Agenda Item 10

www.oxford.gov.uk

OXFORD CITY COUNCIL

To: **City Executive Board**

Date: **10 September 2014**

Report of: **Head of Finance**

Title of Report: **Treasury Management Annual Report 2013/2014**

Summary and Recommendations

Purpose of report: The report sets out the Council's treasury management activity and performance for 2013/2014

Key decision No

Executive lead member: Councillor Ed Turner

Policy Framework: Treasury Management Strategy

Recommendation: That the report is noted

Executive Summary

1. The Council held investments totalling approximately £64 million as at 31st March 2014. These investments are held in accordance with the Council's Treasury Management Strategy. Interest earned during the year was approximately £438,000 against a projected income target of £460,000.

2. The primary principle governing the Council's investment criteria is the **Security** of its investment, with **Liquidity** and **Yield** being secondary considerations.

3. The average rate of return on the Council's investments has decreased slightly during the financial year 2013/2014 from 0.93% for 2012/13 to 0.92% for 2013/14. This is below the Council's performance target of 1.0% and is mainly due to market rates dropping over the last 12 months for our main counterparties.

4. The Council has £0.5m outstanding with the failed Icelandic Banks. A total of £0.421m was received in the year, and it is expected that the

remaining funds will be received in due course. Further information can be found in paragraphs 24-26.

5. The Council's debt portfolio was £200.4 million as at 31st March 2014. All of this is held with the Public Works Loan Board (PWLB) at fixed interest rates. The debt of £0.9 million held with South Oxfordshire District Council (SODC) was repaid in full during the financial year 2013/14. The PWLB loans include £198.5 million borrowed in March 2012 to fund the buy out of the Housing Revenue Account (HRA). All of this debt relates to Housing and the maturity profile ranges from 9 - 45 years. Interest paid on this debt during 2013/2014 was £6.470m.

6. The Council's debt strategy takes a number of factors into account when determining how to finance capital expenditure, these include:

   - prevailing interest rates
   - the debt profile of the Council's debt portfolio
   - the type of asset being financed
   - The availability of cash balances to finance capital expenditure.

7. The Council fully complied with its Treasury Management Strategy in relation to both debt and investment management in 2013/2014.

8. The Council has a statutory duty to set, monitor and report on its prudential indicators in accordance with the Prudential Code, which aims to ensure that the capital investment plans of authorities are affordable, prudent and sustainable.

9. The prudential indicators detailed in the body of this report look back at the results for 2013/2014, and are designed to compare the Council's outturn position against the target set.

Financing of the Capital Programme 2013/14

10. Table 1 below shows actual capital expenditure and financing compared to the revised budget.

Table 1

Capital Expenditure	**2012/13 Actual £'000**	**2013/14 Approved Budget £'000**	**2013/14 Actual £'000**	**Variation £'000**
Non-HRA Capital Expenditure	8,770	24,134	11,121	13,013
HRA Capital Expenditure	7,590	19,054	10,882	8,172
Total Capital Expenditure	**16,360**	**43,188**	**22,003**	**21,185**
Resourced by:				
Developer Contributions	514	1,066	470	596
Capital Receipts	1,544	14,796	3,876	10,920
Capital Grants and contributions	8,874	19,887	10,378	9,509
Prudential Borrowing(vehicles)	0	2,385	2,741	(356)
Revenue	5,428	5,054	4,538	516
Total Capital Resources	**16,360**	**43,188**	**22,003**	**21,185**

11. The key variations relate to the following slippage in the Capital Programme:

- Competition Swimming Pool (£5m);
- Leisure centre and facility improvements and new burial space (£2.105m);
- Homes and Communities New Build (£6.0m);
- Super Connected Cities project (£0.300 m);
- Museum Development (£0.480m);
- Cycle Oxford project (£0.180m);
- Bridge over Fiddlers Stream (£0.250m);
- Carbon Reduction scheme (£0.300m);
- Community Centres (£0.586m);
- Improvements to investment properties (£0.515m);
- Depot relocation (£4.080m);
- Town Hall improvements (£0.545m).

The Council's Overall Borrowing Need

12. The Council's underlying need to borrow (its Capital Financing Requirement (CFR)) is a gauge of the Council's level of indebtedness. It represents all prior years' net capital expenditure which has not been financed by other means (revenue, capital receipts, grants etc.).

13. The CFR can be reduced by:
    - The application of additional capital resources, such as unapplied capital receipts; or
    - By holding a minimum revenue provision (MRP, repayment of debt) or a voluntary revenue provision (VRP)

14. Table 2 below shows the Council's CFR position as at the 31st March 2014, this is a key prudential indicator, and shows that our actual borrowing is below our CFR:

Table 2

CFR	31st March 2013 Actual £'000	31st March 2014 Estimate £'000	31st March 2014 Actual £'000	Variation £'000
Opening Balance	**218,943**	**217,951**	**218,122**	**-171**
Prudential Borrowing	-500	-2,907	2,521	**-5,428**
Minimum Revenue Provision	-321	-3,064	-92	**-2,972**
CFR Closing Balance	**218,122**	**211,980**	**220,551**	**-8,571**
External Borrowing	**202,066**		**200,444**	
Variation	**16,056**		**20,107**	

15. The CFR position in 2013/14 shown above has increased due to the use of prudential borrowing to fund the purchase of new vehicles in year. This is below the estimated position as no revenue contributions were used to offset against the CFR.

16. No new debt was taken out during 2013/14 and as at 31st March 2014 the Council's total external debt was £200.4 million. This is below the CFR and indicates that the Council continues to internally borrow.

Treasury Position at 31st March 2014

17. Whilst the Council's gauge of its underlying need to borrow is the CFR, the treasury function manages the Council's actual borrowing position by either:
    - Borrowing to the CFR;
    - Choosing to utilise temporary cash flow funds, instead of borrowing (known as "under borrowing");
    - Borrowing for future increases in the CFR (borrowing in advance of need*)*

18. The Council's treasury position as at the 31st March 2014 for both debt and investments, compared with the previous year is set out in Table 3 below:

Table 3

Treasury Position	31st March 2013 Principal £'000	31st March 2013 Average Rate %	31st March 2014 Principal £'000	31st March 2014 Average Rate %
Borrowing				
Fixed Interest Rate Debt	201,177	3.39	200,440	3.39
Other Long-term Liabilities	889	0.56	0	0
Variable Interest Rate Debt	0	0	0	0
Total Debt	**202,066**	**3.38**	**200,440**	**3.39**
Investments				
Fixed Interest Investments	31,900	1.13	47,441	0.98
Variable Interest Investments	12,205	0.42	14,353	0.37
Property Funds	0	0	2,870	6.00
Total Investments	**44,105**	**0.93**	**64,664**	**0.92**
Net Position	**157,961**		**135,776**	

Prudential Indicators and Compliance Issues

19. Some of the prudential indicators provide an overview, others a specific limit on treasury activity. These are detailed below:

20. **Net Borrowing and the CFR** – In order to ensure that borrowing levels are prudent, over the medium-term the Council's external borrowing, net of investments, must only be for a capital purpose, and not except in the short-term exceed the CFR. Table 4 below highlights the Council's net borrowing position against the CFR, and shows that it is significantly below the limit, and implies that a significant amount of internal borrowing has been undertaken.

Table 4

Net Borrowing & CFR	31st March 2013 Actual £'000	31st March 2014 Actual £'000
Total Debt	202,066	200,440
Total Investment	44,105	64,664
Net Borrowing Position	**157,961**	**135,776**
CFR	**218,122**	**220,551**
Under Borrowing	**60,161**	**74,815**

21. **The Authorised Limit** – The authorised limit is the 'affordable borrowing limit' required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level unless it explicitly

agrees to do so. Table 5 below demonstrates that during 2013/14 the Council has maintained gross borrowing within its authorised limit. The authorised limit allows the Council to borrow to the future CFR if required, and this has been reflected in the limit itself, with a little headroom built in.

Table 5

Authorised Borrowing	**31st March 2013**		**31st March 2014**	
	Estimate £'000	**Actual £'000**	**Estimate £'000**	**Actual £'000**
Borrowing	251,000	201,177	237,000	200,440
Other Long Term Liabilities	1,500	889	1,000	0
Total Borrowed	**252,500**	**202,066**	**238,000**	**200,440**
Amount under Limit	**50,434**		**37,560**	

22. **The Operational Boundary Limit** – the operational boundary limit is the expected borrowing position of the Council during the year. It is possible to exceed the operational boundary limit, for a short period of time, providing that the authorised borrowing limit is not breached. Table 6 below shows the operational boundary limits for the last two financial year, and these were not breached during either period.

Table 6

Operational Boundaries	**31st March 2013 £'000**	**31st March 2014 £'000**
Borrowing	242,000	237,000
Other Long Term Liabilities	1,500	1,000
Totals	**243,500**	**238,000**

23. **Actual financing costs as a proportion of net revenue stream** – this indicator identifies the trend in the cost of capital (borrowing and other long term costs net of investment income) against the net revenue stream and is another key indicator of affordability. The financing costs as a proportion of net revenue stream shows the General Fund reducing to a negative figure as investment income starts to exceed interest paid following the repayment of fixed term PWLB loans and the HRA ratio staying relatively constant. This is shown in Table 7 below.

Table 7

Actual Finance Costs	2012/13 £'000	2013/14 £'000
Indicators		
Original Indicator - Authorised Limit	252,500	249,000
Original Indicator - Operational Boundary	243,500	238,000
Financing Costs as a proportion of Net Revenue Stream - General Fund	2.1%	-0.7%
Financing Costs as a proportion of Net Revenue Stream - HRA	19.3%	18.5%

Icelandic Banks

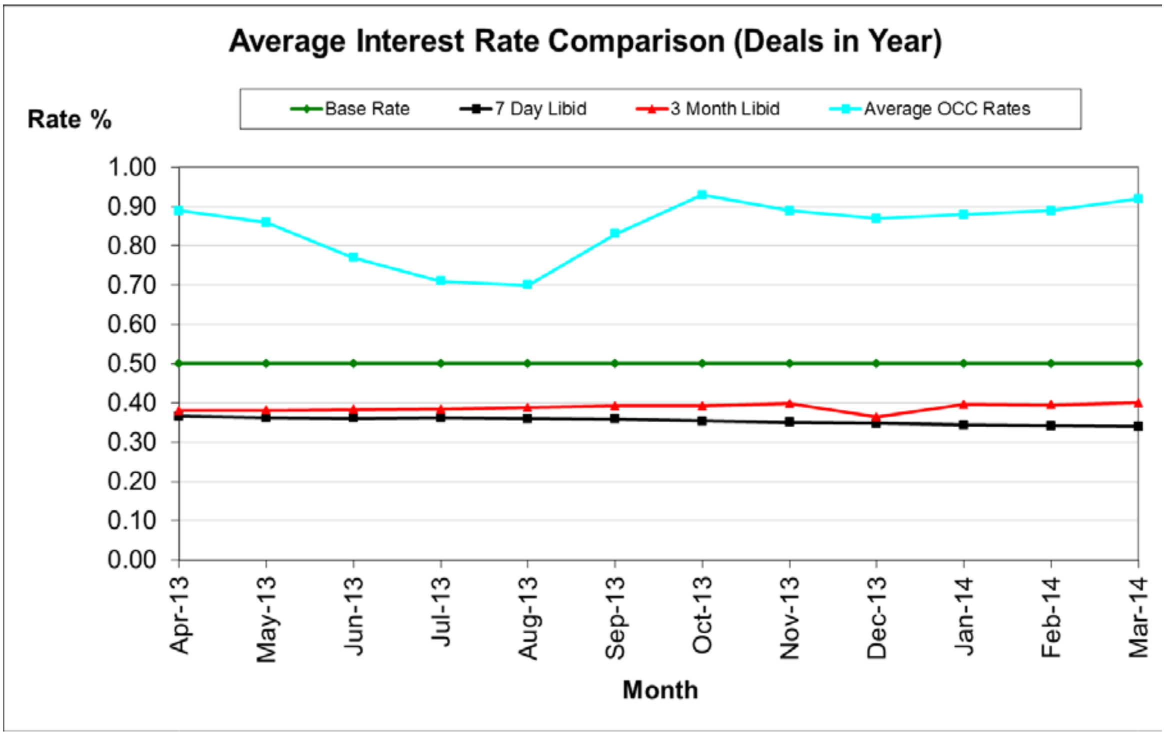
24. During 2008/09 the Council invested £4.5 million with two of the now failed Icelandic banks: £3.0 million was deposited with Heritable Bank and £1.5 million with Glitnir Bank. As at 3st March 2014, the Council had received approximately £2.8 million of its original Heritable Bank investment (94%) plus interest. Current guidance indicates that the repayment of the Heritable deposits will continue.

25. During 2011/12 the Council received four of the five foreign currency repayments due from Glitnir, totalling £1.2 million. The fifth repayment is still outstanding and requires changes to Icelandic law to allow Icelandic Krona to be transferred out of Iceland. Once this has been resolved, it is expected that the Council will receive close to 100% of its initial deposit.

26. The Icelandic Government has stated its intention to honour all of its commitments as a result of their banks being placed in receivership. The UK Government, Administrators and other agencies continue to work with the Icelandic Government to help bring this about. The Local Government Association is co-ordinating the efforts to all UK Councils with Icelandic investments.

Investment Income

27. The following graph shows the monthly average interest earnt by the Council in comparison to the base rate and also in comparison to its benchmarks: 3-months Libid and 7-day Libid.



28. As can be seen the Council's average monthly rate of return was above benchmark.

29. The Council manages its investments in-house and invests with the institutions listed in the Council's approved counterparty list. The Council invests for a range of periods from overnight to 364 days, dependant on cash flow needs, its interest rate view, the interest rates on offer and durational limits set out in the approved investment strategy.

30. During 2013/14 the Council maintained an average investment balance of £63.4 million and received an average return of 0.92%. This is slightly below the target of 1% and is mainly due to market rates dropping over the last 12 months for our main counterparties.

31. To enable the increase of its rate of return the Council has placed two investments with the CCLA (Communities, Churches and Local Authorities) Property Fund totalling £2.8 million, this is within the approved Strategy but is a new non specified investment. The current rate of return on this investment is 6% per annum. The £2.8 million investment purchased a number of units from the fund, and this unit price is valued on a monthly basis. Since April 2013 the unit price has increased by 8.17%, it should be noted that this price can also fluctuate downwards. Following a subsequent tender process the Council has also appointed Lothbury Property Fund Managers to manage a further investment of £7million in 2014/15.

32. Actual investment income received for 2013/14 was approximately £438,000. This was marginally lower than the original budget of

£460,000. This is also due to the market rates available from our main counterparties being lower than expected.

33. Fluctuations in the Council's balances have been managed through the use of a mix of instant access and notice accounts, money market funds and short term deposits (up to 3 months). This strategy is in line with the Investment Strategy approved by Council for 2013/14.

Counterparty Changes

34. In 2013 the Co-Operative Bank gave the Council notice that they were withdrawing from the corporate banking sector. Although they have agreed to honour the contract (which expires in 2016), a decision has been made to re-tender the Council's banking services early so that a new provider is in place by April 2015.

Strategy Update

35. The Treasury Management Strategy for 2013/14 was approved at Council on 18th February 2013. The Council has complied with the approved strategy throughout the year.

36. At its meeting on 14th July, Council agreed a motion in respect of the inclusion of an ethical investment policy within its Treasury Management Strategy. The statement below will therefore appear in the next iteration of the Treasury Management Strategy (2015/16).

The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. This would include, inter alia, avoiding direct investment in institutions with material links to:

- *Human rights abuse (eg child labour, political oppression)*
- *environmentally harmful activities (eg pollution, destruction of habitat, fossil fuels)*
- *socially harmful activities (eg tobacco, gambling)*

Financial Implications

37 These are set out within the body of the report

Legal Implications

38 The Council is required to report on the Treasury Management Function to City Executive Board on an annual basis, and this report meets this requirement.

Risk Implications

39 There are no risks in connection with the report's recommendations. Risk assessment and management is a key part of Treasury Management activity especially in the selection of counterparties when investing is being considered. The Council uses external advisors and counterparty credit ratings issued by the rating agencies to assist in this process.

Contact Officer:
Anna Winship
Financial Accounting Manager
Telephone number 01865 252517
Email: awinship@oxford.gov.uk