Leeds CITY COUNCIL

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Report of Deputy Chief Executive

Report to Executive Board

Date: 15th July 2015

Subject: TREASURY MANAGEMENT OUTTURN REPORT 2014/15

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

Summary of main issues

1. This report sets out for Members' approval the Treasury Management Outturn Report for 2014/15.

2. This report shows that net external debt at 31st March 2015 was £1,406m, £13m below the February 2015 forecast. This movement is due to higher than anticipated revenue balances and short-term temporary fluctuations in year-end balances as well as slippage in the Capital Programme. The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £3.96bn as at 31st March 2015.

3. The level of debt has remained within the Authorised limit as approved by the Council in February 2015. Treasury Management operated within normal tolerance levels of its prudential indicators and resulted in no breach of its prudential indicators throughout 2014/15.

4. Debt savings of £2.3m have been generated against the original budget. These savings have been generated through continuing to fund the borrowing requirement at low short term rates, a lower capital spend and greater than expected revenue balances.

5. The average rate of interest paid on the Council's external debt has increased slightly to 3.96% for 2014/15 compared to 3.93% for 2013/14.

Recommendations

6. That Executive Board note the Treasury Management outturn position for 2014/15 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 2014/15.

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 2014/15

3.1.1 Table 1, below shows that net borrowing in 2014/15 was £1,406m, £13m below the February 2015 position. This movement is due to higher than anticipated revenue balances and short-term temporary fluctuations in year-end balances as well as slippage in the Capital Programme. The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £3.96bn as at 31st March 2015. The Capital programme outturn position was reported in section 6 of the June Financial Performance - Outturn Report to Executive Board.

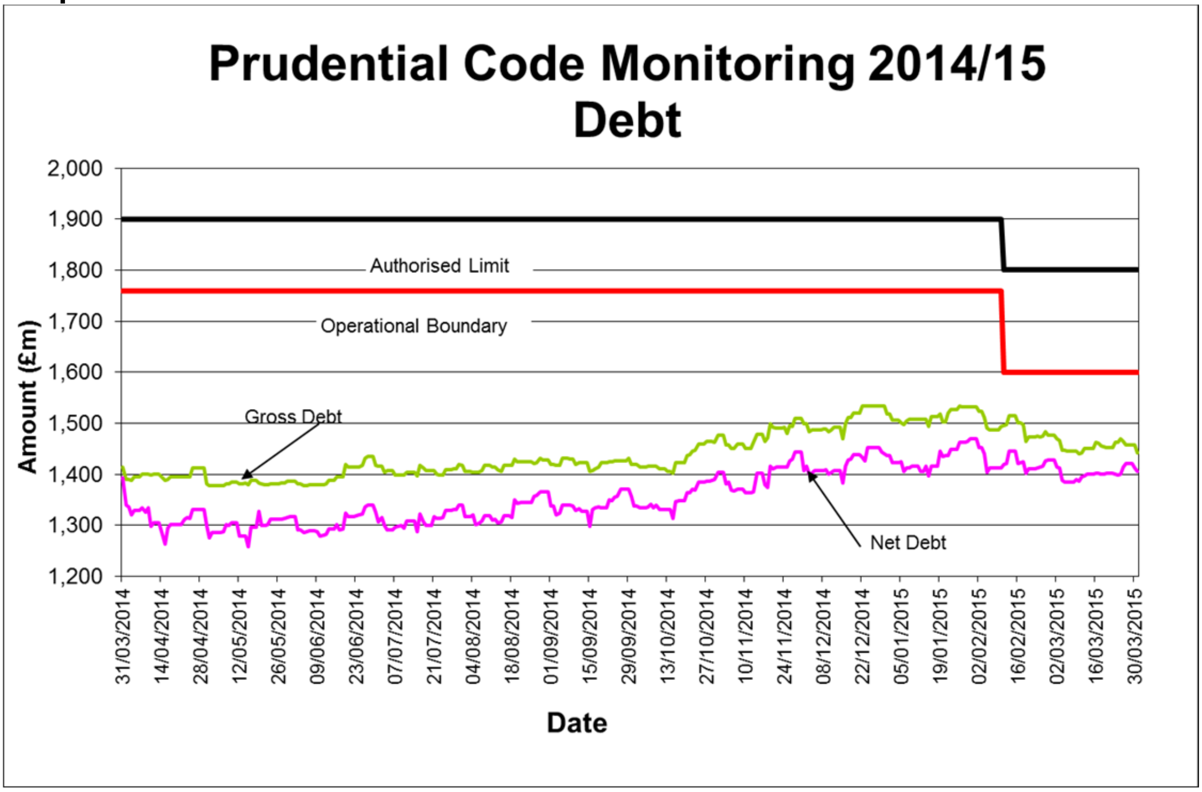
TABLE 1

ANALYSIS OF BORROWING 2014/15	2014/15 Nov 14 Report £m	2014/15 Feb 15 Report £m	2014/15 This Report £m
Net Borrowing at 1 April	1,393	**1,393**	**1,393**
New Borrowing for the Capital Programme – Non HRA	110	**86**	**80**
New Borrowing for the Capital Programme – HRA	0	**0**	**0**
Debt redemption costs charged to Revenue (Incl HRA)	(47)	**(47)**	**(47)**
Reduced/(Increased) level of Revenue Balances	(13)	**(13)**	**(20)**
Net Borrowing at 31 March*	1,443	1,419	1,406
Capital Financing Requirement**			**1,808**
Other long term liabilities capital financing requirement			**550**
* Comprised as follows			
Long term Fixed**	1,297	1,362	1,367
Variable (less than 1 Year)	50	5	0
New Borrowing	50	26	28
Short term Borrowing	63	61	47
Total External Borrowing	1,460	1,454	1,442
Less Investments	17	35	36
Net External Borrowing	**1,443**	**1,419**	**1,406**
% borrowing funded by short term and variable rate loans	11%	6%	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 2014/15 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 2014/15. 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



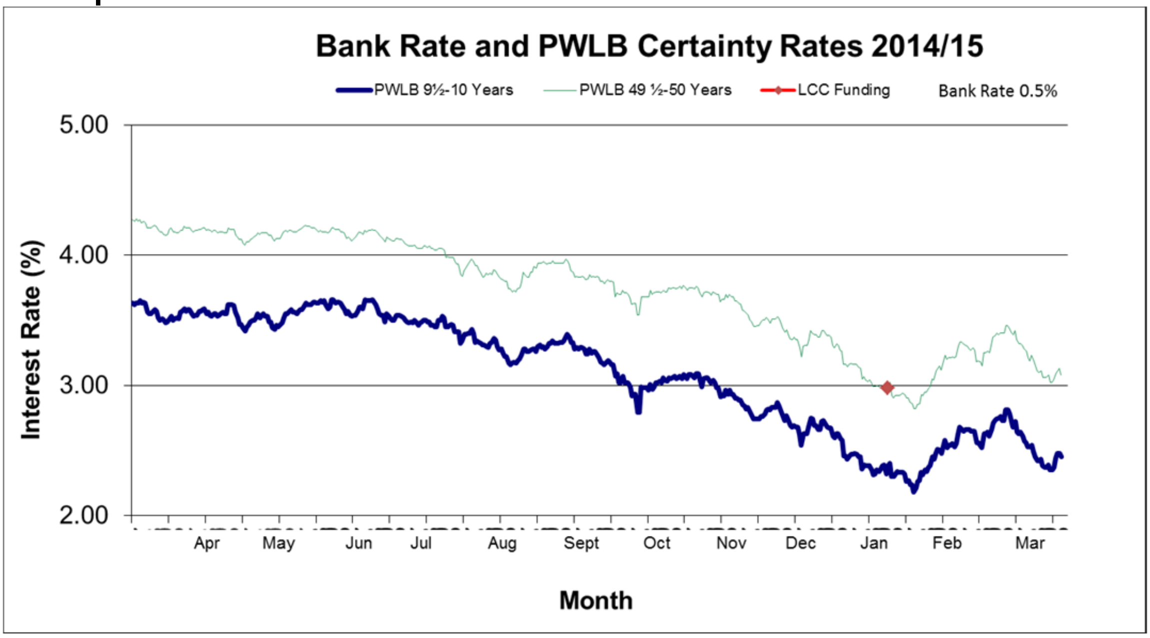
3.1.3 Since the economic update to Members in February, in the Treasury Management Strategy 2015/16, the recovery of the economy has continued but at a lower pace with GDP growth slowing to 0.3% in the last quarter of the year. Some of the major economic themes in 2014/15 are detailed below:

- Indicators suggested that the economic recovery is continuing with growth in UK GDP of 0.3% in the 1st Quarter of 2015;
- Household income has shown a 3.50% real increase during 2014 after many years of real decreases;
- Higher household consumption, expected 3.75% increase in 2015, continues to drive UK economic performance;
- Inflation fell to its lowest level in many decades and stood at 0% at the year end and has since turned negative. Inflation is expected to move back toward target over the 2 year time horizon;
- Unemployment continues to move downward with the unemployment rate now 5.50%;
- The US Federal Reserve has stopped its monthly stimulus of the US economy.

- Oil prices have continued to fall and at one stage fell below $50 per barrel although they have subsequently rebound to $65 per barrel.
- US bonds plunged to ultra-low levels during 2014/15 although this has reversed somewhat since;
- There is an increasing likelihood that the US will be the first major economy to raise rates and this is likely to be in 2015;
- EU announced a QE programme of 1.1trn Euro in January with 60bn Euro per month up to September 2016 in an attempt to boost growth and jobs;
- Issues surrounding Greece and the Ukraine have been prominent at points affecting global markets and causing periodic flight to quality in bond markets;
- The prediction for the first UK base rate increase has been pushed back steadily during 2014/15 and now rest in Q1 2016. The governor of the BOE has indicated increases when they do occur are likely to be slow and steady;

3.1.4 Graph 2 below shows the movement in PWLB interest rates over the year. Due to global issues identified previously in this report gilt yields have fallen over the year and PWLB rates have mirrored these falls with both longer term (49½-50 year) and shorter term rates (9½-10 year) showing a fall of nearly 1.5% over the year peak to trough. This reflects the uncertainty around when the bank rate, which has remained anchored at 0.50%, will start to rise. This graph also shows the long term funding activity undertaken as detailed in table 2 below.

Graph 2



3.1.5 Debt savings of £2.3m were reported in the Revenue Outturn report to Executive Board on 24th June 2015. These savings have been generated through continuing to fund the borrowing requirement at low short term rates and greater than expected revenue balances.

3.1.6 Table 2 shows £20m 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.

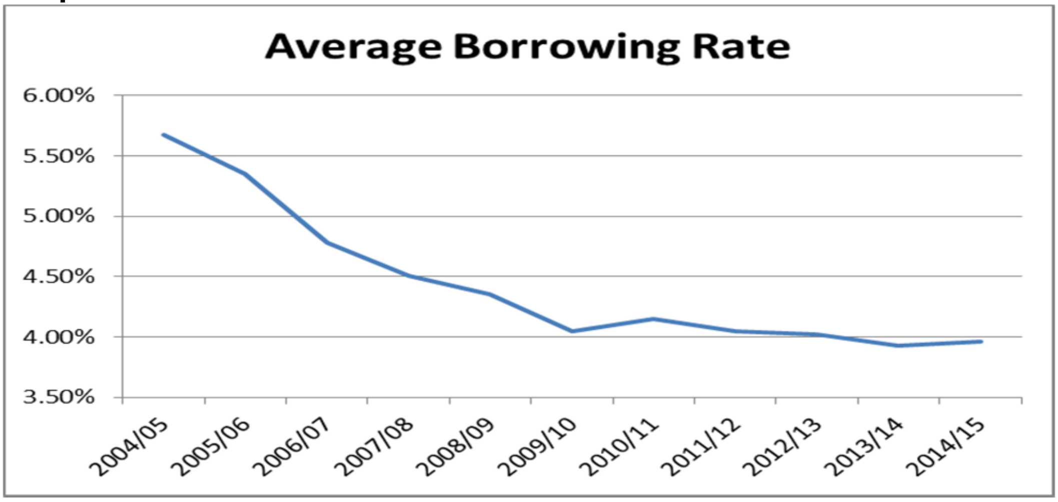
Table 2

Loan repayments and borrowing 2014/2015							
Loan Repayments				New Borrowing			
Date	Amount (£m)	Original Rate (%)	Discount Rate	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB Loans				PWLB			
				22/01/2015	10	50	2.98
				22/01/2015	10	50	2.98
Sub Total	**0**				**20**		
Non PWLB Loans				Non PWLB Loans			
Sub Total	**0**				**0**		
Total	**0**			**Total**	**20**		

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 3.96% (up from 3.93%) as shown in Graph 3. The average interest rate in 2013/14 was one of the lowest of Metropolitan Councils that replied to the annual CIPFA survey as shown in Appendix B.

Graph 3



3.2.2 Whilst the average borrowing rate remains low 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 36.6 years. The average length of all loans to the next option date including temporary loans is 20.6 years. This provides a large degree of funding certainty within the overall debt portfolio. Appendix C analyses debt as at 31st March 2015 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 Best Council Plan

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 £2.3m 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 2014/15 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 2014/15 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 2014/15 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.

Appendix A

Leeds City Council - Prudential Indicators 2014/15

No.	PRUDENTIAL INDICATOR	Feb 14 Report	Feb 15 Report	Outturn (This Report)
	(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS			
	Ratio of Financing Costs to Net Revenue Stream			
1	General Fund - Excluding DSG (Note1)	13.00%	12.69%	12.68%
2	HRA	12.93%	12.61%	12.59%
	Impact of Unsupported Borrowing on Council Tax & Housing Rents	**£ . P**	**£ . P**	£ . P
3	increase in council tax B7(band D, per annum) (Note 2)	45.90	11.34	8.61
4	increase in housing rent per week	-	-	-
5	**Net Borrowing and the capital financing requirement (Note 3)**	OK	OK	OK
	Net External Borrowing Requirement	1,545,000	1,419,000	1,406,000
	External Borrowing CFR Forecast	1,857,151	1,813,808	1,807,895
	OLTL CFR Forecast	532,962	550,308	550,308
	Total CFR Forecast	2,390,113	2,364,116	2,358,203
	The Net borrowing Requirement should not exceed the CFR			
	Estimate of total capital expenditure	**£'000**	**£'000**	**£'000**
6	General Fund	251,547	205,615	192,121
7	HRA	146,215	125,530	120,077
	TOTAL	397,762	331,145	312,198
	Capital Financing Requirement (as at 31 March)	**£'000**	**£'000**	**£'000**
8	General Fund	1,650,553	1,576,325	1,569,818
9	HRA	739,560	787,791	788,385
	TOTAL	2,390,113	2,364,116	2,358,203
9a	**Limit on HRA Indebtedness as implementated under self financing**	721,327	721,327	725,327

No.	PRUDENTIAL INDICATOR	Feb 14 Report	Feb 15 Report	Outturn (This Report)
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**
10	**Authorised limit for external debt - (Note 4)**			
	borrowing	1,900,000	1,800,000	1,800,000
	other long term liabilities	700,000	700,000	700,000
	TOTAL	2,600,000	2,500,000	2,500,000
11	**Operational boundary - (Note 4)**			
	borrowing	1,760,000	1,600,000	1,600,000
	other long term liabilities	665,000	665,000	665,000
	TOTAL	2,425,000	2,265,000	2,265,000
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%
		£'000	£'000	£'000
17	**Upper limit for total principal sums invested for over 364 days (Note 5)**	150,000	150,000	150,000
	(per maturity date)			
18	**Net Debt as a Percentage of gross Debt**	98.46%	97.59%	98.54%

16	**Maturity structure of fixed rate borrowing 2014/15**	**Lower Limit**	**Upper Limit**		**Actual 31/03/15**
	under 12 months	0%	15%		1%
	12 months and within 24 months	0%	20%		8%
	24 months and within 5 years	0%	35%		24%
	5 years and within 10 years	0%	40%		11%
	10 years and within 20 years	25%	90%	56%	3%
	20 years and within 30 years				0%
	30 years and within 40 years				24%
	40 years and within 50 years				29%
					100.0%

Notes.

1 **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.**

2 **The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.**

3 **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.**

4 **Limits are the same as the Feb 15 report.**

5 **Prudential indicator 12 relates to actual external debt at 31st March, which is reported in the main body of this report.**

6 **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 31.03.14	Gross Average Rate of Interest on All External Debt
			£'000	%
Sunderland	1	1	207,817	3.41
Liverpool	2	3	296,698	3.70
Leeds	3	4	1,414,039	3.93
Wolverhampton	4	7	563,157	4.28
Doncaster	5	5	..	4.30
Dudley	6	16	735,870	4.37
Solihull	7	9	223,766	4.39
Oldham	8	6	148,117	4.49
Sefton	9	8	..	4.50
Average	10	11	3,589,464	4.53
North Tyneside	11	14	446,781	4.57
Sheffield	12	NR	687,999	4.62
Manchester	13	15	507,396	4.64
Rotherham	14	12	476,164	4.67
Sandwell	15	17	521,332	4.83
Wakefield	16	20	200,131	5.84
Wirral	17	19	217,163	5.86
Wigan	18	21	413,505	5.95
St Helens	19	22	73,368	6.51
Bolton	NR	NR	..	
Bury	NR	NR	..	
Rochdale	NR	NR	..	
Salford	NR	NR	..	
Stockport	NR	NR	..	
Tameside	NR	NR	..	
Trafford	NR	NR	..	
Knowsley	NR	NR	..	
Barnsley	NR	2	..	
Gateshead	NR	NR	..	
Newcastle-upon-Tyne	NR	10	..	
South Tyneside	NR	NR	..	
Birmingham	NR	13	..	
Coventry	NR	NR	..	
Walsall	NR	NR	..	
Bradford	NR	NR	..	
Calderdale	NR	NR	..	
Kirklees	NR	18	..	

Source: CIPFA Capital Expenditure and Treasury Management Statistics 2013/14

Debt as at 31st March 2015						**Appendix C**
Table below shows a breakdown of the maturity structure of the authority giving totals						
Year Ending 31st March	**to 2%**	**2% to 2.99%**	**3% to 3.99%**	**4% to 4.99%**	**Greater Than 5%**	**Principal**
Fixed Rate Loans - LOBO to First Option						
2016	-	8,812	25,000	85,000	-	118,812
2017	15,000	8,812	25,000	55,000	-	103,812
2018	-	-	10,000	45,000	-	55,000
2019	10,000	5,000	61,436	80,000	-	156,436
2020	-	-	61,436	30,000	-	91,436
2021	-	-	8,812	10,000		18,812
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
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
2065	-	20,000	-	-	-	20,000
Sub Total	**25,000**	**62,624**	**332,178**	**933,137**	**14,099**	**1,367,039**
Temporary Loans						
2015	74,500	-	-	-	-	74,500
Sub Total	**74,500**	**-**	**-**	**-**	**-**	**74,500**
CABP	**99,500**	**62,624**	**332,178**	**933,137**	**14,099**	**1,441,539**
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)						