

EAST RENFREWSHIRE COUNCIL

CABINET

4 September 2014

Report by Chief Executive

ANNUAL TREASURY MANAGEMENT REPORT FOR 2013/14

PURPOSE OF REPORT

1. To advise the Cabinet on the Treasury Management activities for the year ending 31 March 2014.

RECOMMENDATION

2. It is recommended that members : -

- (a) note the Treasury Management Annual Report for 2013/14; and
- (b) recommend to the Council that the attached organisations for investment of surplus funds be approved.

BACKGROUND

3. In line with the CIPFA Code of Practice on Treasury Management 2011, the Cabinet is responsible for ensuring effective scrutiny of treasury management activities. The report is submitted to Cabinet in accordance with this requirement.

SUMMARY

4. Overall the report demonstrates a well managed treasury function within the Council. The average interest rate on long-term borrowing has increased over the previous year, reflecting economic conditions. The Council continues to adopt a prudent approach to treasury management and in particular the percentage of variable rate loans at 9.24% is well below the Council's approved upper limit of 30%. The resulting stability in borrowing assists the Council in responding to the current national economic pressures.

5. In line with the revised Code of Practice on Treasury Management 2011 and recommendations provided by the Council's treasury advisors, the Council's Treasury Strategy for 2014/15 was presented to the meeting of the Audit and Scrutiny Committee on 16 January 2014, prior to it being reported for approval to the meeting of the full Council on 13 February 2014.

RECOMMENDATION

6. It is recommended that members: -

- (a) note the Treasury Management Annual Report for 2013/14; and
- (b) recommend to the Council that the attached organisations for investment of surplus funds be approved.

REPORT AUTHOR

Further information is available from Barbara Clark, Chief Accountant, 577 3068.

KEY WORDS

Treasury, borrowing , investments

M. McCrossan
Head of Accountancy (Chief Financial Officer)
BC/LI

ANNUAL TREASURY MANAGEMENT REPORT 2013/14

1. Actual External Debt (Prudential Indicator 8)

	Borrowing 01/04/13 £M	Average Interest %	Borrowing 31/03/14 £M	Average Interest %	Change in year £M
<u>Long Term Borrowing</u>					
Public Works Loan Board	63.07	6.29	56.48	6.65	-6.59
Local Authority Bonds	16.70	4.79	14.40	4.60	-2.30
PFI / PPP Finance Leases	87.87	7.23	84.89	7.24	-2.98
Total Long Term	167.64	6.63	155.77	6.78	-11.87

Short Term Investments

Temporary Investments	-29.21	1.02	-27.78	0.56	1.43
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NOTES

- (i) For purposes of this report long-term borrowing means loans taken on a long-term basis. This differs from the Annual Accounts, which have to categorise long-term loans with less than a year until repayment as short-term loans. Loans above totalling £2.94 million come into this category.
- (ii) The temporary loans above exclude an impaired loan to Heritable Bank. (See note on Heritable Bank)
- (iii) The average interest rate on long-term borrowing has increased by 0.15%.
- (iv) Principal repayments of maturing Public Works Loan Board loans totalled £6.59 million and Local Authority Bonds totalled £2.30 million.
- (v) The Council's net external borrowing position has decreased in total by £10.44 million during the year.
- (vi) The Council's activity in the temporary investments market is shown along with the corresponding interest rate movements in Appendices 2 - 5. All sums invested were for periods of less than 1 year. In response to difficulties in the financial markets and as part of a risk managed process designed to protect the principal of the sums invested, during the course of the year the maximum period of investment was restricted to 3 months, with the exception of those investments with the Bank of Scotland. This restriction remains in place.
- (vii) At 31 March 2014, the Council had 9.24% of its total debt outstanding in variable rate loans. For the Council to gain a high level of stability in overall borrowing costs the Council's Treasury Policy Statement requires the exposure to variable rate loans to be less than 30% of the total debt outstanding.

2. PWLB

The primary source of medium/long term borrowing is from the UK Government through the Public Works Loan Board (PWLB). The PWLB provides loans to local authorities at rates, which are in general more attractive than loans available from other sources.

3. DEBT MATURITY PROFILE

The Council's debt maturity profile at 31 March 2014 is shown both below and in Graph format at Appendix 6.

It was a requirement of the Council's Treasury Policy Statement that the maximum amount of long-term debt maturing in any one year should be no more than 15% of the Council's long-term debt outstanding.

The Council's debt Maturity Profile as at 31 March 2014 was within the agreed limits.

Long Term Debt Maturity Profile as at 31 March 2014

	PWLB	Local Authority Bond	Total	
	£M	£M	£M	%
14/15	2.94		2.94	4.15
15/16	7.46		7.46	10.52
16/17	2.06		2.06	2.91
17/18	1.73		1.73	2.44
18/19	2.58		2.58	3.64
19/20	2.13		2.13	3.00
20/21	0.54		0.54	0.76
21/22	0.36		0.36	0.51
22/23	0.82		0.82	1.16
23/14	0.36		0.36	0.51
After 2023	35.50	14.40	49.90	70.40
Total	56.48	14.40	70.88	100.00

4. PRUDENTIAL INDICATORS

In line with the agreed monitoring arrangements for the Prudential Indicators, listed below there is a table showing two prudential indicators comparing the approved indicator, as reported to the Council on 7 February 2013 along with the actual figures recorded at 31 March 2014, demonstrating that the Council are operating well within the limits set.

	Operational Boundary for External Debt (Prudential Indicator 6)	Authorised Limit for External Debt (Prudential Indicator 7)
Approved	£187,648,000	£202,613,000
Actual	£155,773,681	£155,773,681

5. HERITABLE BANK

The Council currently has £1m invested in the Heritable Bank, a UK based subsidiary of the Icelandic Bank, Landsbanki. The company was placed in administration on 7 October 2008. The latest creditor progress report issued by the administrators Ernst and Young outlined that the return to the creditors was projected to be 94p in the £ by the autumn of 2013. As at 31 March 2014 the Council had received 14 payments totalling £988,238, no further dividends are expected.

6. APPROVED ORGANISATIONS FOR INVESTMENT

In line with normal practice the status of all Banks and Building Societies has been reviewed in order to amend the current list of approved organisations for investment (see appendix 7). Lending is in the form of short term Sterling deposits and no other method of investment may be used without Council's consent. As a result of the banking crisis and in line with prudent financial management, investment has been restricted to UK organisations with high credit ratings. Also, the maximum period of investment has been restricted to 3 months, with the exception of the Bank of Scotland. These measures have been taken as a part of a risk managed process designed to protect the principal of the sums invested.

Credit ratings of organisations on the counter-party list are subject to continuous monitoring and review to ensure that subject to available professional advice, approved organisations remain sound for investment purposes.

In addition to the approved counter party list for temporary investment of surplus funds (see appendix 7), the Council's approved Treasury Management Strategy permits other vehicles for long term investment including investment in hub schemes.

7. TREASURY MANAGEMENT POLICY

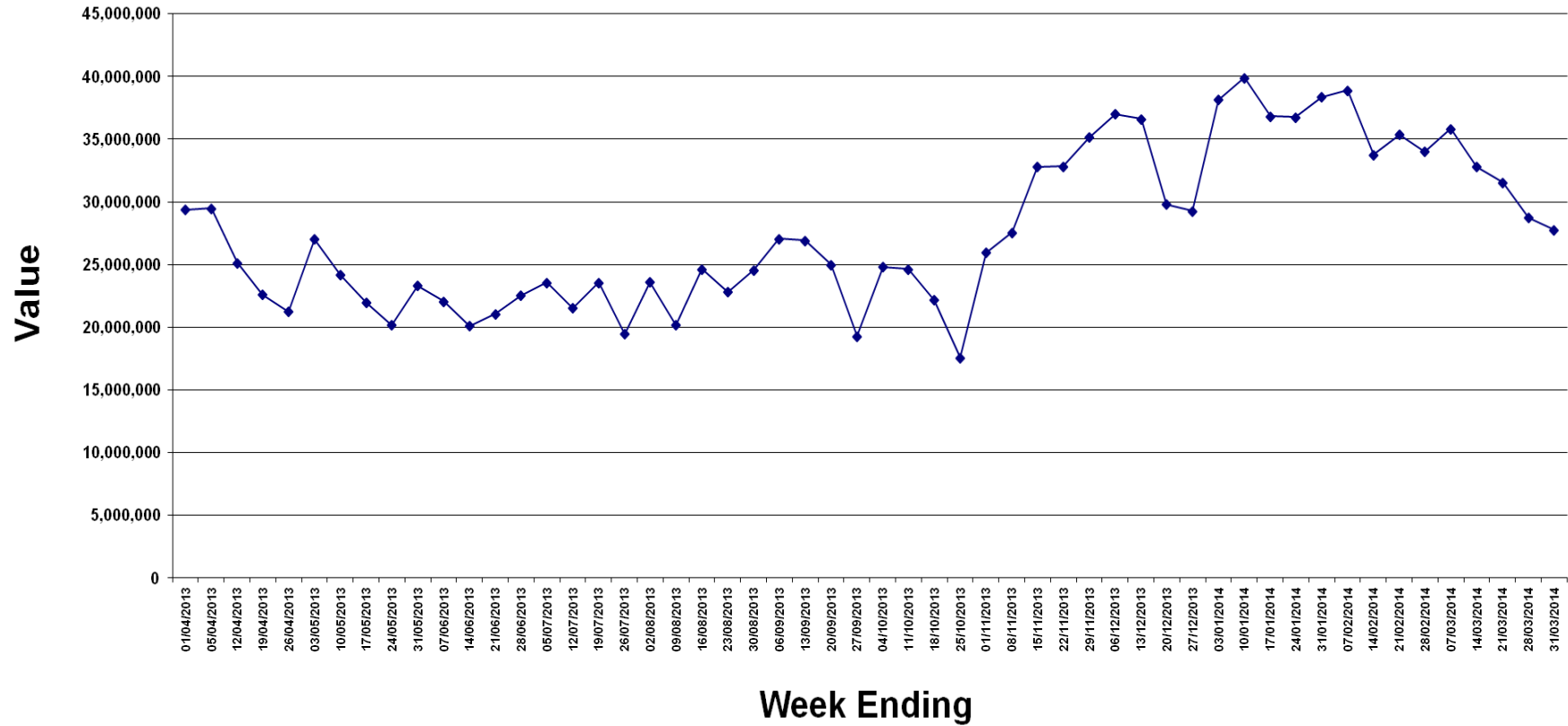
All of the approved activities within the Council Treasury Management Policy Statement have been complied with (**Prudential Indicator 9**)

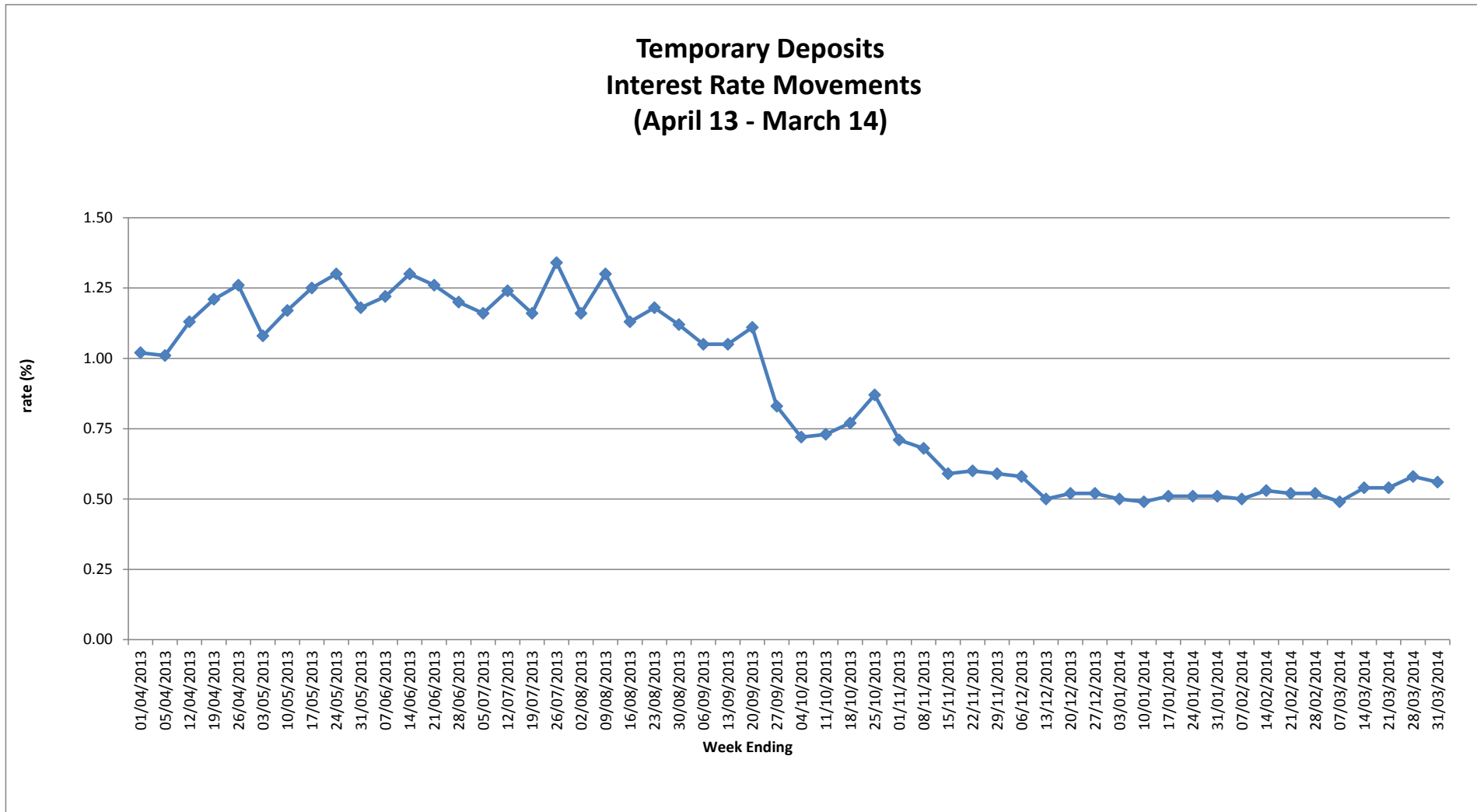
8. SCRUTINY

The revised Code of Practice on Treasury Management 2011 follows previous Codes that have been adopted by the Council. The Council has already set up the framework of compliance with the code by assigning the Audit Committee to carry out the scrutiny role for the treasury strategy and the Cabinet to carry out scrutiny on both the mid year and annual treasury reports. In line with recommendations provided by the Council's treasury advisors, the Council's Treasury Strategy for 2014/15 was presented to the meeting of the Audit and Scrutiny Committee on 16 January 2014 prior to it being reported for approval to meeting of the full Council on 13 February 2014.

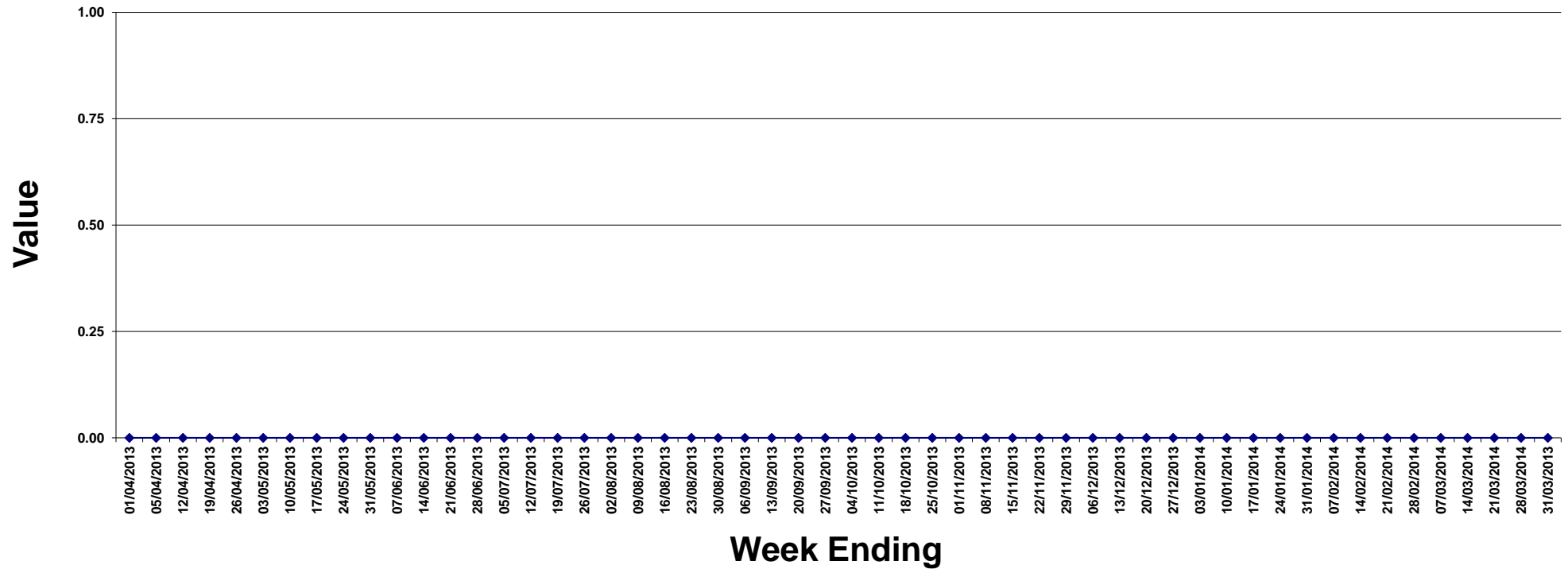
The Council's Treasury Strategy for 2015/16 will be presented to the Audit and Scrutiny Committee in January 2015 prior to being submitted for approval to the Council in February 2015.

Temporary Deposits Weekly Movement (April 13 - March 14)

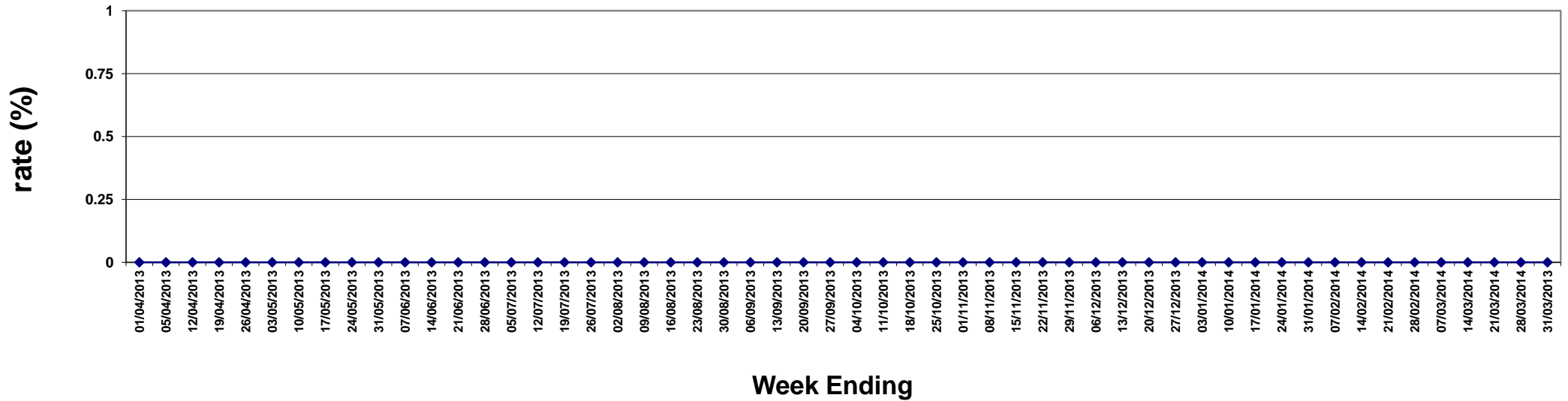




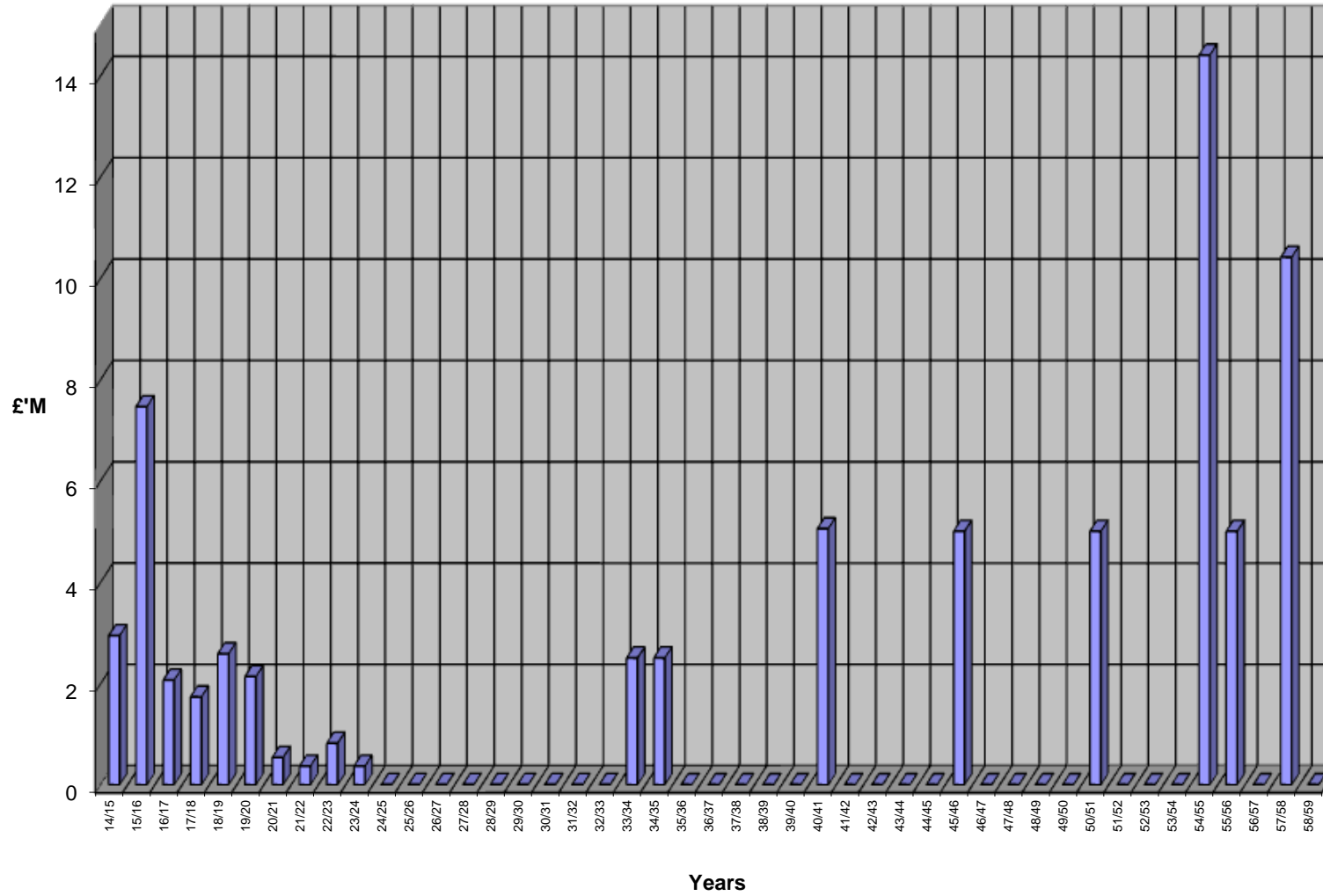
Temporary Borrowing Weekly Movement (April 13 - March 14)



Temporary Borrowing Interest Rate Movements (April 13 - March 14)



Long Term Debt Maturity Profile as at 31/03/14



EAST RENFREWSHIRE COUNCIL

ORGANISATIONS APPROVED FOR THE INVESTMENT OF SURPLUS FUNDS

Banking Group	Individual Counterparty	Limits							
		Deposit	Transaction						
Bank of England	Debt Management Office	£5m	£5m						
HSBC Bank plc		£2m	£2m						
Lloyds Banking Group:	Bank of Scotland	£10m	£10m						
Royal Bank of Scotland Group:	Royal Bank of Scotland	£5m	£5m						
Barclays Banking Group	Barclays Bank	£2m	£2m						
National Australia Bank Group	Clydesdale Bank	£0	£0						
Building Societies									
Nationwide		£2m	£2m						
Local Authorities									
All Local Authorities including Police & Fire		£2m	£2m						
Money Market Funds									
Maximum limit of £5m per fund		£15m	£5m						
Credit Ratings									
	Fitch		Moody's			S&P			
	LT	ST	Viability	Supp	LT	ST	FSR	LT	ST
Minimum Criteria (Unless Government backed)	A	F1	bbb-	3	A3	P-1	C-	A	A-1

(please note credit ratings are not the sole method of selecting counterparty)

Limit

Investment of surplus funds is permitted in each of the above organisations, with the limits set on an individual basis by the Chief Financial Officer.

The limit may only be exceeded or another organisation approved with the written permission of the Chief Financial Officer.

Deposit Periods

The maximum period for any deposit is currently set at 3 months with the exception of the Bank of Scotland which is set at 364 days. These limits can only be exceeded with the written permission of the Chief Financial Officer.

Hub scheme deposit periods are dependent on the lifetime of the associated scheme.