

## REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

### TREASURY MANAGEMENT OUTTURN REPORT 2015/16

#### 1. Purpose

To provide a review of the Council's treasury management activities for the year to 31 March 2016.

#### Information and Advice

#### 2. Background

- 2.1 Treasury management is defined as “the management of the council's investments and cashflows; 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”.
- 2.2 The Council's Treasury Management Strategy is approved annually by Full Council and there is also a mid-year report which goes to Full Council. Responsibility for the implementation, scrutiny and monitoring of treasury management policies and practices is delegated to the *Treasury Management Group*, comprising the Service Director (Finance, Procurement and Improvement), the Group Manager (Financial Strategy & Compliance), the Senior Accountant (Pensions & Treasury Management) and the Senior Accountant (Financial Strategy and Accounting).
- 2.3 In 2015/16, borrowing and investment activities have been in accordance with the approved limits as set out in the Council's Treasury Management Policy and Strategy. The main points from this report are:
  - All treasury management activities were effected by authorised officers within the limits agreed by the Council.
  - All investments were made to counterparties on the Council's approved lending list.
  - The Council's net borrowing position increased by £29m in 2015/16.
  - Over the course of the financial year the Council earned 0.63% on its cash investments, compared with the average 7-day London Interbank BID (LIBID) rate for 2015/16 which was 0.36%.
  - Reports have been submitted to Council and the Finance and Property committee as required.

#### 3. Outturn Treasury Position

- 3.1 The Council's treasury management strategy and associated policies and practices for 2015/16 were approved in February 2015 by Full Council. The Service Director (Finance, Procurement & Improvement) complied with the strategy throughout the financial year. The Council's treasury portfolio position at 31 March 2016 is shown in Table 1 below.

Table 1. Treasury Position as at 31 March 2016		£m	£m	Average Interest Rate
<b>EXTERNAL BORROWING</b>				
<b>Long-term</b>				
Fixed Rate	PWLB	332.1		4.88%
	LOBOs	100.0		3.85%
	Other	5.0	437.1	2.08%
<b>Short-term</b>				
Fixed Rate	Other	0.0	0.0	
<b>Total</b>			<b>437.1</b>	4.61%
<b>Other Long-Term Liabilities</b>			<b>125.7</b>	
<b>Total Gross Debt</b>			<b>562.8</b>	
Less: Investments			102.2	0.59%
<b>Total Net Debt</b>			<b>460.7</b>	

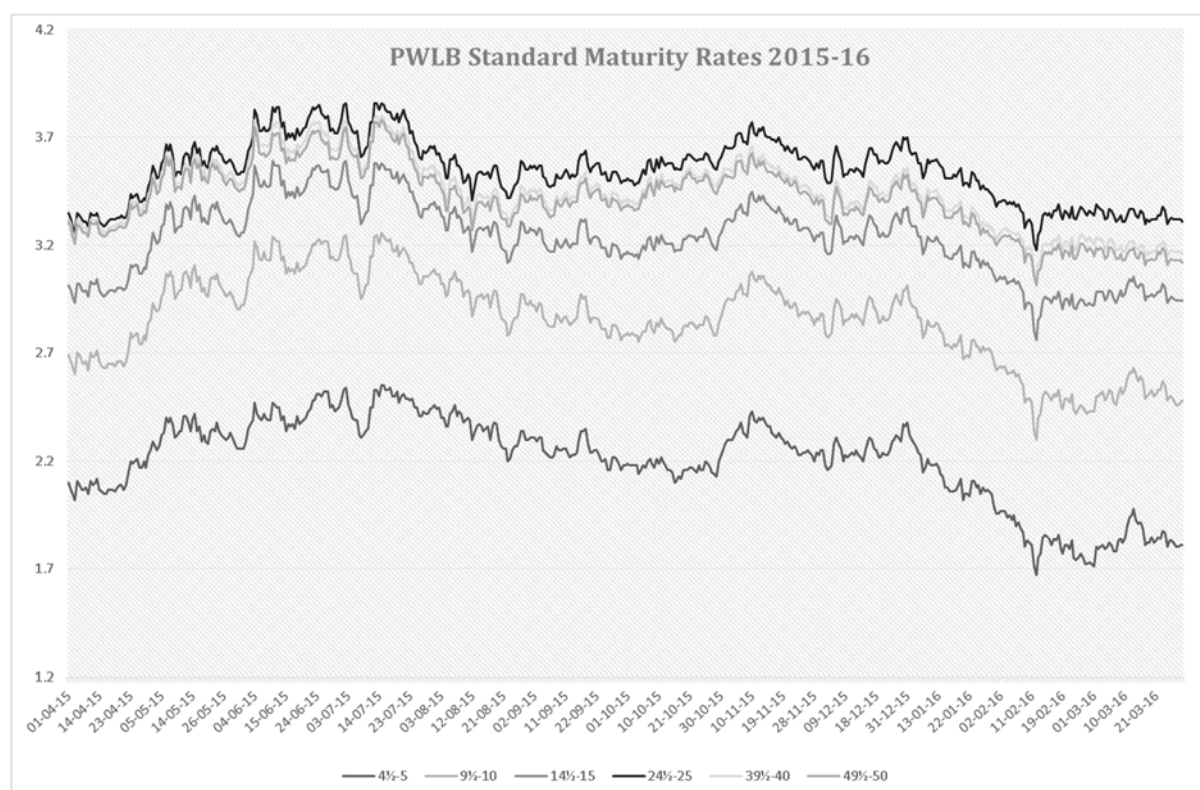
Notes: PWLB = Public Works Loans Board

LOBOs = Lenders' Option, Borrowers' Option loans

Other = market loans taken directly from banks or via brokers

#### 4. Economic Background

- 4.1 The performance of the UK economy moderately improved during 2015, with growth of 2.3%. However, such growth can be explained almost exclusively by more hours worked, and not productivity increases. In fact, productivity is still about 20% below the level of pre-crisis expectations, and this weakness serves as a structural drag on the UK's economic performance overall.
- 4.2 Short-term interest rates remained stable throughout the year, anchored by the persistence of the official Bank Rate at 0.5%. These lower costs fed into lending rates in the wider UK economy, prompting an increase in consumer credit growth, which together with low inflation helped support household spending, which in turn helped underpin wider economic growth.
- 4.3 During 2015/16 longer-term gilt rates rose partly in response to market optimism in the wake of the General Election (for which a hung Parliament had been forecast), but then fell to below their initial levels by March 2016 as the structural weaknesses in the economy began once again to make themselves felt.
- 4.4 This movement in gilts was reflected in PWLB standard maturity rates over 2015/16 as shown in the chart below.



## 5. Treasury Management Activities 2015/16

- 5.1 The Council actively manages its cash flows through borrowing and lending activities on the wholesale money markets. The Council has an approved list of counterparties for investment and aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. Temporary borrowing may be utilized to cover short-term cash shortfalls, but no such borrowing was undertaken during 2015/16. All borrowing was sourced from the PWLB.
- 5.2 The Council's temporary (for periods less than 365 days) borrowing and lending activity over the year is summarised in Table 2 below. In addition, there is a total of £4.5m invested for periods of up to 5 years as part of the Council's commitment to the Local Authority Mortgage Scheme.

<b>Table 2 Temporary Borrowing and Lending</b>	<b>Borrowing £m</b>	<b>Lending £m</b>	<b>Net Position £m</b>
Outstanding 31 March 2015	0.0	(65.7)	(65.7)
Raised/ (lent) during period	0.0	(821.5)	(821.5)
Repayments during period	0.0	789.5	789.5
Outstanding 31 March 2016	0.0	(97.7)	(97.7)

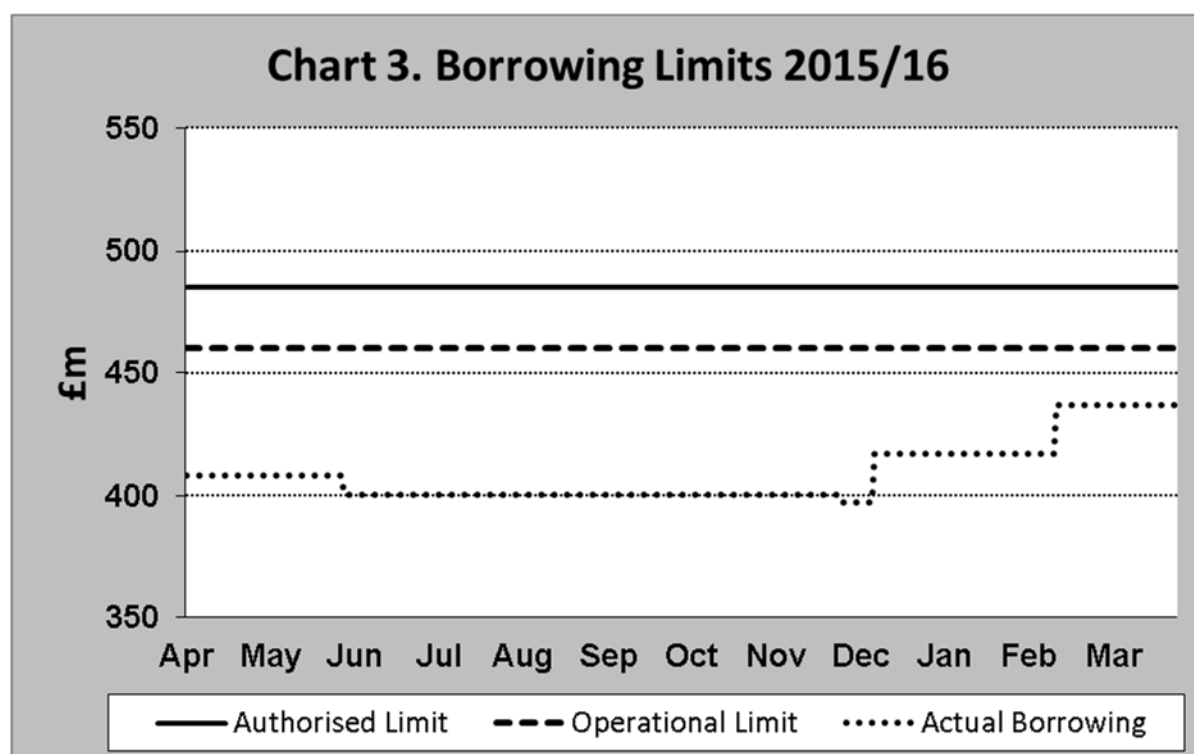
- 5.3 The Council's average investment level over 2015/16 was £97.6m. This was an increase of 16% on the previous year (when the average balance was £84.4m), due to slippage in the capital programme.

- 5.4 The Council achieved investment returns of 0.63% for the year against the benchmark (7-day LIBID) which averaged 0.36%. Investment rates available in the market remain at historic lows as a result of central bank policies.
- 5.5 Table 3 shows the returns achieved by type of deposit. The table shows that the use of fixed term investments does allow a higher return to be achieved but this must always be weighed against the key concerns of security and liquidity. Cash tied up for longer periods is more exposed to credit risk but this is managed through a robust policy for approved counterparties.

<b>Table 3 Returns on Investments</b>	<b>Average Balance £m</b>	<b>Interest Earned £k</b>	<b>Average Return %</b>
Fixed Term Investments (under 364 days)	36.0	226.5	0.63%
Fixed Term Investments (over 364 days)	4.5	116.4	2.59%
Call Accounts / Money Market Funds	57.1	270.4	0.47%
<b>Total</b>	<b>97.6</b>	<b>613.3</b>	<b>0.63%</b>

## 6. Long Term Borrowing

- 6.1 The Treasury Management Strategy for 2015/16 presented to Council in February 2015 outlined the Council's long term borrowing strategy for the year. Long-term borrowing is sourced from either the market (including other local authorities) or from the PWLB.
- 6.2 The Council's treasury management strategy for 2015/16 assumed £78m of new long-term borrowing. Due to slippage, actual new long-term borrowing was only £40m, taken at an average rate of 3.09%, and at an average loan length of just over 38 years.
- 6.3 Total external borrowing stood at £437.1m on the 31 March 2016 which is within the operational boundary of £460m agreed by the Council. Chart 3 below shows that the level of external debt throughout the year was below the key treasury indicators of the authorised limit and the operational boundary, demonstrating that borrowing was within plan during the year. Further details on these treasury prudential indicators are provided in Appendix D.

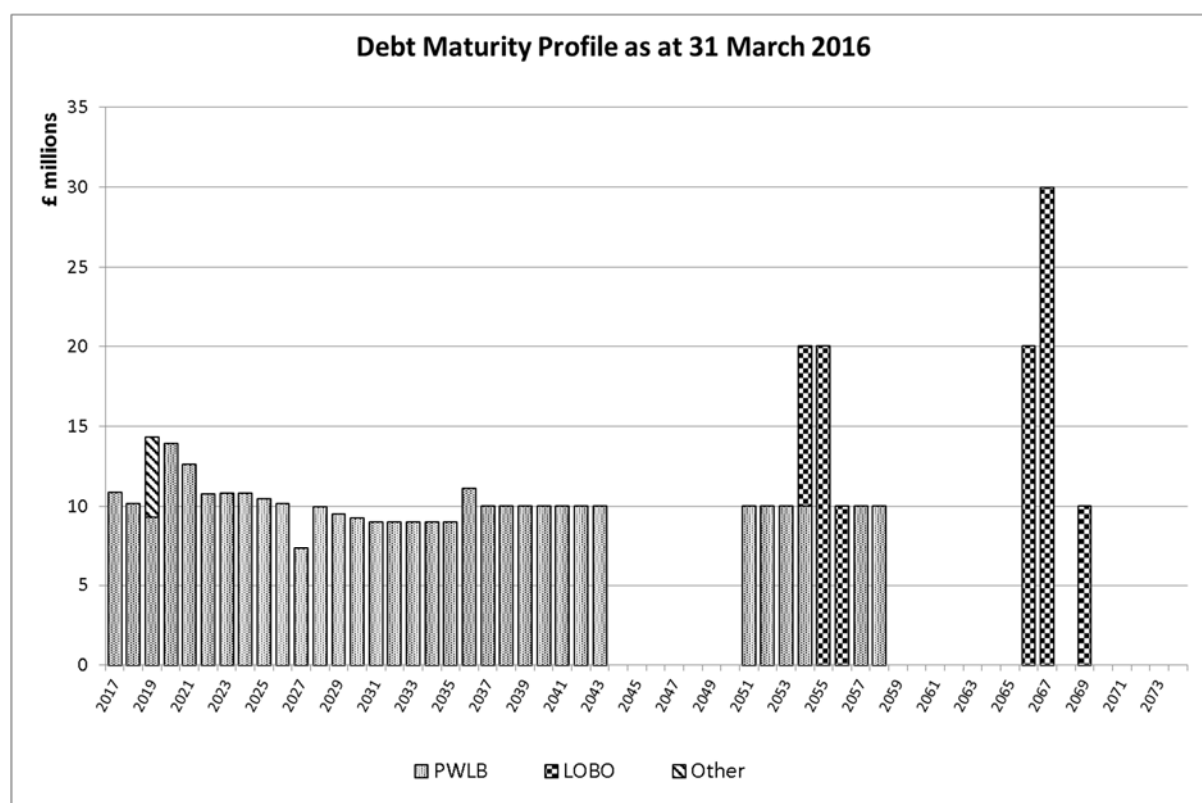


- 6.4 Table 4 shows the movement in long-term borrowing during 2015/16. The loan portfolio still includes 10 LOBOs (£10m each), whereby the lender can opt, at specified dates, to increase the interest rate payable and the borrower can either accept the increased rate or repay the loan in full. Future call options on these loans constitute a level of interest rate risk for the Council and these will be monitored carefully to ensure the Council is not adversely affected.

**Table 4 Movements in Long-term Borrowing 2015/16**

Lender	B/fwd 31/03/15 £m	Advances 2015/16 £m	Normal Repayments 2015/16 £m	Premature Repayments 2015/16 £m	C/fwd 31/03/16 £m
PWLB	303.1	40.0	11.0	0.0	332.1
LOBO	100.0	0.0	0.0	0.0	100.0
Other	5.0	0.0	0.0	0.0	5.0
<b>Total</b>	<b>408.1</b>	<b>40.0</b>	<b>11.0</b>	<b>0.0</b>	<b>437.1</b>

- 6.5 The chart below shows that the debt maturity profile is fairly evenly spread until 2043, thereby minimizing refinancing risk. In this chart it is assumed that LOBO loans will run to maturity, and not be called at an earlier date. The average rate on external debt was 4.71% compared to 4.90% in the previous year, reflecting changes both in the rates available to the Council and in the Council's maturity profile.



6.6 The Council always has the option of rescheduling its existing PWLB debt should market conditions indicate opportunities for savings. This is achieved by redeeming fixed rate debt and raising new debt at a lower rate of interest, although current PWLB redemption rates invariably result in a prohibitive premium being charged. No financially attractive opportunities for debt rescheduling arose over the reporting period.

## 7. Prudential Indicators for Treasury Management

7.1 Table 6 below shows how the treasury management indicators compare with the outturn position. The objective of these indicators is to manage treasury management risks effectively. No indicators were breached during the year.

<b>Table 6 TREASURY MANAGEMENT INDICATORS 2015/16</b>	<b>Approved limits</b>	<b>Outturn</b>
<b>Authorised Limit for external debt</b>	£485m	£437m
<b>Operational Boundary for external debt</b>	£460m	£437m
<b>Upper limit for Rate Exposure – Fixed</b>	100%	100%
<b>Upper limit for Rate Exposure - Variable</b>	75%	0%
<b>Upper limit for principal sums invested for over 364 days</b>	Higher of £20m and 15%	£4.5m

## APPENDIX E

<b>Maturity structure of fixed rate borrowing</b>	<b>Approved Lower limit</b>	<b>Approved Upper limit</b>	<b>Outturn</b>
under 12 months	0%	25%	4.0%
12 months and within 24 months	0%	25%	2.3%
24 months and within 5 years	0%	75%	9.2%
5 years and within 10 years	0%	100%	12.0%
10 years and above	0%	100%	72.6%
Adoption of CIPFA's Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes			Adopted