borrowing should not exceed its CFR. The Council did not breach either its Authorised or Operational Borrowing limits as defined under the CIPFA Prudential Code during 2014/15.

3.5 None of the Borrowing Requirement for 2014/15 has been taken up. In consultation with the Council's treasury advisors, Arlingclose, it was decided not to take any of the requirement before the end of the financial year.

3.6 After taking into account the levels of reserves and balances held by the Council and the fact that the Council's Capital Financing Requirement (CFR) is estimated to increase in future years, it was deemed inappropriate to borrow long term funding at this point in time and to review the position during 2015/16.

3.7 The graph below (table 2) illustrates the maturity profile of the Council's debt portfolio. The £120.5 million maturing in 1-25 years is made up of £119.75 million temporary debt taken to cover cash flow and finance the PWLB restructuring that all mature in 2015/16 and the £0.75 million SELEP loan. All of the Council's remaining long term debt matures after 25 years, but, ranges from 26 to 50 years, with the HRA Financing Settlement loans maturing from 2056/57 onwards. This maturity profile occurs as a result of the continuing historical low in interest rates and the decision taken to borrow longer at the lowest rates available.

Table 2



3.8 During 2010/11 the Council undertook a rescheduling exercise whereby the entire PWLB portfolio was repaid and replaced by short term temporary

borrowing. To the end of 2014/15 this has saved the Council approximately £15.5m of interest owing to the difference in interest rates between the old fixed rate PWLB debt and the available short term interest rates. It is forecast that in future years the savings attainable will reduce as short term rates increase, however, it is anticipated that any rate rises will be made via small increments over several years so savings will continue for the next few years. Officers continue to monitor the economic projections relating to interest rates and will take action to fix rates as necessary.

- 3.9 During the year the Council operated within the treasury limits set out in the Council's Treasury Policy Statement which was as follows:
- (a) To obtain any long term borrowing requirement from the sources of finance mentioned in paragraph 2.5 of the Borrowing and Investment Annual Strategy.
 - (b) To continue to fund the ex-PWLB debt via short term funds from the money markets unless circumstances dictate moving back into long term fixed rate debt. The borrowing sources mentioned in paragraph 2.5 of the Borrowing and Investment Annual Strategy will then be assessed as to their suitability for use.
 - (c) Repay market loans that come up for renewal by realising equivalent amounts of investments. If it is not possible to realise investments then the borrowing sources in paragraph 2.5 of the Borrowing and Investment Annual Strategy will be assessed as to their suitability for use as replacements.
 - (d) To undertake short term temporary borrowing when necessary in order to manage cash flow to the Council's advantage.
 - (e) Reschedule market and PWLB loans, if practicable, to achieve interest rate reductions, balance the volatility profile or amend the debt profile, dependent on the level of premiums payable or discounts receivable.
 - (f) Ensure security and liquidity of the Council's investments and to then optimise investment returns commensurate to those ideals.
 - (g) Contain the type, size and duration of investments with individual institutions within the limits specified in Appendix 2 and Appendix 3 of the Borrowing and Investment Annual Strategy.
 - (h) Move a further £5 million into Investec's Short Dated Bond Fund and Target return Fund if it is felt prudent to do so.
 - (i) In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 the Council's policy for the calculation of MRP in 2014/15 shall be the regulatory method for supported borrowing and the asset life (equal instalment)

method for Prudential borrowing. This policy was amended at Council on 25 February 2015 to say 'The Council will set aside an amount each year that it deems to be prudent and appropriate, having regard to statutory requirements and relevant guidance issued by DCLG'

2014/15 Investment Transactions

- 3.10 The movements in the Council's investments may be summarised in a similar manner as follows:

	Fund Managers £'000s	In House £'000s	Total £'000s
1 Total at 1April 2014	20,000	21,050	41,050
2 New Investments	20,000	2,420,930	2,440,930
3 Investments Redeemed	20,000	2,403,980	2,423,980
4 Total at 31March 2015	20,000	38,000	58,000

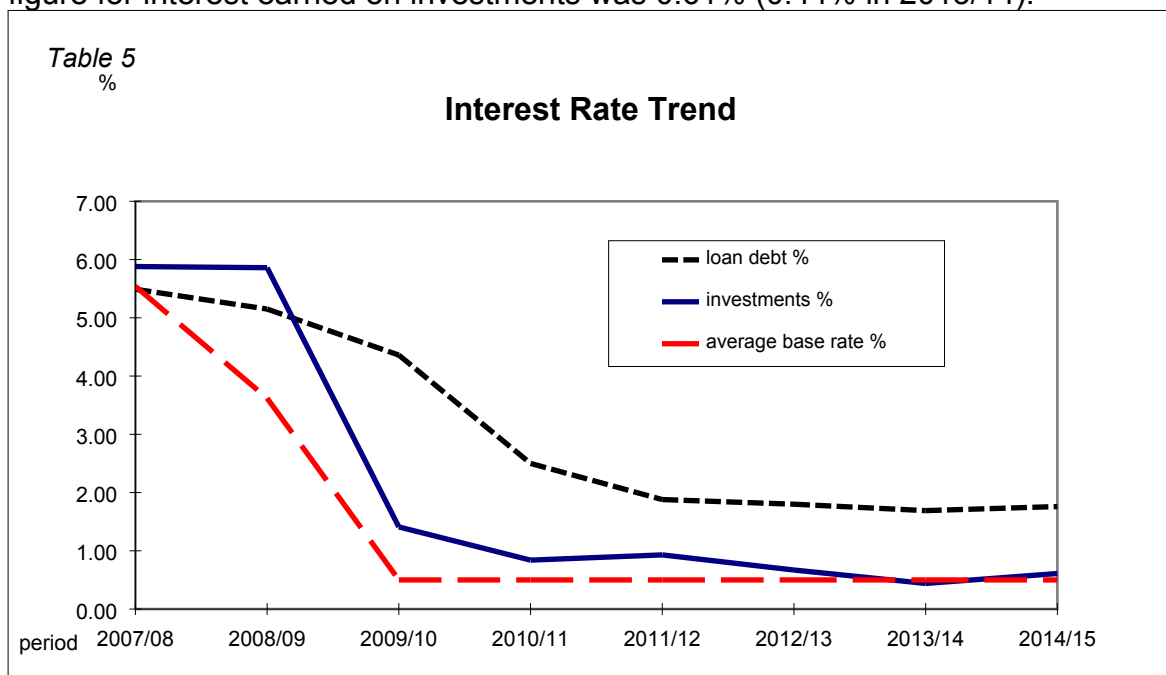
- 3.11 The very large figures in the In-house column relates in the main to investments held on an overnight basis. The continuing effect of the financial crisis has led to the Council reducing its investment counterparty list and it has often been difficult to find counterparties to invest with for any length of time. This has therefore led to more funds being placed on an overnight basis increasing the turnover of the In-House investments in lines 2 and 3 in the above table.
- 3.12 During 2014/15 the Council redeemed its £20m fund manager investments with Investec and invested the funds in money market investments for 364 days pending a decision on whether to invest with other managers. In November 2014 it was decided to invest the £20m in the CCLA Property Fund due to the returns available but, having already invested the £20m received back from Investec it was necessary to borrow the funds on a short term basis until the money market investments matured in June 2015, hence the increase in total investments held at March 2015 from March 2014.

3.13 At 31 March 2015 the money was invested with the following types of institutions:

	£ 000's
Banks	19,000
Building Societies	17,000
CCLA Property Fund	20,000
UK Local Authority	2,000
Total	58,000

3.14 All investments made in 2014/15 have been with organisations listed in the Borrowing and Investment Annual Strategy, which was presented to Council on 12 February 2014, and the total sums invested with individual institutions have been contained within the limits specified therein.

3.15 The average interest rate paid on the Council's general fund external borrowings in 2014/15 was 1.77% (1.69% in 2014/15) while the corresponding figure for interest earned on investments was 0.61% (0.44% in 2013/14).



The graph (table 5) above shows the trend in interest rate movements over the last eight years. The dotted line represents the average rate payable by the Council on its' borrowings. The continuous line represents the interest earned on the Council's investments. The movement in the Bank of England's base rate is shown by the dashes. This illustrates

- the success in reducing the Council's average borrowing rate from 5.49% in 2007/08 to 1.77% in 2014/15.
- that investment returns have returned slightly above the Base Rate in 2014/15.

Investment Returns

- 3.16 The net dividend (after the deduction of fees) achieved by the CCLA property fund in the 4 months after inception to March 31 2015 was 4.80%. Over the year 2014/15 the total return performance of the fund was 17.9% as compared with the benchmark of the IPD other balanced property funds index of 16.8%.
- 3.17 The average rate achieved on the Council's directly managed investments in 2014/15 was 0.61% despite the need to finance day to day cash requirements, with the consequent variations in amounts available for investment.

4. Reasons for Recommendation

- 4.1 The overall impact to the General Fund of treasury management activities in 2014/15 is £2.64 million which represents a favourable position of £4.76 million to the General Fund as per table 6 below.

5. Consultation (including Overview and Scrutiny, if applicable)

- 5.1 The Council's Treasury Advisors, Arlingclose, have been consulted.

6. Impact on corporate policies, priorities, performance and community impact

- 6.1 The financial implications of the above treasury management activities on the Council's revenue budget are illustrated in the table below. The outturn position is compared against both the original and revised forecast.

Table 6			
	2014/15 Revised Budget £000's	2014/15 Actual outturn £000's	2014/15 Variance £000's
Interest payable on external debt			
1 Debt Interest		2,253.7	
2 Total Internal Interest		72.5	
3 Net Interest charged to GF	2,196.1	2,326.2	130.0
Income			
4 Interest on Investments	-593.3	-755.1	-161.8

5	Net Interest charged to GF	1,602.8	1,571.1	-31.7
6	MRP	5,800.0	1,075.0	-4,725.0
7	Overall total	7,402.8	2,646.1	-4,756.7

6.2 The Minimum Revenue Provision (MRP) is the amount set aside from the general fund to repay borrowing taken out by the Council to fund capital expenditure. There are a number of methods which can be used to calculate the MRP which are in accordance with statutory requirements and the Department of Communities and Local Government guidance. The Council has reviewed these options in 2014/15 as well as undertaking a detailed review of the amounts put aside in previous years. As a result, there is a net £3.54m increase to the general fund balance to correct the cumulative impact identified from prior year calculations. Going forward the policy for MRP has been amended to ensure all outstanding debt is paid off fully over the next 50 years.

7. Implications

7.1 Financial

Implications verified by: **Chris Buckley**
Treasury Management Officer

The financial implications can be found in the main body of the report.

7.2 Legal

Implications verified by: **David Lawson**
Deputy Head of Legal & Deputy Monitoring Officer

In determining its affordable borrowing limits under section 3 of the Local Government Act 2003, the Council must have regard to the "Prudential Code for Capital Finance in Local Authorities" (revised Edition 2007) published by CIPFA. In carrying out its functions under Chapter 1, Part 1 of the Local Government Act 2003, the Council must have regard to the code of practice contained in the document "Treasury Management in the Public Sector : Code of Practice and Cross-Sectoral Guidance Notes" (Revised Edition 2009) published by CIPFA.

7.3 **Diversity and Equality**

Implications verified by: **Natalie Warren**
**Community Development and Equalities
Manager**

There are no specific implications from this report.

7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

None.

8. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Revised CIPFA Prudential Code
- Revised draft ODPM's Guidance on Local Government Investments
- Revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes
- Treasury Management Policy Statement
- 2014/15 Annual Investment Strategy
- Arlingclose's Investment Review.

9. **Appendices to the report**

- None.

Report Author:

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Corporate Finance