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**REPORT TO: POLICY & RESOURCES COMMITTEE ON 29 SEPTEMBER 2015**

**SUBJECT: REPORT ON TREASURY MANAGEMENT PERFORMANCE AND  
TREASURY AND CAPITAL INVESTMENT PRUDENTIAL  
INDICATORS FOR 2014/15**

**BY: CORPORATE DIRECTOR (CORPORATE SERVICES)**

**1. REASON FOR REPORT**

- 1.1 To provide Committee with the annual report on Treasury Management and details of the Council's Prudential Indicators for Treasury Management and Capital Investment for the year ended 31 March 2015.
- 1.2 This report is submitted to Committee in terms of the Council's Scheme of Administration Sections III A (3) and (7) relating to Treasury Management and the Capital Plan.

**2. RECOMMENDATION**

- 2.1 **It is recommended that the Committee consider the Treasury Management Performance and the Council's Treasury Management and Capital Investment Prudential Indicators for 2014/15 as set out in the attached APPENDIX.**

**3. BACKGROUND**

- 3.1 At the meeting of the Policy and Resources on 15 February 2011, Members requested that future reports on Treasury Management Performance be reduced to twice annually (paragraph 10 of the Minute refers). One report to agree the Treasury Management and Investment Strategies with relevant Performance Indicators and the second report to submit the annual review and actual performance of Treasury Management activities. Quarterly Treasury Management monitoring reports are posted on the Members Portal.
- 3.2 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector (the Code) and the Local Government Investment (Scotland) Regulations 2010. All treasury management activities are carried out in accordance with the Code and regulations.

3.3 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy, which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices, which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the Council of an annual treasury management strategy report for the year ahead and an annual review report of the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions to the Head of Financial Services as Chief Financial Officer.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to Policy and Resources Committee.

3.4 The Local Government (Scotland) Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected activity or sets limits upon the activity and reflects the outcome of the Council's underlying capital appraisal symptoms.

**4. TREASURY PERFORMANCE 2014/15**

4.1 This annual Treasury Management performance report covers:

- ❖ The Economy and Interest Rates in 2014/15
- ❖ Treasury Management Strategy for 2014/15
- ❖ Annual Investment Strategy 2014/15
- ❖ Investment Outturn for 2014/15
- ❖ Long Term Borrowing and Debt Rescheduling
- ❖ Short Term Borrowing
- ❖ Prudential Code for Capital Finance in Local Authorities

**4.2 The Economy and Interest Rates 2014/15**

4.2.1 The robust pace of Gross Domestic Product growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.

- 4.2.2 Annual Consumer Prices Index (CPI) inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to \$44.35 a barrel, a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor, Mark Carney, wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.
- 4.2.3 The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.
- 4.2.4 The Bank of England's Monetary Policy Committee (MPC) maintained interest rates at 0.5% and asset purchases (quantitative easing) at £375bn. Its members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into a response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.

### **4.3 2014/15 Treasury Management Strategy**

- 4.3.1 The Treasury Management Strategy, incorporating the Annual Investment Strategy, was approved by the Council at its meeting on 11 February 2014 (Paragraph 6 of the Minute refers).
- 4.3.2 The Council's chief objective when borrowing 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.
- 4.3.3 Given the significant cuts to public expenditure and in particular local government funding, the Council's borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the portfolio.

#### 4.4 Annual Investment Strategy

- 4.4.1 Security of capital remains the Council's main investment objective followed by the desire to achieve the optimum return and the necessary liquidity. In the current economic climate it is considered to be prudent to keep investments short term and only invest with highly credited UK financial institutions who have a long-term credit rating of BBB+ or higher.
- 4.4.2 The Council's creditworthiness policy is set in accordance with credit rating criteria discussed and agreed with the Council's treasury advisers. The Head of Financial Services maintains a counterparty list in compliance with the criteria and revises the criteria and submits to Council for approval as necessary.
- 4.4.3 All credit ratings are monitored daily and the Counterparty List is amended to reflect any changes.

#### 4.5 Investment Outturn for 2014/15

- 4.5.1 The Council manages its investments in-house and invests with the institutions listed on the Council's approved Counterparty list.
- 4.5.2 The table below shows the overall investment undertaken by the Council during 2014/15.

	Total Sum Deposited (£000)	Average Rate (%)
Approved Financial Institutions	59,855	0.63
Council's Bankers	174,290	0.40
TOTAL	234,145	0.46

The above figures are cumulative and the actual amounts invested at any one time ranged from £Nil to £21,010,000.

- 4.5.3 The average rate of interest earned on investments during the year was 0.46% compared to the average 7 day London Inter Bank Bid Rate (LIBID) of 0.43%.
- 4.5.4 As at 31 March 2015, the following balance was invested:

Counterparty	Investment	Amount (£000)	Interest Rate (%)
Santander	Call Account	1,480	0.80

#### 4.6 Long Term Borrowing and Debt Rescheduling

4.6.1 The Council's long term external debt position at 31 March 2015 compared with the position at the end of the last financial year was as follows: -

	31 March 2014			31 March 2015		
	Actual (£000)	Rate (%)	Average Life (Years)	Actual (£000)	Rate (%)	Average Life (Years)
Fixed Rate Funding – PWLB	108,844	5.83	26.56	122,736	5.44	22.38
Fixed Rate Funding – Market	10,100	3.95	52.40	10,100	3.95	51.40
Variable Rate Funding - PWLB	-	-	-	-	-	-
Variable Rate Funding - Market	23,300	5.00	63.04	23,300	5.00	62.04
Total Debt	142,244	5.56		156,136	5.28	

4.6.2 The Council has been maintaining an under borrowed position which means that the capital borrowing need (Capital Finance Requirement) has not been fully funded by loan debt. Cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure to offset the need to borrow.

4.6.3 The strategy of effectively delaying new long-term borrowing by utilising internal and temporary borrowing has served well at a time when comparatively cheaper temporary borrowing from other local authorities is readily available, counterparties meeting the Council's investment criteria are limited, and historically low investment returns give rise to potentially significant carrying costs for new long-term borrowing.

- 4.6.4 During the year, the Council funded £16 million of capital expenditure by borrowing the following long-term loans from the Public Works Loan Board (PWLb).

Amount (£000)	Rate (%)	Term (Years)	Repayment Type
2,000	3.48	9.5	Maturity*
5,000	2.62	9.5	EIP**
3,000	2.11	10	EIP**
3,000	2.10	10	EIP**
3,000	2.14	15	EIP**

\*The loan will be repaid in full at the end of the loan.

\*\*The loans will be repaid by equal annual instalments (EIP) over the period of the loan.

- 4.6.5 No debt rescheduling was undertaken during the year as the average 1% differential between PWLB new borrowing rates and PWLB premature repayment rates continue to make rescheduling unviable.

#### 4.7 Short Term Borrowing

- 4.7.1 During the year, seven new temporary loans totalling £16.2 million were raised from other UK local authorities. The following short term loans were outstanding at 31 March 2015:-

Organisation	Maturity Date	Borrowing Rate (%)	Amount £000
Derbyshire County Council	26 June 2015	0.58	5,000
Derbyshire County Council	19 August 2015	0.65	3,000
London Borough of Hillingdon	23 November 2015	0.95	2,000
		0.675	10,000

#### 4.8 The Prudential Code for Capital Finance in Local Authorities

- 4.8.1 The Local Government (Scotland) Act 2003 requires the Council to undertake its treasury activities with regard to the Prudential Code for Capital Finance in Local Authorities.
- 4.8.2 The Code requires the Council to produce mandatory indicators aimed at assisting members in ensuring that proposed capital investment levels and treasury management decisions satisfy the key requirements of affordability, prudence and sustainability. The Prudential Indicators for 2014/15 were approved by the Full Council on 11 February 2014 (paragraph 6 of the minute refers). There were no breaches of these indicators during 2014/15. Performance against key indicators is shown in the **APPENDIX**.

## 5. **SUMMARY OF IMPLICATIONS**

### **(a) Moray 2023 A Plan for the Future / Service Plan**

None arising specifically from this report.

### **(b) Policy and Legal**

The Local Government in Scotland Act 2003 provides the powers to borrow and invest as well as providing controls and limits on these activities.

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector which details best practice The Local Government Investment (Scotland) Regulations 2010.

All Treasury Management activities are carried out in accordance with this Code and Regulations.

### **(c) Financial implications**

The net cost of Treasury Management activities has a significant effect on the Council's overall finances. All financial considerations are contained within the body of the report and the attached **APPENDIX**.

### **(d) Risk Implications**

The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's treasury advisers, will proactively manage its investments and debt over the year.

There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly at fixed, long term levels. Shorter term variable rates and the likely future movements in these variable rates predominantly determine the Council's investment and borrowing strategies.

Capital expenditure is closely monitored and Budget Managers are aware of their responsibilities to manage budget allocations.

### **(e) Staffing Implications**

None arising specifically from this report.

### **(f) Property**

None arising specifically from this report.

**(g) Equalities**

None arising specifically from this report.

**(h) Consultations**

This report has been produced in consultation with Arlingclose Limited, the Council's Treasury Advisers.

**6. CONCLUSION**

- 6.1 The Council's requirement for funds continues to be managed in accordance with the agreed Treasury Management Strategy Statement. All treasury management and capital investment activities have been undertaken with the limits set by the Prudential Code Performance Indicators for 2014/15.**

Author of Report: Deborah Brands/Allan Birnie – Ext 3120/3138  
Background Papers: Various working papers held within Financial Services  
Ref: MW/LJC/[239-88/239-90](#)