REPORT TO	DATE OF MEETING
Governance Committee	24 June 2015

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SOUTH RIBBLE BOROUGH COUNCIL forward with South Ribble

SUBJECT	PORTFOLIO	AUTHOR	ITEM
Treasury Management Annual Report 2014/15	Finance & Resources	M L Jackson	6

SUMMARY AND LINK TO CORPORATE PRIORITIES

The current regulatory environment concerning treasury management places a greater onus on members to scrutinise treasury policy and activity. To enable that, each year the Council is required to consider, as a minimum, three treasury reports. These consist of an annual strategy statement in advance of the year (Council 5/3/2014), a mid-year review of that strategy (Governance Committee 26/11/2014), and finally this out-turn report.

The key messages within this report are that Prudential and Treasury Indicators were complied with; and that the return on investments totalled 0.50% which exceeded the 7-day LIBID benchmark of 0.35%.

RECOMMENDATIONS

Governance Committee is asked to note the report.

DETAILS AND REASONING

The Treasury Strategy for 2014/15 to 2016/17 was submitted to Cabinet on 12 February 2014. The overall strategy included Prudential Indicators, the Treasury Management Strategy, the Annual Investment Strategy, and the Annual Minimum Revenue Provision (MRP) Policy Statement, all of which were approved by Council on 5 March 2014.

Revised Prudential and Treasury Indicators for 2014/15 were included in the Treasury Strategy 2015/16 to 2017/18, which was approved by Council on 4 March 2015. Where relevant, comparisons with 2014/15 indicators in this report are to those approved most recently.

Prudential Indicator: Capital Expenditure and Financing 2014/15

A comprehensive report on the Capital Programme provisional outturn for 2014/15 has been submitted separately to Governance Committee on this agenda. Total capital expenditure in the year was £1.647m, and expenditure by category and the proposed source of financing is presented in the Capital Financing Requirement table.

Prudential Indicator The Capital Financing Requirement (CFR)

The Capital Financing Requirement (CFR) is a measure of the capital expenditure incurred by the Council which is still to be paid for. Such expenditure will currently be met by borrowing or by temporary use of internal cash balances. Ultimately, however, it has to be paid for and will be a charge to Council Tax payers. The Minimum Revenue Provision (MRP) charged to the Council's revenue budget each year is based on the CFR. Its impact on reducing the CFR is shown in the following table:-

Capital Expenditure and Financing	2014/15 £'000
Opening Capital Financing Requirement 1 April 2014	5,691
Capital investment	
Property, Plant and Equipment	1,153
Investment Property	1
Intangible Assets	26
Revenue Expenditure Funded from Capital under Statute	467
Sources of finance	
Capital Receipts	(86)
Government Grants and Other Contributions	(583)
Sums set aside from revenue	
Revenue Financing (including use of earmarked reserves)	(651)
Minimum Revenue Provision – statutory	(601)
Minimum Revenue Provision – voluntary	(246)
Closing Capital Financing Requirement 31 March 2015	**5,171**
Explanation of movements in year	
Assets financed by prudential borrowing	120
Assets acquired under deferred purchase arrangement	207
Provision made for debt repayment	(847)
Increase/(Decrease) in Capital Financing Requirement	**(520)**

The estimated CFR as at 31 March 2015 was £5.090m, so the outturn figure was £0.081m higher. Financing by prudential borrowing was £0.026m less than estimated when the revised CFR estimate was prepared, but expenditure on assets financed by deferred purchase increased by £0.107m.

Prudential Indicator: The CFR and Borrowing

In order to ensure that local authorities only borrow for capital purposes the Prudential Code requires that borrowing, net of investments, should not exceed the CFR for the preceding year plus any anticipated increase in the current and next two years. As at 31 March 2015 net borrowing is a negative figure (see Treasury Position as at 31 March 2015 below) and is thus well below the CFR.

Compliance with Borrowing Limits

The Prudential Indicators include two borrowing limits:

• The **Operational Boundary** - This is the probable, expected limit on external debt. "Debt" consists of both borrowings and other long term liabilities (finance leases, and deferred purchase liabilities incurred under the Leisure Partnership). This was set at £0.903m and the limit has not been exceeded. As at 31/3/15 the Council has no long-term external borrowing, and leasing liabilities stand at £1.011m.

• The **Authorised Limit** - This reflects a level of debt which the code defines as, "while not desired, could be afforded but may not be sustainable". The limit was set at £3.224m to accommodate any planned temporary borrowings. These were not necessary and the limit set has not been breached.

Prudential Indicator: Ratio of Financing Costs to the Revenue Stream

This indicator shows what percentage of the Council's income from Government grants and Council Tax has been used to meet interest costs and debt repayment. The indicator as per the 2014/15

Treasury Strategy forecast was 7.39%. This has fallen to an outturn of 6.93%. This is as a result of a reduction in financing costs offsetting a reduction in the net revenue stream. The net revenue stream reduction was mainly in respect of S31 Grants relating to retained business rates.

Prudential Indicator: Incremental impact of capital investment decisions

This indicator is concerned with capital expenditure over a period of years, and reports its cumulative impact on the revenue account. It is not possible to make meaningful comparison against this indicator, other than when it is restated each year when the Treasury Strategy is produced.

Treasury Position as at 31 March 2015

	As last reported (Treasury Strategy 2015/16) **£000**	**Actual value as at 31 March 2015** **£000**
Total borrowings at period end	**0**	**0**
Cash & investments	**(20,000)**	**(20,137)**
Net Borrowing/(Investments)	**(20,000)**	**(20,137)**

The following table summarises investments activity and returns during the year:-

Details	**Average daily Investment £'000**	**Interest Earned £**	**Average Rate %**
Short Term deposits	8,307	56,345	0.68
Call accounts/Money Market Funds	11,826	48,679	0.41
Bank/Notice Accounts	839	4,668	0.60
Debt Management Office (DMO)	1,106	671	0.25
Total	**20,078**	**110,363**	**0.50**

The performance benchmark is the 7-day London Inter-Bank Bid Rate (LIBID). This averaged 0.35% over the year, therefore the benchmark has been exceeded. To achieve a return rate 10% greater than LIBID (i.e. 0.385%) is a key performance indicator for Shared Financial Services, and this has been achieved.

The average rate achieved in 2013/14 was 0.83% compared to the average LIBID for that year of 0.34%. As expected, the average rate of return continued to decline in 2014/15.

The likelihood is that the average rate earned during 2015/16 will remain low. As cash balances available for investment remain high, it may prove necessary to increase the use of accounts that pay as little as 0.25% interest such as that offered by the DMO. However, there will be a review of counterparties during 2015/16, with the aim of ensuring that the best yield consistent with security of deposits can be achieved.

All investments complied with the Council's policy.

Treasury Indicator: Upper limit on exposure to variable interest rates

The authority is exposed to variable interest rates on all its invested cash. There is no real limit on such investments other than the size of the Council's cash balances. The Treasury Strategy anticipated these would peak at £28m. The actual peak in 2014/15 was £27.9m. Such high balances are achieved when the Council holds council tax and business rates income prior to making payments to preceptors and central government.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	As set out in this report and its appendix
LEGAL	Compliance with various Regulations and Statutory Codes of Practice
RISK	The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.
THE IMPACT ON EQUALITY	
OTHER (see below)	

Asset Management	*Corporate Plans and Policies*	*Crime and Disorder*	*Efficiency Savings/Value for Money*
Equality, Diversity and Community Cohesion	*Freedom of Information/ Data Protection*	*Health and Safety*	*Health Inequalities*
Human Rights Act 1998	*Implementing Electronic Government*	*Staffing, Training and Development*	*Sustainability*

BACKGROUND DOCUMENTS

Treasury Strategy 2014/15 to 2016/17 (Council 5/3/14)
Treasury Strategy 2015/16 to 2017/18 (Council 4/3/15)