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## ANNUAL TREASURY MANAGEMENT REPORT 2014/15

### 1. Purpose of Report

1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 was adopted by this Council on 30 March 2010 and this Council fully complies with its requirements. During 2014/15 the reporting requirements were that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid year treasury update report
- an annual review following the end of the year describing the activity compared to the strategy

1.2 The purpose of this report is to meet one of the requirements of the CIPFA Code, namely the annual review report of treasury management activities, for the financial year 2014/15.

### 2. Recommendations

Members are asked to note:-

2.1 the treasury management activities for the year 2014/15 resulting in a net debt position of £182.393 at 31 March 2015 detailed in paragraph 3.3 below; and

2.2 the transactions and debt performance during 2014/15 detailed in paragraphs 3.10 – 3.31 below, including net interest paid of £8.149m during the year outlined in paragraph 3.29.

### 3. Considerations

#### Background

3.1 Treasury management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

3.2 The annual report covers:

- the Council's treasury position as at 31 March 2015;
  - the strategy for 2014/15;
  - the economy and interest rates in 2014/15;
  - the borrowing outturn for 2014/15;
  - debt rescheduling in 2014/15;
  - compliance with treasury limits and Prudential Indicators;
  - investment rates in 2014/15;
  - the investment outturn for 2014/15;
  - other issues;
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Treasury Position

3.3 The Council uses the Public Works Loan Board (PWLB) as the main source of long term borrowing. The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury, whose function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments. The composition of the Council's debt at the beginning and end of 2014/15 was as follows:

	<b>Start of Year</b>		<b>End of Year</b>	
	<b>1 April 2014</b>		<b>31 March 2015</b>	
	<u>Principal</u>	<u>Rate</u>	<u>Principal</u>	<u>Rate</u>
	£m	%	£m	%
Long Term Debt - Fixed Rate				
- PWLB	117.346	5.924%	128.746	5.695%
- Market	<u>17.092</u>	2.089%	<u>17.046</u>	2.111%
	134.438	5.436%	145.792	5.276%
Long Term Debt - Variable Rate				
- PWLB	0.000	0.000%	0.000	0.000%
- Market	7.500	5.373%	7.500	5.373%
Temporary Debt	<u>35.684</u>	0.360%	<u>36.354</u>	0.346%
Total Debt	<u>£177.622</u>	4.414%	<u>£189.646</u>	4.335%
Temporary Investments	<u>9.297</u>	0.708%	<u>7.253</u>	0.629%
	<u>£168.325</u>		<u>£182.393</u>	

3.4 The increase in debt is in line with the agreed strategy, and reflects the planned reduction in internal balances during the year, as well as the net spend on the approved capital programme, final drawdowns for agreed National Housing Trust (NHT) projects and day to day cash flow implications.

Strategy for 2014/15

3.5 The Treasury Management Strategy Statement for 2014/15 was agreed by the Full Council on 27 March 2014.

Borrowing Strategy

3.6 The interest rate views incorporated within the Council's Strategy Statement for 2014/15 were based upon officer's views with support from our treasury advisers, Capita, backed up with a selection of City forecasts. The expectation was that base rates would remain unchanged during the year, whilst medium and longer term fixed interest rates were expected to show slow, but steady, rises during the year. Variable or short term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty meant that investments would continue to be dominated by low counterparty risk considerations resulting in relatively low returns.

3.7 The proposed strategy was to maintain a balanced approach, by locking into historically low long term funding when rates appeared favourable whilst maintaining a short term position in anticipation of continued low interest rates.

Borrowing Requirement

3.8 Initial borrowing requirements were anticipated to be in the region of £8.557 million in order to fund the 2014/15 Capital Programme plus the refinancing of maturing long term debt. In addition funding was expected to be drawn down in

respect of the agreed NHT projects. Actual long term borrowing is detailed in paragraph 3.17 below.

#### Debt Rescheduling

3.9 It was expected that the current interest rate structure of PWLB debt would reduce the opportunities to restructure long term debt. However the situation was to be continually monitored in order to take advantage of any perceived anomalies in the yield curve.

#### **Outturn**

##### The Economy and Interest Rates 2014/15

3.10 Economic growth (GDP) in the UK remained strong during 2014/15. However factors such as the fall in the oil price during the year and continued low inflation reduced the prospects of an increase in the bank rate and it ended the year unchanged at 0.5% for the sixth successive year.

3.11 Consumer Price Index (CPI) inflation started 2014/15 at 1.6% and remained below the target of 2% during the year. It fell steadily from 1.9% in June 2014 to 0.5% in December 2014, eventually reaching 0.0% by February 2015 where it remained through March 2015.

3.12 Gilt yields continued on a falling trend during the latter part of 2014 as there were fears that the European Central Bank (ECB) was not going to do enough to ward off the threat of deflation and recession in the Eurozone. The ECB eventually announced a major programme of quantitative easing in January.

3.13 The actual movement in gilt yields meant that PWLB rates were on a downward trend during the second half of 2014. However there was some volatility in rates during the first quarter of 2015 as uncertainty set in following the ECB decision on quantitative easing, the election of anti-austerity parties in Greece, and strong growth in the United States economy pulled yields in different directions.

3.14 The movement in interest rates during the year is shown on the **Appendix**. The PWLB rates shown reflect the "certainty rate" available. This rate, which gives access to cheaper borrowing for local authorities who operate within the CIPFA Prudential Code, is currently set at 0.2% below normal PWLB rates and is presently available to the Council.

##### Borrowing Outturn 2014/15

###### Long Term Borrowing

3.15 Due to the low base rate the differences between short term and long term borrowing rates continued during 2014/15. This has led to the continued policy of utilising temporary debt instead of locking into long term borrowing during the year. Whilst this policy continued to provide savings during 2014/15 in terms of interest costs, the Council needs to be mindful of both interest rate risk and refinancing risk moving forward in the event that interest rates start to rise. The Council continues to proactively monitor this position in association with its treasury management advisers.

3.16 In order to provide a level of certainty in the near future three long term loan were taken during the year. One PWLB loan was taken to fund the NHT support, and another taken to lock into long term rates. The third, a market loan, was taken at the

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shorter end of the long term range so ensuring the benefit of utilising the low rates available was maintained. Two other local bonds were renewed.

3.17 Actual long term borrowing undertaken during the course of the year was as follows:

<u>Date</u>	<u>Lender</u>	<u>Amount</u>	<u>Period</u>	<u>Rate</u>	
15/09/14	PWLB	£6,500,000	9 Years	3.17%	Fixed
23/10/14	PWLB	£5,000,000	50 Years	3.68%	Fixed
01/07/14	Hertfordshire CC	£5,000,000	2 Years	1.08%	Fixed
20/04/14	Local Bonds	£20,000	3 Years	1.75%	Fixed

3.18 Long term debt due and repaid during the year was as follows:

		<u>Amount</u>	<u>Average Rate</u>
PWLB	Fixed Rate	£99,696	9.524%
Market Debt	Fixed Rate	£5,000,000	1.000%
Local Bonds	Fixed Rate	£66,000	2.292%

#### Short Term Borrowing

3.19 The following is a table of the short term borrowing transactions during the year:

	<u>Number of Loans</u>	<u>Amount</u>	<u>Average Rate</u>
As at 1 April 2014	20	£35,684,264	0.360%
Borrowed during the year	80	£203,900,446	
Repaid during the year	74	£203,230,370	
As at 31 March 2014	26	£36,354,340	0.346%

#### Debt Performance

3.20 As shown at paragraph 3.3 above the average external debt portfolio rate fell slightly during 2014/15 from 4.414% to 4.335% as a result of the transactions above.

#### Debt Rescheduling 2014/15

3.21 No opportunities for early repayment were identified during the year, and therefore no debt rescheduling exercises carried out.

#### Compliance with Treasury Limits and Prudential Indicators

3.22 All Treasury Management activities during the financial year were carried out within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and Treasury Strategy Statement.

#### Investments Rates 2014/15

3.23 The Bank of England, supported by HM Treasury, continued its "Funding for Lending Scheme" during 2014/15 providing a source of cheap credit available to banks. This meant money market investment rates remained low during the year. The market rate for 3 month investments was around the 0.4% mark for the whole of the financial year.

#### Investment Outturn for 2014/15

3.24 The Council's investment policy is governed by Scottish Government Investment Regulations, which have been implemented in the annual investment strategy approved by the Council on 27 March 2014 This policy sets out the

approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data.

3.25 The Council manages any investments of temporary cash surpluses in-house, with all investments being in the form of short term sterling deposits to approved organisations outlined in the Treasury Policy Statement. The statement also details the maximum value and time of investments.

3.26 In order to counter the downturn in investment rates, and following advice from Capita, the main part of the investment portfolio continued to be held in liquidity accounts with main UK banks. These accounts offer both instant access and rates which are higher than those available in the money markets through brokers for most periods up to three months.

3.27 The following is a table of investments during the year:

	<u>Number of Loans</u>	<u>Amount</u>	<u>Average Rate</u>
As at 1 April 2014	2	£9,296,662	0.708%
Additions during the year	0	£656,523	
Partial Repayments during the year	0	£2,700,000	
As at 31 March 2015	2	£7,253,185	0.629%

3.28 Interest generated on the above deposits plus interest from balances left on deposit at the bank totalled £85,027. The rate applied to bank balances was 0.40% giving an average rate of return of 0.49% on average investments of £17,293,992.

#### Other Issues

3.29 The total net interest paid on all debt for 2014/15 was £8,149,431 after crediting the Internal Accounts with a total of £258,544 in respect of internal balances. This represents an average of 3.16% on outstanding service debt. (3.18% in 2013/14, Scottish average in 2013/14 was 4.43%)

3.30 Total expenses amounted to £123,042, a rate of 0.048% of outstanding debt. (0.045% in 2013/14, Scottish average in 2013/14 was 0.071%).

3.31 All dealings were carried out by staff with appropriate responsibilities delegated by the Head of Finance.

## **4. Governance Assurance**

This is a procedural report and did not require consultation.

## **5. Impact Assessment**

As this report does not propose a change in policy, the formal adoption of a plan, policy or strategy it is not necessary to complete an Impact Assessment.

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**Appendices – 1**

Appendix - Interest Rate Movements 2014/15

**Background Papers**

Dumfries and Galloway Council, 30 March 2010, Item 10, Treasury Management Strategy Statement 2010/11.

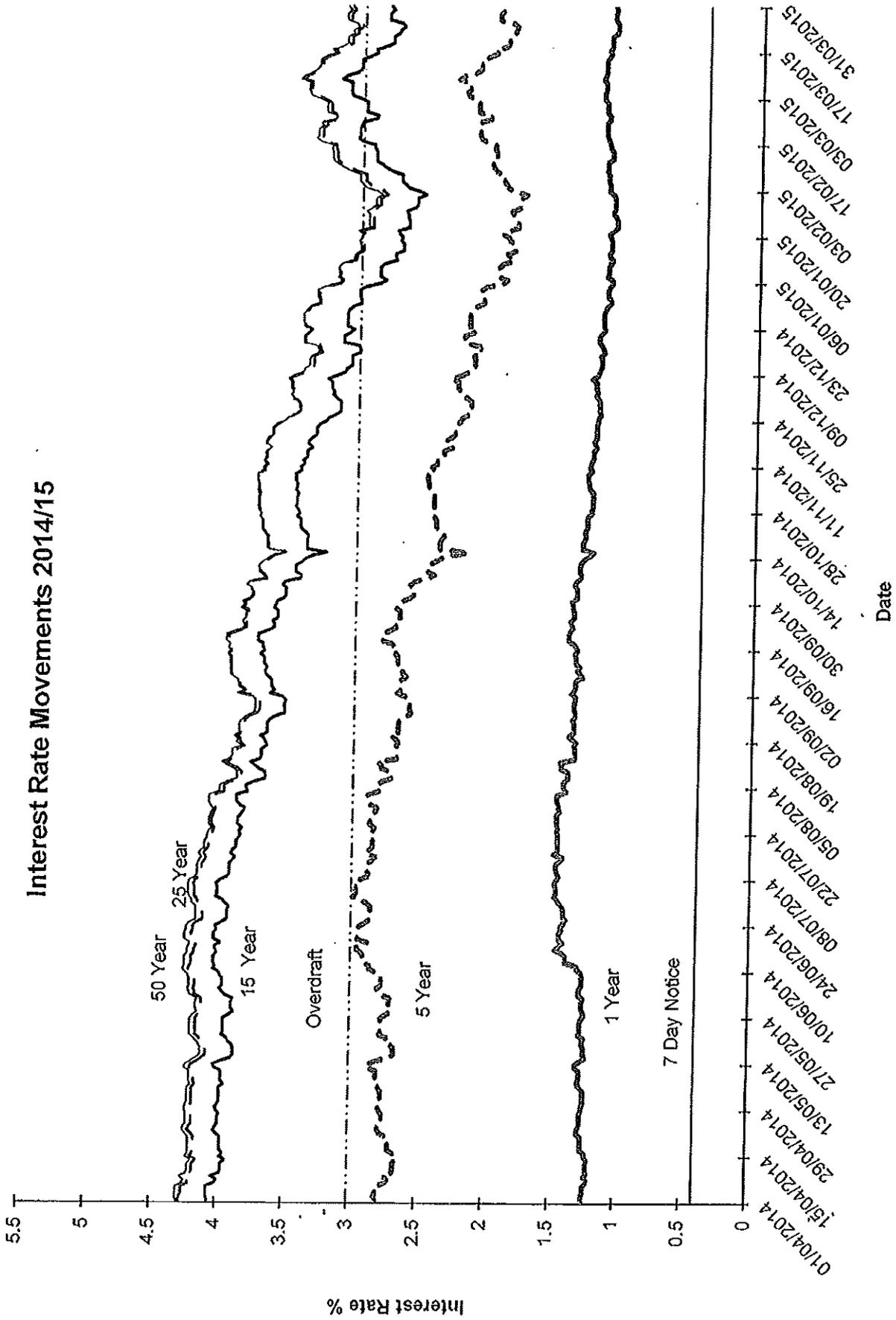
<http://egenda.dumgal.gov.uk/aksdumgal/images/att4194.pdf>

Dumfries and Galloway Council, 27 March 2014, Item 4, Treasury Management Strategy and Prudential Indicators

<http://egenda.dumgal.gov.uk/aksdumgal/users/public/admin/kab12.pl?cmte=C OU&meet=129&arc=71>

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# Interest Rate Movements 2014/15



Appendix