

Report of Deputy Chief Executive

Report to Executive Board

Date: 16th July 2014

Subject: TREASURY MANAGEMENT OUTTURN REPORT 2013/14

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. This report sets out for Members' approval the Treasury Management Outturn Report for 2013/14.
2. This report shows that net external debt at 31st March 2014 was £1,393m, £97m below the February 2014 forecast. This movement is entirely due to higher than anticipated revenue balances and short-term temporary fluctuations in year-end balances. The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £3.4bn as at 31st March 2013.
3. The level of debt has remained within the Authorised limit as approved by the Council in February 2014. Treasury management operated within normal tolerance levels of its prudential indicators and resulted in no breach of its prudential indicators throughout 2013/14.
4. Debt savings of £2.1m have been generated against the original budget. These savings have been generated through continuing to fund the borrowing requirement at low short term rates and greater than expected revenue balances.
5. The average rate of interest paid on the Council's external debt has reduced to 3.93% for 2013/14 compared to 4.02% for 2012/13.

Recommendations

6. That Executive Board note the Treasury Management outturn position for 2013/14 and that treasury strategy has remained within the treasury management strategy and policy framework.

1 Purpose of this report

- 1.1 This report provides members with a final update on Treasury Management Strategy and operations in 2013/14.

2 Background information

- 2.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003, whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities (amended 2009 and 2011) in particular:

- The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of prudential indicators.
- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least twice a year.

3 Main Issues

3.1 Review of Strategy 2013/14

- 3.1.1 Table 1, below shows that net borrowing in 2013/14 was £1,393m, £97m below the February 2014 position. This movement is entirely due to higher than anticipated revenue balances and short-term temporary fluctuations in year-end balances. The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £3.4bn as at 31st March 2013. The Capital programme outturn position was reported in section 6 of the June Financial Performance - Outturn Report to Executive Board.

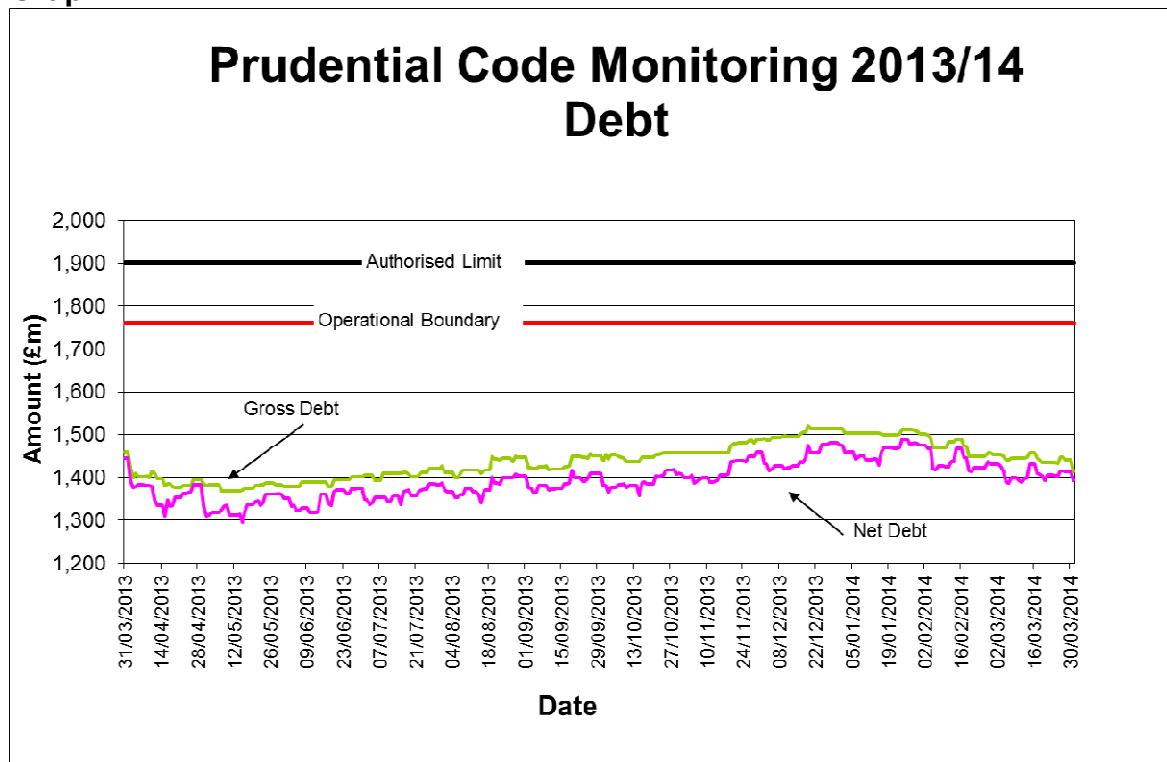
TABLE 1

	2013/14 Nov 13 Report	2013/14 Feb 14 Report	2013/14 This Report
	£m	£m	£m
ANALYSIS OF BORROWING 2013/14			
Net Borrowing at 1 April	1,446	1,446	1,446
New Borrowing for the Capital Programme – Non HRA	110	79	78
New Borrowing for the Capital Programme – HRA	0	0	0
Debt redemption costs charged to Revenue (Incl HRA)	(45)	(45)	(45)
Reduced/(Increased) level of Revenue Balances	31	10	(86)
Net Borrowing at 31 March*	1,542	1,490	1,393
Capital Financing Requirement**			1,775
Other long term liabilities capital financing requirement			523
* Comprised as follows			
Long term Fixed**	1,277	1,307	1,347
Variable (less than 1 Year)	65	40	0
New Borrowing	96	44	0
Short term Borrowing	127	123	67
Total External Borrowing	1,565	1,514	1,414
Less Investments	23	24	21
Net External Borrowing	1,542	1,490	1,393
% borrowing funded by short term and variable rate loans	18%	14%	5%

**Note: The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

3.1.2 Graph 1, below shows the level of debt during 2013/14 remained within prudential authorised limits during the year. The Authorised Limit is the maximum permitted amount of borrowing the Council can have outstanding at any given time and has not been breached during 2013/14. The operational boundary is a key management tool and can be breached temporarily depending on cash flow. This limit acts as a warning mechanism to prevent the authorised limit from being breached. Treasury management strategy has resulted in no breach of its prudential indicators which are detailed in Appendix A. All of these prudential indicators are within normal tolerance levels of treasury management.

Graph 1



3.1.3 Since the economic update to Members in February, in the Treasury Management Strategy 2014/15, the recovery of the economy has continued but with mixed signals. The key points to the quarter ending 31st March 2014 are:

- Indicators suggested that the economic recovery is continuing with growth in UK GDP of 0.7% in the 4th Quarter;
- Household spending rose again;
- Inflation fell to its lowest level in over 4 years;
- Unemployment edged closer to the Bank of England's Monetary Policy Committee's (MPC) 7% forward guidance 'phase one' threshold;
- The MPC's revamped guidance appeared to keep market rates anchored;
- The US Federal Reserve continued to reduce its monthly stimulus.

3.1.4 MPC decided to tweak its forward guidance at the time of the February Inflation Report. Forward guidance 'phase two' contains five elements:

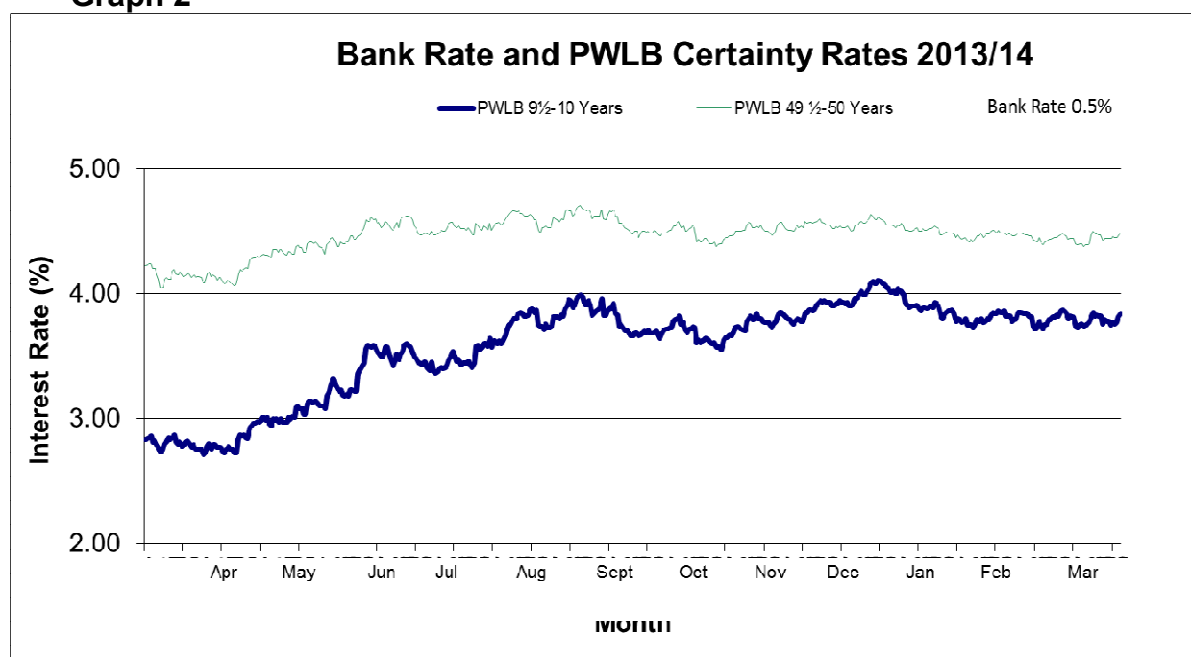
- The MPC sets policy to achieve the 2% inflation target, and, subject to that, to support the Government's economic policies, including those for growth and employment.

- Despite the sharp fall in unemployment, there remains scope to absorb spare capacity further before raising Bank Rate
- When Bank Rate does begin to rise, the appropriate path so as to eliminate slack over the next two to three years and keep inflation close to the target is expected to be gradual (i.e. probably a quarter percent rise).
- Even when the economy has returned to normal levels of capacity utilisation and inflation is close to the target, the appropriate level of Bank Rate is likely to be materially below the 5% level set on average by the Committee prior to the financial crisis.
- The MPC will not sell any of the holding of £375bn of gilts before the first rise in Bank Rate

3.1.5 The US economy grew by 1.9% in 2013 (2012 2.8%), despite sharp cuts in federal expenditure that took effect on 1st March 2014 and increases in taxation. As for economic growth, the Europe finally escaped from seven quarters of recession in quarter 2 of 2013 (+0.1%) but growth remained weak in quarter 3 (+0.1%) and quarter 4 (+0.3%) and is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds from countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces.

3.1.6 Graph 2 below shows the movement in PWLB interest rates over the year. As expected there was greater volatility in loan rates with shorter duration compared to the rates of longer duration. The 9½ - 10 year loan length fluctuated by 1.4% and the 49½ - 50 loan length fluctuated by 0.7%. This reflects the uncertainty around when the bank rate, which has remained anchored at 0.50%, will start to rise.

Graph 2



3.1.7 Debt savings of £2.1m were reported in the Revenue Outturn report to Executive Board on 26th June 2014. These savings have been generated through continuing to fund the borrowing requirement at low short term rates and greater than expected revenue balances.

3.1.8 Table 2 shows £55m of longer term funding was secured during the year. This position has not changed since the strategy report in February. The table also shows that no market loans were called during the entire year. These market loans are termed Lenders Option Borrowers Option (LOBO) and contain clauses which allow

the lender, at pre-determined dates, to vary the interest rate on the loan. If one of these options is exercised and the new rate is not accepted, the borrower then has the option to repay the loan without penalty

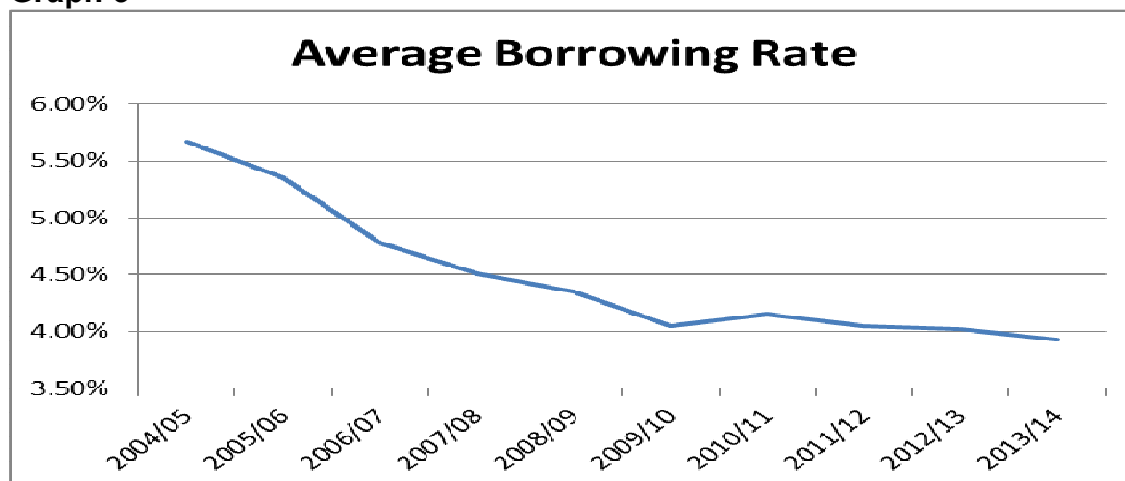
Table 2

Loan repayments and borrowing 2013/2014							
Loan Repayments				New Borrowing			
Date	Amount	Original Rate	Discount Rate	Date	Amount	Term	Interest Rate
	(£m)	(%)			(£m)	(Years)	(%)
PWLB Loans				PWLB			
07/05/2013	13	3.59	Maturity	10/04/2013	10	15	3.18
				10/04/2013	10	50	3.85
				02/10/2013	15	9½	3.38
Sub Total	13				35		
Non PWLB Loans (Call date)				Non PWLB Loans			
05/07/2013	10	1.45	Maturity	26/07/2013	5	3	0.98
				16/10/2013	10	5	1.35
				06/12/2013	5	5	2.20
Sub Total	10				20		
Total	23			Total	55		

3.2 Interest Rate Performance and Average Maturity Profile

3.2.1 The average rate of interest paid on the Council's external debt was 3.93% (down from 4.02%) as shown in Graph 3. The average interest rate in 2012/13 was one of the lowest of all Metropolitan Councils as shown in Appendix B.

Graph 3



3.2.2 Whilst the average borrowing rate has continued to fall it is important to note the average maturity profile of the Council's debt. The average length of all loans to final maturity including temporary loans is 37.6 years. The average length of all loans to the next option date including temporary loans is 20.8 years. This provides a large degree of funding certainty within the overall debt portfolio. Appendix C analyses debt as at 31st March 2014 by interest rate band and the year of maturity or first option date for LOBO loans. The final maturity of LOBO loans is shown as a memo item in the table at the bottom of Appendix C.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report is an update on strategy as presented to Executive Board in February, as such no consultation has taken place. However, consultation with the Council's treasury advisors takes place regularly throughout the year.

4.1.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the February capital programme report.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 Equality, diversity, cohesion and integration requirements are addressed as part of individual capital scheme and programme approvals. The borrowing to deliver these capital schemes is executed through treasury strategy and as such there are no further equality, diversity, cohesion and integration issues.

4.3 Council Policies and City Priorities

4.3.1 Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Council's business plan.

4.4 Resources and Value for Money

4.4.1 This update on the treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the general fund and HRA.

4.4.2 Debt savings of £2.1m against the budget have been delivered.

4.5 Legal Implications, Access to Information and Call In

4.5.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury management Policy Statement are approved by Council. Monitoring reports are considered by Executive Board and are subject to call in. There are no further legal, access to information or call in issues.

4.6 Risk Management

4.6.1 This report sets out performance against the 2013/14 treasury strategy. The execution of strategy and associated risks are kept under regular review through:

- Monthly monitoring of debt costs and reporting forms part of the monthly update on the Council's Revenue position to Executive Board.
- Quarterly strategy meetings with the Director of Resources and the Council's treasury advisors
- Regular market, economic and financial instrument updates and access to real time market information

5 Conclusions

5.1 This Treasury Management Outturn Report for 2013/14 provides a final update on loans undertaken to fund the capital programme requirements for both General Fund and HRA. Treasury activity during the year was conducted within the approved borrowing limits for the year and resulted in significant savings to the revenue budget.

6 Recommendations

Executive Board are asked to note:

6.1 The Treasury Management outturn position for 2013/14 and that treasury activity has remained within the treasury management strategy and policy framework.

7 Background documents ¹

7.1 None

¹ The background documents listed in this section are available for download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Leeds City Council - Prudential Indicators 2013/14

No.	PRUDENTIAL INDICATOR	Feb 13 Report	Feb 14 Report	Outturn (This Report)
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
1	Ratio of Financing Costs to Net Revenue Stream General Fund - Excluding DSG (Note1)	12.57%	11.95%	11.88%
2	HRA	13.34%	13.67%	12.80%
3	Impact of Unsupported Borrowing on Council Tax & Housing Rents increase in council tax B7(band D, per annum) (Note 2)	£ . P 62.64	£ . P 12.49	£ . P 12.29
4	increase in housing rent per week	-	-	-
5	Net Borrowing and the capital financing requirement (Note 3) The Net borrowing Requirement should not exceed the CFR	OK	OK	OK
6	Estimate of total capital expenditure General Fund	£'000 206,779	£'000 164,571	£'000 145,898
7	HRA	65,516	65,813	52,106
	TOTAL	272,295	230,384	198,004
8	Capital Financing Requirement (as at 31 March) General Fund	£'000 1,626,103	£'000 1,589,314	£'000 1,571,251
9	HRA	726,232	693,368	721,340
	TOTAL	2,352,335	2,282,682	2,292,591
9a	Limit on HRA Indebtedness as implemented under self financing	726,155	726,155	726,155

No.	PRUDENTIAL INDICATOR	Feb 13 Report	Feb 14 Report	Outturn (This Report)
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS		£'000	£'000	£'000
10	Authorised limit for external debt - (Note 4) borrowing other long term liabilities TOTAL	1,900,000 600,000 2,500,000	1,900,000 600,000 2,500,000	1,900,000 600,000 2,500,000
11	Operational boundary - (Note 4) borrowing other long term liabilities TOTAL	1,760,000 565,000 2,325,000	1,760,000 565,000 2,325,000	1,760,000 565,000 2,325,000
14	Upper limit for fixed interest rate exposure expressed as either:- Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%
15	Upper limit for variable rate exposure expressed as either:- Net principal re variable rate borrowing / investments OR:-	40%	40%	40%
17	Upper limit for total principal sums invested for over 364 days (Note 5) (per maturity date)	£'000 150,000	£'000 150,000	£'000 150,000
18	Net Debt as a Percentage of gross Debt	99.54%	97.41%	98.54%

16	Maturity structure of fixed rate borrowing 2013/14	Upper Limit	Upper Limit	Actual 31/03/14
	under 12 months	15%	15%	0.0%
	12 months and within 24 months	20%	20%	9.6%
	24 months and within 5 years	35%	35%	22.7%
	5 years and within 10 years	40%	40%	12.2%
	10 years and above	90%	90%	55.6%
				100.0%

otes.

- The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the Net Revenue Charge less the Dedicated Schools Grant (DSG). The Government changed the funding of education to DSG from 2006/07.
- The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.
- In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.
- Limits are the same as the Feb 14 report.
- Prudential indicator 12 relates to actual external debt at 31st March, which is reported in the main body of this report.
- Prudential indicator 13 relates to the adoption of the CIPFA Code of Practice on Treasury Management. The Council formally adopted this Code of Practice in March 2003, as revised in 2009 and 2011.

Appendix B				
Authority Name	Rank	Previously	Total Debt at	Gross Average
			31.03.13	Rate of Interest
			£'000	%
Sunderland	1	1	213,108	3.41
Barnsley	2	3	569,702	3.82
Liverpool	2	4	316,733	3.82
Leeds	4	2	1,460,156	4.02
Doncaster	5	15	390,292	4.33
Oldham	6	21	148,425	4.38
Wolverhampton	7	8	519,134	4.42
Sefton	8	6	123,311	4.51
Solihull	9	13	220,266	4.52
South Tyneside	10	11	483,946	4.61
Average of Met Districts				4.64
Rotherham	11	10	488,437	4.68
Birmingham	12		3,090,948	4.70
North Tyneside	13	12	451,449	4.76
Dudley	14	20	737,011	4.91
Manchester	14	9	493,360	4.91
Sandwell	16	14	525,286	4.97
Kirklees	17	18	479,113	5.36
Wirral	18	17	247,174	5.43
Wakefield	19	19	236,719	5.69
Wigan	20	24	434,378	5.87
St Helens	21	23	73,373	6.51
Bolton			-	NR
Bradford			-	NR
Bury		7	-	NR
Calderdale			-	NR
Coventry			-	NR
Gateshead			-	NR
Knowsley			-	NR
Newcastle upon Tyne		5	-	NR
Rochdale			-	NR
Salford			-	NR
Sheffield		22	-	NR
Stockport			-	NR
Tameside			-	NR
Trafford		16	-	NR
Walsall			-	NR

Source: CIPFA Capital Expenditure and Treasury Management Statistics 2012/13

Debt as at 31st March 2014
Appendix C

Table below shows a breakdown of the maturity structure of the authority giving totals within interest bands

Year Ending 31st March	to 2%	2% to 2.99%	3% to 3.99%	4% to 4.99%	Greater Than 5%	Principal
	£k	£k	£k	£k	£k	£k
Fixed Rate Loans - LOBO to First Option						
2014	-	-	-	-	-	-
2015	-	-	35,000	75,000	-	110,000
2016	-	8,812	25,000	85,000	-	118,812
2017	15,000	8,812	25,000	55,000	-	103,812
2018	-	-	10,000	10,000	-	20,000
2019	10,000	5,000	61,436	80,000	-	156,436
2020	-	-	26,436	-	-	26,436
2021	-	-	8,812	-	-	8,812
2022	-	-	36,436	-	-	36,436
2023	-	20,000	17,624	-	-	37,624
2024	-	-	15,000	26,436	-	41,436
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	18,812	-	-	18,812
2028	-	-	-	-	-	-
2029	-	-	20,000	-	-	20,000
2034	-	-	-	-	-	-
2035	-	-	5,000	-	-	5,000
2049	-	-	-	-	-	-
2050	-	-	-	-	-	-
2051	-	-	-	-	-	-
2052	-	-	-	28,727	-	28,727
2053	-	-	-	145,396	-	145,396
2054	-	-	-	49,347	-	49,347
2055	-	-	-	75,782	-	75,782
2056	-	-	-	67,173	-	67,173
2057	-	-	-	115,436	-	115,436
2058	-	-	-	102,218	14,099	116,317
2059	-	-	-	-	-	-
2060	-	-	-	-	-	-
2061	-	-	-	17,624	-	17,624
2062	-	-	17,624	-	-	17,624
2063	-	-	-	-	-	-
2064	-	-	10,000	-	-	10,000
	-	-	-	-	-	-
Sub Total	25,000	42,624	332,178	933,137	14,099	1,347,039

Temporary Loans						
2014	67,000	-	-	-	-	67,000
Sub Total	67,000	-	-	-	-	67,000

Total Loans	92,000	42,624	332,178	933,137	14,099	1,414,039
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Memo : LOBO Variable Rate Loans to Maturity						
2047	-	-	10,000	-	-	10,000
2055	-	-	5,000	15,000	-	20,000
2056	-	-	10,000	50,000	-	60,000
2066	-	-	10,000	45,000	-	55,000
2067	-	-	55,000	20,000	-	75,000
2077	-	-	50,000	15,000	-	65,000
2078	-	-	-	140,000	-	140,000
2079	-	-	-	20,000	-	20,000
Sub Total	-	-	140,000	305,000	-	445,000

LOBO's Shown at Maturity in Bottom Memo Section.

LOBO's included in main section at next option date. (Highlighted)