Agenda Item No. 8

Audit Committee – 1 September 2014

Treasury Management Update

1. Summary of report

1.1 This report sets out Walsall council's treasury management annual report for 2013/14 as required by the CIPFA Code of Practice **(Appendix A).**

2. Recommendations

2.1. To approve and recommend to council the Treasury Management annual report for 2013/14 (**Appendix A**).

James T Walsh – Assistant Director, Finance
(Chief Finance Officer)
19 August 2014

3. Background information

3.1 <u>Treasury Management Annual Report</u>

The **Annual Report** is detailed in **Appendix A** and includes:

- The treasury management strategy
- Economic review, operational treasury management and interest rates
- Review of 2013/14 activities
- Borrowing and investments
- Comparisons with other councils
- Compliance with treasury limits
- Prudential and local indicator performance

The report is presented to Audit committee with a recommendation for referral to council for approval.

3.2 Highlights of TM Annual report

The following key points of interest have been extracted from the report.
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- The Annual Report meets the requirement of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.
- The banking environment has continued to be one of low interest returns with some improved confidence in counter party risk. Expected increases in interest rates have not materialised.
- Capital expenditure was £39.944m of which £9.038m was funded from borrowing see Table 2, **Appendix A.**
- Our borrowing need decreased by £4.9m see Table 3, **Appendix A.**
- The council made a scheduled repayment of £10m, because the loan was slightly less than our average loan our average borrowing rate increased from 4.67% to 4.73%.
- All Prudential indicators were complied with, the main variation was on capital expenditure this was significantly lower than expected due to high carry forwards for externally funded schemes.
- Investment performance was once again higher than most other councils 1.29% compared to 0.85%
- The cost of the Treasury Management service is less than the benchmarked average see page 20, **Appendix A.**

4. Resource and Legal considerations

4.1 Financial

The treasury management forms part of the council's financial framework and supports delivery of the medium term financial strategy.

4.2 Legal

The council is required to have regard to the Prudential Code under the duties outlined by the Local Government Act 2003. One requirement of the Prudential Code is that the council should comply with the CIPFA Code of Practice for Treasury Management.

5. Risk and performance management issues

5.1 Risk

Treasury management activity takes place within a robust risk management environment, which enables the council to effectively maximise investment income and minimise interest payments without undue or inappropriate exposure to financial risk. Treasury Management Practices approved by council provide the governance framework specifically TMP 1 details the risk management arrangements in place.

5.2 Performance

Performance is regularly reviewed by the treasury management panel. The treasury management annual report is enclosed see **Appendix A.** This will be distributed to all councillors and used for member training.

6. Equality implications

6.1 None directly relating to this report.

7. Consultation

7.1 The report has been approved by the finance treasury management panel, an internal governance arrangement comprising the Chief Finance Officer, Head of Finance and Treasury Financial Administration and Systems Manager.

8.0 Background papers

- Various financial working papers
- Annual review of treasury management policy statement and practices – Audit Committee 8.11.13
- Corporate budget plan and treasury management and investment strategy 2014/15 – Council 27.02.14

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Appendix A

Annual Treasury Management Report 2013/14

Walsall Council
July 2014

Contents

Annual Treasury Management Report 2013/14

Purpose

This council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and prudential and treasury indicator performance for 2013/14. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2013/14 the following reports were produced:

- an annual treasury strategy in advance of the year (Council 21/02/2013)
- a mid year (minimum) treasury update report (Audit Committee 11/11/2013)
- an annual review of treasury management policies (Audit Committee 14/01/2013)
- an annual report following the year describing the activity compared to the strategy (this report – to Audit Committee)

In addition, this council's treasury management panel has received regular treasury management update reports.

The regulatory environment places an onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the council's policies previously approved by members.

This council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. In order to support members' scrutiny role annual member training on treasury management issues was undertaken during January 2014.

Executive summary

During 2013/14, the council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Table 1 Actual prudential and treasury indicators	2012/13 Actual £m	2013/14 Original £m	2013/14 Update £m	2013/14 Actual £m
Actual capital expenditure	50.828	40.185	83.203	39.944
Capital Financing Requirement:				
Including PFI and finance leases	305.908	304.499	As Original	300.990
Excluding PFI and finance leases	296.143	294.086	As Original	292.700
External Borrowing	255.816	245.902	As Original	245.110
Investments	137.380	136.000	As Original	139.295
Net borrowing	118.436	109.902	As Original	105.815

The capital programme was updated during the year from that originally approved by Council on 21 February 2013 for capital carry forwards and re-profiling of spend from 2012/13, and additional grants received during the year.

Other prudential and treasury indicators are to be found in the main body of this report. The Assistant Director of Finance confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.

The challenging environment of low investment returns and uncertainty of counterparty risk has continued in 2013/14.

Introduction and background

To set the context of the Treasury Management environment it is first necessary to provide a review of the economy and interest rates.

In 2013/14 the challenging investment environment of previous years continued, namely low investment returns, although levels of counterparty risk had subsided. The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but has surged strongly in 2013/14. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5%. While CPI inflation had remained high and substantially above the 2% target during 2012, by February had fallen below the target rate to 1.7%. It is also expected to remain slightly below the target rate for the next two years ahead.

Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality products. The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and has continued into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.

The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue to rise. Upcoming stress tests of Eurozone banks could still reveal some areas of concern.

The expectation for interest rates within the strategy for 2013/14 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2013/14. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations this has resulted in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

The actual movement in gilt yields meant that PWLB rates were on a sharply rising trend during 2013 as markets anticipated the start of tapering of asset purchases by the USA federal bank. This duly started in December 2013 and the US FOMC (the Fed.), adopted a future course of monthly reductions of $10bn (from a starting position of $85bn), meaning that asset purchases were likely to stop by the end of 2014. However, volatility set in during the first quarter of 2014 as fears around emerging markets, various vulnerabilities in the Chinese economy, the increasing danger for the Eurozone to drop into a deflationary spiral, and the situation in the Ukraine, caused rates to dip down, reflecting a flight to quality into UK gilts.

1. The Council's Capital Expenditure and Financing 2013/14

The council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc., which has no resultant impact on the council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed. The amount to be funded from borrowing in 2013/14 was £9.038m.

Table 2	2013/14 Actual £m	2012/13 Actual £m	2013/14 Updated £m
Total capital expenditure	**39.944**	**50.828**	**83.203**
Resourced by:			
• Capital receipts	3.342	4.625	1.500
• Capital grants	25.629	31.563	60.673
• Capital Reserves			
• Revenue	1.935	0.156	
• Unfinanced capital expenditure Financed by borrowing	9.038	14.484	21.030
	39.944	**50.828**	**83.203**

1. The Council's Overall Borrowing Need

The council's underlying need to borrow for capital expenditure is termed the capital financing requirement (CFR). This figure is a gauge of the council's debt position. The CFR results from the capital activity of the council and what resources have been used to pay for the capital spend. It represents the 2013/14 unfinanced capital expenditure (see table 2), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the council.

Reducing the CFR – the council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The council is required to make an annual revenue charge, called the minimum revenue provision (MRP) to reduce the CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a voluntary revenue provision (VRP).

The council's 2013/14 MRP Policy was approved as part of the treasury management strategy report for 2013/14 on 21 February 2013.

The council's CFR for the year 2013/14 is shown below in Table 3, and represents a key prudential indicator (PrI4). It includes PFI and leasing schemes from the balance sheet which increase the council's borrowing need, the CFR. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable). It shows that in 2012/13 the council's CFR has decreased by £4.918m from £305.908m to £300.990m.

Table 3 CFR (£m)	31 March 2013 Actual £m	31 March 2014 Actual £m
Opening balance	**299.452**	**305.908**
Add unfinanced capital expenditure (as above)	14.484	9.038
Less MRP/VRP*	Cr 9.358	Cr 14.376
Leasing other siginificant items	1.330	0.420
Closing balance	**305.908**	**300.990**

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

There was change to the MRP policy in 2013/14

Gross 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. This essentially means that the council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2013/14 plus the expected changes to the CFR over 2013/14 and 2014/15. Table 4 below highlights the council's net borrowing position against the CFR excluding PFIs and Finance leases because the debt liability for these are not in the net borrowing position of the council. The council has complied with this prudential indicator.

Table 4	31 March 2013 Actual £m	31 March 2014 Actual £m
Gross Borrowing	**263.562**	**252.535**
Net borrowing position	**118.522**	**105.815**
CFR – excluding PFIs and Finance Leases	**296.143**	**292.700**
Long term Assets	**488.720**	**476.687**
Net Borrowing % of Long term Assets	**24%**	**22%**

Another measure of prudency is the proportion of net to fixed assets. Table 4 shows that the net borrowing position of the council as at 31.03.14 is £105.815m this is 22% of the value of the council's long term assets which are valued on the council's balance sheet at 31.03.2014.

Other key Prudential Indicators are shown in Table 5 below

Table 5 Prudential and Borrowing Limits	2012/13 £m	2013/14 £m
1. Authorised limit	**319.908**	**351,207**
2. Maximum gross borrowing in year	**263.777**	**263.562**
3. Operational boundary	**292.093**	**308,866**
4. Average gross borrowing	**263.669**	**258.885**
5. Financing costs as proportion of net revenue stream	**7.02%**	**8.80%**

1. **The authorised limit -** the authorised limit is the "affordable borrowing limit" set by the council as required by section 3 of the Local Government Act 2003. The council does not have the power to borrow above this level without the prior approval by full Council. Table 5 demonstrates that during 2012/13 the council has maximum gross borrowing was within its authorised limit.
2. **Maximum Gross borrowing** – is the peak level of borrowing in year.
3. **The operational boundary** – the operational boundary is the expected borrowing position of the council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. In 2013/14 the council's average borrowing position was less than the operational boundary.
4. **Average Gross Borrowing** – is an estimate of the borrowing level in the year see Table 7.
5. **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 obligation costs net of investment income) against the net revenue stream. Net revenue stream is defined as Net Council Tax Requirement **+** Formula Grant.

2. Prudential Indicators

The following tables show performance against statutorily required prudential and local indicators.

Table 6 Prudential Indicator		Actual 2012/13 £m	Target 2013/14 £m	Position at 31-Mar-14 £m	Variance to target	%
PrI 1	**Capital Expenditure** (13/14 target revised due to cf from 12/13 and additional grants).	**50.820**	82.701	**39.140**	- 43.531	- 53%
PrI 2	Ratio of financing costs to net revenue stream	**7.02%**	10.7%	**8.80%**	- 1.90%	-18%
PrI 3	Estimates of the incremental impact of new capital investment decisions on Council Tax	**£10.67**	£11.48	**£11.48**	£0.00	0%
PrI 4	Capital Financing Requirement	**305.908**	319.279	**300.990**	-18.289	- 6%
PrI 5	Authorised Limit for external debt	**319.724**	351.207	**351.207**	-	0%
PrI 6	Operational Limit for external debt	**292.093**	308.866	**308.866**	-	0%

Table 6 continued Prudential Indicator		Actual 2012/13 £m	Target 2013/14 £m	Position at 31-Mar-14
PrI 7	Gross Borrowing exceeds capital financing requirement	No	No	**No**
PrI 8	Authority has adopted CIPFA Code of Practice for Treasury Management	Yes	Yes	**Yes**
PrI 9	Total principle sums invested for longer than 364 days must not exceed	**14.105**	25.000	**14.500**

Table 6 continued Prudential Indicator		Upper Limit	Lower Limit 31-Mar-14	Position at 31-Mar-13	Position at 31-Mar-14
PrI 10	Fixed Interest Rate Exposure	95%	40%	**87%**	**94%**
PrI 11	Variable Interest Rate Exposure	45%	0%	**13%**	**6%**
PrI 12	***Maturity Structure of Borrowing***				
	Under 12 months	25%	0%	**14%**	**6%**
	12 months and within 24 mnths	25%	0%	**9%**	**5%**
	24 months and within 5 years	25%	0%	**25%**	**30%**
	5 years and within 10 years	50%	10%	**11%**	**18%**
	10 years and above	85%	40%	**41%**	**42%**

All Prudential indicators were complied with. Key variances are because of the following reasons:-

Prl 1 Total capital expenditure - Variation of £43m
The variation is due to capital carry forwards particularly capital grants which are expected to be spent in 2013/14. Of this, £42.08m has been approved for carry forward into 2014/15, the majority of which (73%) relates to externally funded schemes.

Prl 2 Estimates of the ratio of financing costs to the net revenue stream variation of 1.9%
Compared to other councils, Walsall's ratio of capital financing to total revenue costs is low, which demonstrated good performance. This is less than target due to the large dividend from Birmingham Airport. Note that in 2012/13 it was less than target due to the saving from the MRP policy change relating other local authority debt.

Prl 12 Maturity Structure of Borrowing
For the purpose of the maturity profile indicator the next call date on a LOBO loan is assumed; as it is the right of the lender to require repayment. However due to the low interest rate environment it is unlikely that in the medium term that any of the LOBO's will be called.

3. Treasury Position as at 31 March 2014

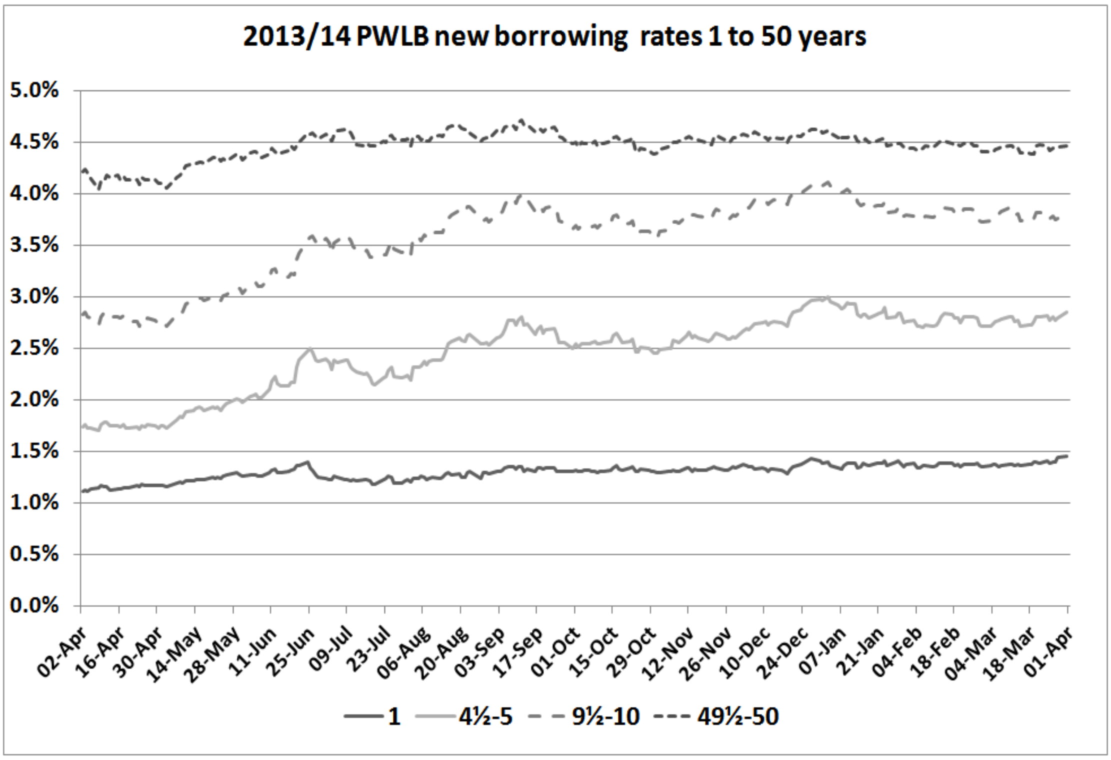
The council's debt and investment position is organised by the treasury management team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the council's treasury management practices. At the beginning and the end of 2013/14 the council's treasury position was as follows see Table 7:

Table 7 Loans and Investments	Opening Balance £m	Average Rate At 31/03/13 %	Movement in Year £m	Closing Balance £m	Average Rate At 31/03/14 %
PWLB loans	116.527	4.36%	Cr 9.971	106.556	4.49%
Market Loans	122.000	4.67%	-	122.000	4.67%
Bonds	0.092	3.94%	0.198	0.290	3.94%
Total excluding WMCC debt	238.619	4.53%	Cr 9.773	228.846	4.60%
WMCC Debt	24.135	6.57%	Cr 0.985	23.150	6.57%
Total Borrowing over 12 months	262.754		Cr 10.758	251.996	
Temporary Loans	0.808	0.50%	Cr 0.269	0.539	0.50%
Gross Borrowing	263.562	4.73%	Cr 11.027	252.535	4.79%
Waste Disposal & Cannock Chase Debtor	Cr 7.746	6.57%	0.321	Cr 7.425	6.57%
Borrowing	255.816	4.67%	Cr 10.706	245.110	4.73%
CFR less PFI finance & leases	296.143		Cr 2.683	292.700	
Under Borrowing	40.327			47.590	
Debt as % of CFR	86%			84%	
Call Accounts	3.880	0.90%	23.810	27.690	0.65%
Short Term Investments	119.395	1.83%	Cr 22.290	97.105	1.21%
Long Term Investments	14.105	3.70%	0.395	14.500	1.92%
Total Investments	137.380		1.915	139.295	
Net Borrowing Position	118.436		Cr 12.621	105.815	

4. The Borrowing Strategy for 2013/14 and Economic Context

In the 2011/12 Formula Grant settlement the Government changed the means of funding councils' capital expenditure from supported borrowing to grant. This change reduced the council's projected borrowing requirement. Also short term rates on investments were predicted to remain lower in 2013/14 than rates paid on current debt for the short to medium term. So the strategy has been to monitor interest rate movements to identify potential opportunities to making savings by running down investment balances and to repay debt prematurely. Critical to this consideration of the debt rescheduling and debt repayment is the outlook for interest rates, as the best time to repay borrowing would be when rates are high.

PWLB borrowing rates - the graph below shows how PWLB certainty rates in 2013/14 have started to rise from historically very low levels during the year.



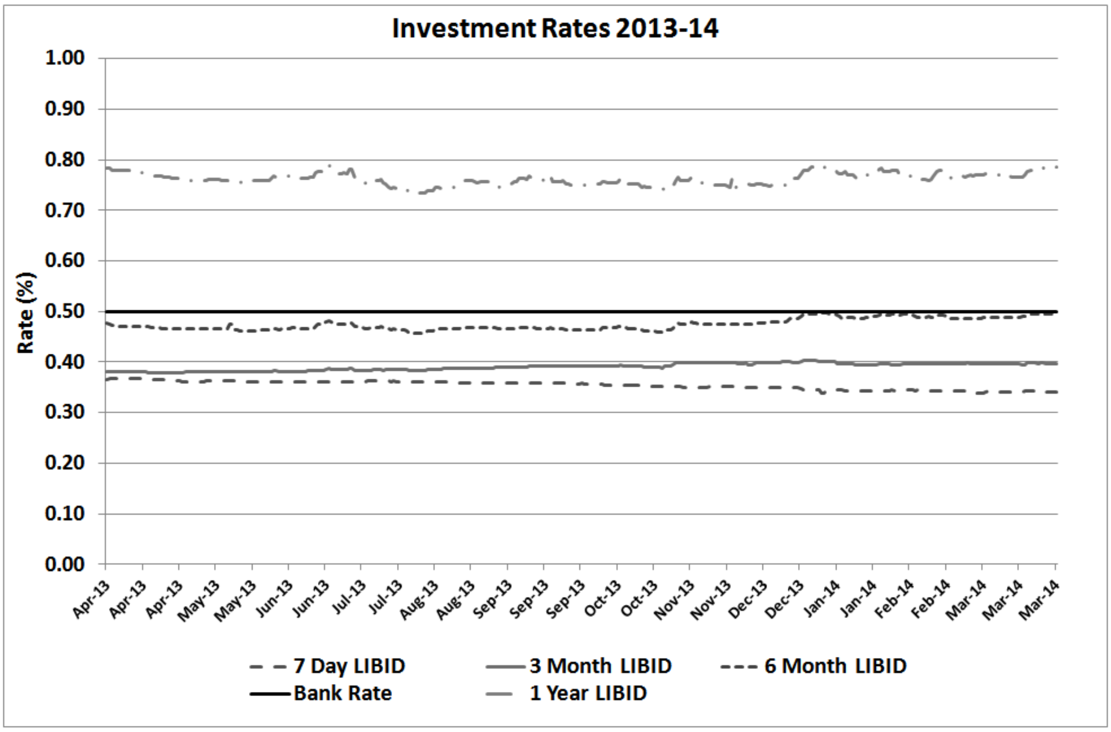
5. Borrowing Outturn for 2013/14

The council's borrowing reduced in 2013/14 by £10.706m this was due to the council repaying £10m with an average rate of 2.96% on 20/11/13, the net repayment of other local authority debt (£0.664m) and the repayment of bonds and temporary borrowing (£0.271m); being offset by the amortisation of PWLB discounts (£0.029m), and an investment received from the Art Gallery(£0.200m).

There were no new borrowings or rescheduling of loans undertaken.

6. Investments in 2013/14 and Economic Context

The UK's Bank Rate has remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014. The following graph shows deposit investment rates available in 2013/14.



Resources – the council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations.

Investment Policy – the council's investment policy is governed by Central Government guidance, which was implemented in the annual investment strategy approved by the Council on 21 February 2013. 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 KPMG survey of Building Societies.

The investment activity during the year conformed to the approved strategy, and the council had no liquidity difficulties.

At the end of 2013/14 Walsall's investment balance was £2.915m higher that that at the start of the year. **Table 9** below shows an age profile of the investments.

Investments held by the Council - the Council maintained an average balance of £164m of internally managed funds. The internally managed funds earned an average rate of return of 1.29%. A comparable performance indicator is the average 7-day LIBID rate (which was 0.35%). This compares with a budget assumption of £138m investment balances earning an average rate of 1%.

Table 9: Changes in Investments during 2013/14	Opening Balance £m	Closing Balance £m	Movement in Year £m
At Call accounts	3.880	27.690	23.810
Between 1 week and 3 months	27.000	13.000	- 14.000
Between 3 and 12 months	92.395	84.105	- 8.290
Over 12 months	14.105	14.500	0.395
Total	**137.380**	**139.295**	1.915

Recognising the continuation of the stresses on the world banking system, enhanced priority has continued to be given to security and liquidity. To reduce counterparty risk to the maximum possible extent the investment portfolio was spread across a range of appropriately credit rated institutions.

Table 10 shows the outturn on investment income in 2013/14. The council achieved £0.695m above target investment income. The average investment return was 1.29% compared to our 1.0% target.

Table 10 Investments Interest – Gross Income	2013/14 Approved Cash Limit £m	Outturn at 31 March 2014 £m	Over /(under) achieved cash limit £m	% Target Rate	% Rate achieved
Call Account investments	0.100	0.301	0.201	0.50%	0.61
Short Term Investments	0.914	1.374	0.461	0.90%	1.39
Long Term Investments	0.360	0.394	0.034	2.00%	2.71
Total	1.374	2.069	0.695	1.00%	1.29

The investment income is shown gross because £0.299m was transferred on to schools and other specific fund balances within the council.

Local Authority Money Brokers – This Table needs to be updated.

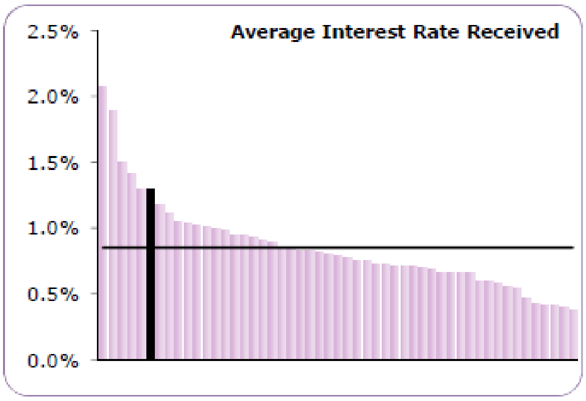
The council liaises with four brokers on a regular basis. Of the £649m of new investments made in 2013/14 £82m was through the 4 brokers and £567m was deals undertaken by the Treasury team the majority of which were through call accounts.

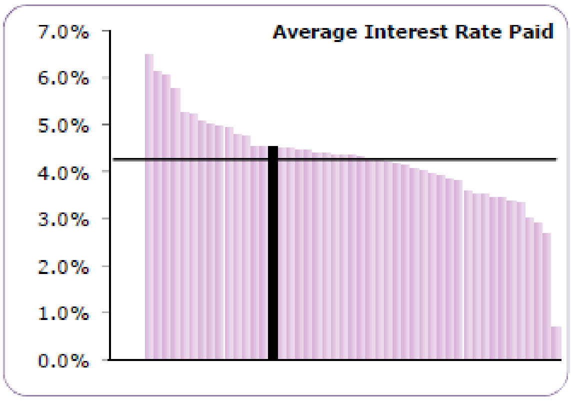
	Table 12: Brokers Performance 2013/14	No of deals per broker	Value of Deal (£m)	% of deals
	Broker 1	16	28.000	4%
	Broker 2	12	29.105	3%
	Broker 3	6	12.000	1%
	Broker 4	6	13.000	1%
	Total Broker deals	**40**	**82.105**	
Call	Bank of Scotland	109	175.500	25%
Call	Barclays	189	180.446	43%
Call	Royal Bank of Scotland	20	40.160	5%
Call	Natwest	42	70.428	10%
Call	Santander	27	54.370	6%
	Direct	10	46.000	2%
	Other Deals	**397**	**566.904**	
	Total No of Deals	**437**	**649.009**	100%

7. Performance Measurement

One of the key requirements in the Cipfa Code of Practice on Treasury Management is the formal introduction of performance measurements relating to investments, debt and capital financing activities.

Along with 50 other councils Walsall participates in the Cipfa Treasury Management Benchmarking club. The tables below show that Walsall acheives one of the highest average returns on it's investments 1.29% compared to 0.85% and is slightly above average for the average rate it pays for its borrowing, 4.51% compared to 4.26%.





Annual Average Investment

	Authority			Group Total		
	Av. Balance £'m	Interest £'k	Rate	Av. Balance £'m	Interest £'k	*Average Rate*
Variable rate	46.9	284.7	0.61%	*2,925*	*22,466*	*0.67%*
Short-term fixed	89.1	1,238.7	1.39%	*2,791*	*21,680*	*0.82%*
Long-term fixed	16.7	452.4	2.71%	*896*	*13,546*	*2.14%*
Externally Managed	0.0	0.0	na	*236*	*2,218*	*1.78%*
Total	**152.7**	**1,975.7**	**1.29%**	***6,848***	***59,910***	***0.85%***

Annual Average Borrowing

	Authority			Group Total		
	Av. Balance £'m	Interest £'k	Rate	Av. Balance £'m	Interest £'k	*Average Rate*
Short-term variable rate	0.0	0.0	na	*124*	*2,954*	*1.33%*
Long-term variable rate	0.0	0.0	na	*228*	*1,264*	*0.56%*
Short-term fixed	0.7	14.9	2.02%	*204*	*1,591*	*1.22%*
Long-term fixed	117.9	5,142.6	4.36%	*9,267*	*414,518*	*4.52%*
LOBO	122.0	5,703.6	4.68%	*2,660*	*119,340*	*4.49%*
Total	**240.6**	**10,861.0**	**4.51%**	***12,483***	***539,665***	***4.26%***

Council approved the following local performance indicators, all of which were complied with during the year.

Table 13 Local Indicators		Actual 2013/14	Target 2013/14	Position as at 31-Mar-14	Variance to target	Met
L1	Full compliance with prudential code	**YES**	Yes	**YES**		Y
L2	Average length of debt	**16**	15 to 25 years	**15**		Y
L3a	Net borrowing costs as % of net council tax requirement	**-**	11.50%	**10.3%**	-10%	Y
3b	Net borrowing costs as % of Tax Revenue	**-**	6.50%	**5.8%**	-11%	Y
L4	Net actual debt vs operational debt	**88%**	75 - 90%	**84%**	n/a	Y
L5	Average interest rate of external debt outstanding excluding OLA	**4.53%**	4.52%	**4.60%**	2%	N
L6	Average interest rate of external debt outstanding including OLA	**4.67%**	4.53%	**4.73%**	4%	N
L7	Gearing effect of 1% increase in interest rate	**2.74%**	5.00%	**1.23%**	-75%	Y
L8	Average interest rate received on STI vs 7 day LIBID rate	**1.44%**	0.50%	**0.75%**	50%	Y
L9a	AT call investments	**0.90%**	0.50%	**0.65%**	30%	Y
L9b	Short Term Investments	**1.83%**	0.90%	**1.21%**	34%	Y
L9c	Long Term Investments	**3.70%**	2.00%	**1.92%**	-4%	N
L10	Average interest rate on all ST investments (ST and AT call)	**1.80%**	0.80%	**1.09%**	36%	Y
L11	Average rate on all investments	**2.14%**	1.00%	**1.17%**	17%	Y
L12	% daily bank balances within target range	**100%**	98%	**100%**	2%	Y

L.5 and L.6 Average rate on debt

Both are slightly above target. There were no borrowing nor rescheduling activities due to the economic conditions in 2013/14. Thus there was no opportunity to reduce the average borrowing rate. The scheduled repayment of £10m PWLB also had negative effect on this indicator.

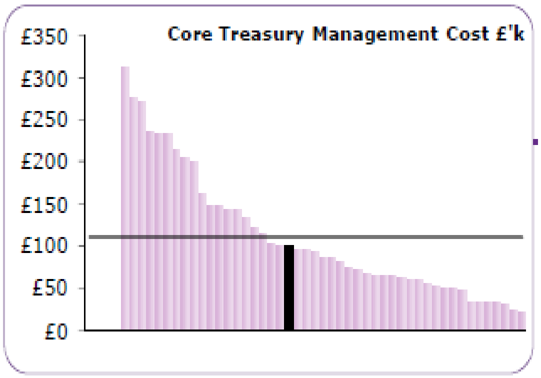
Local Authority Mortgage Scheme.

Under this scheme the Council place funds of £2m, with Lloyds for a period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the specified / non specified investment categories. At 31st March 2014, 33 mortgages have been supported through the LAMs scheme using £671,425 of the indemnity cover and a further 5 mortgages applications are being processed which when completed will use up a further £90,188.

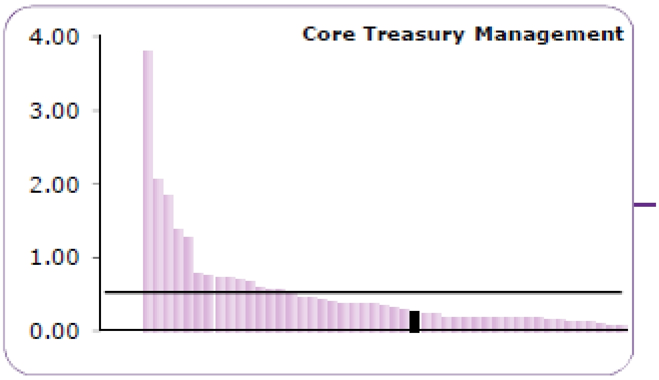
Cost of Treasury Management

The cost of the council's Treasury Management function is less than the average. This is reflected in the core costs Table below and

2013/14 Costs £'k



Cost of Treasury Management	Authority £'k	*Avg £'k*
Investment Mgt Costs	88.9	*70.3*
Debt Mgt Costs	10.2	*35.9*
Core Treasury Mgt Costs	**99.7**	***110.4***



	Average Balance £'m	Mgt Costs £'k/£'m managed Authority	Mgt Costs £'k/£'m managed *Avg*
Investment Mgt	£152.7 m	0.59	0.89
Debt Mgt	£240.6 m	0.04	0.21
Core Treasury Mgt	**£393.3 m**	**0.25**	**0.52**