

REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT**TREASURY MANAGEMENT OUTTURN REPORT 2016/17****1. Purpose**

To provide a review of the Council's treasury management activities for the year to 31 March 2017.

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 & Improvement), the Group Manager (Financial Strategy & Compliance), the Senior Accountant (Pensions & Treasury Management) and the Senior Accountant (Financial Strategy & Accounting).
- 2.3 In 2016/17, 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 decreased by £1m in 2016/17.
 - Over the course of the financial year the Council earned 0.57% on its cash investments, compared with the average 7-day London Interbank BID (LIBID) rate for 2016/17 which was 0.20%.
 - Reports have been submitted to Council and the Finance & Property Committee as required.

3. Outturn Treasury Position

- 3.1 The Council's treasury management strategy and associated policies and practices for 2016/17 were approved in February 2016 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 2017 is shown in Table 1 below.

Table 1. Treasury Position as at 31 March 2017		£m	£m	Average Interest Rate
EXTERNAL BORROWING				
Long-term				
Fixed Rate	PWLB	331.2		4.79%
	LOBOs	70.0		3.87%
	Other	35.0	436.2	3.55%
Short-term				
Fixed Rate	Other	0.0	0.0	
Total			436.2	4.54%
Other Long-Term Liabilities			125.1	
Total Gross Debt			561.3	
Less: Investments			(81.0)	0.45%
Total Net Debt			480.3	

Notes: PWLB = Public Works Loans Board

LOBOs = Lenders' Option, Borrowers' Option loans

Other = market loans taken directly from banks or via brokers

4. Treasury Management Activities 2016/17

- 4.1 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 2016/17. All new borrowing was sourced from the PWLB.
- 4.2 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 (LAMS).

Table 2 Temporary Borrowing and Lending	Borrowing £m	Lending £m	Net Position £m
Outstanding 31 March 2016	0.0	(97.7)	(97.7)
Raised/ (lent) during period	0.0	(872.7)	(872.7)
Repayments during period	0.0	893.9	893.9
Outstanding 31 March 2017	0.0	(76.5)	(76.5)

- 4.3 The Council's average investment level over 2016/17 was £109.2m (this figure includes the LAMS investments). The return achieved on this balance over the course of the year was 0.57% against a benchmark of 0.20% (7-day LIBID).

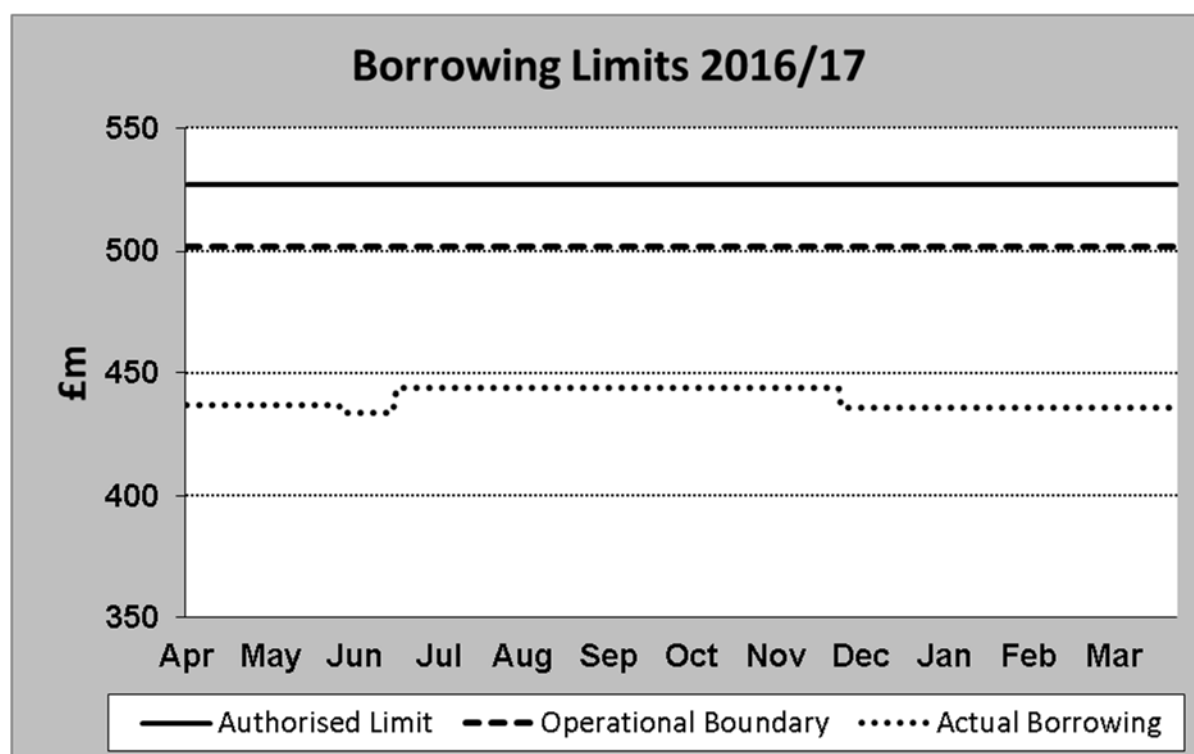
Investment rates available in the market remain at historic lows as a result of central bank policies.

- 4.4 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 (21 basis points) 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.

Table 3 Returns on Investments	Average Balance £m	Interest Earned £k	Average Return %
Fixed Term Investments < 366 days	46.2	278	0.60
Fixed Term Investments > 365 days	4.5	116	2.59
Call Accounts / Money Market Funds	58.5	226	0.39
Total	109.2	620	0.57

5. Long Term Borrowing

- 5.1 The Treasury Management Strategy for 2016/17 presented to Council in February 2016 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.
- 5.2 The Council's treasury management strategy for 2016/17 assumed £52m of new long-term borrowing. Due to favourable cashflow circumstances (either capital slippage or lower than forecast use of reserves) actual new long-term borrowing was only £10m, taken at a rate of 2.80%, and a length of just over 33 years.
- 5.3 Total external borrowing stood at £436.2m on the 31 March 2017 which is within the operational boundary of £502m 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.

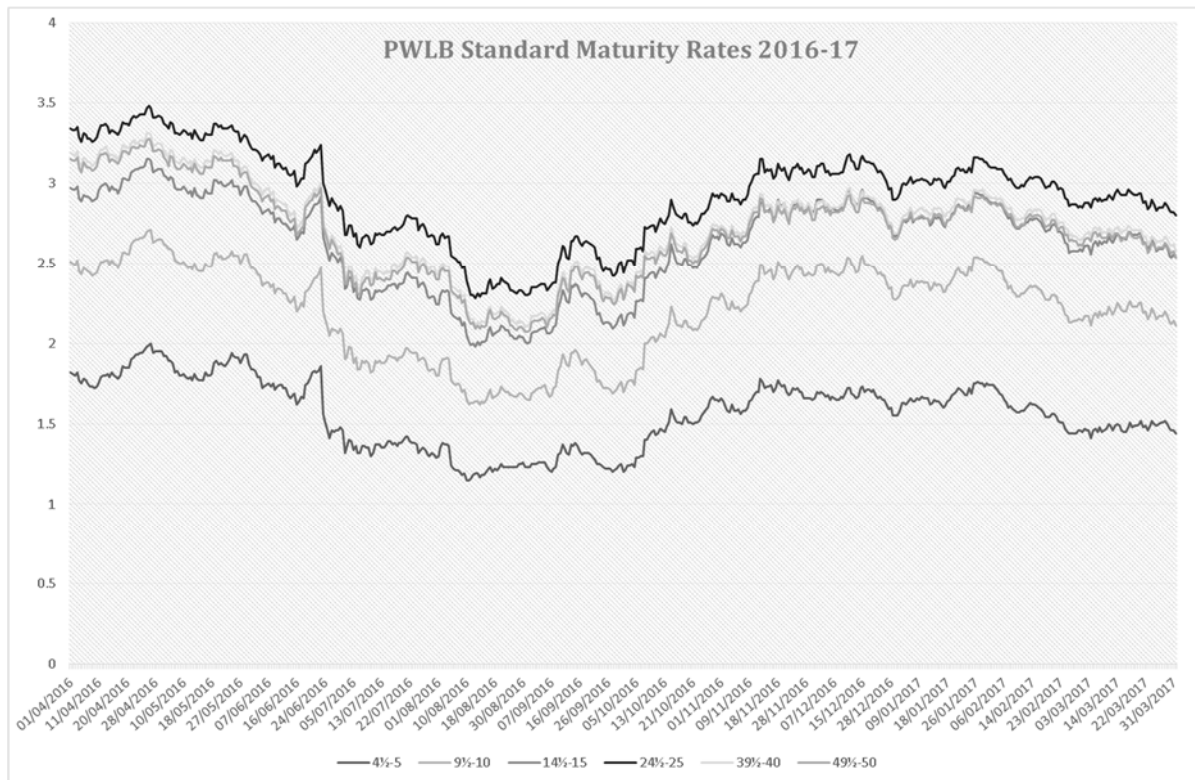


- 5.4 Table 4 shows the movement in long-term borrowing during 2016/17. The loan portfolio included 10 LOBOs of £10m each at the start of the financial year. These are loans whereby the lender can opt, at specified dates, to increase the interest rate payable and the borrower can either accept the increased rate or repay the loan in full. However, during the year Barclays Bank converted £30m of its LOBOs to fixed-term loans (in other words, declining all future lender options), so these are now classed as 'Other'. Future call options on the remaining £70m of LOBOs constitute a level of interest rate risk for the Council and these will be monitored carefully to ensure the Council is not adversely affected.

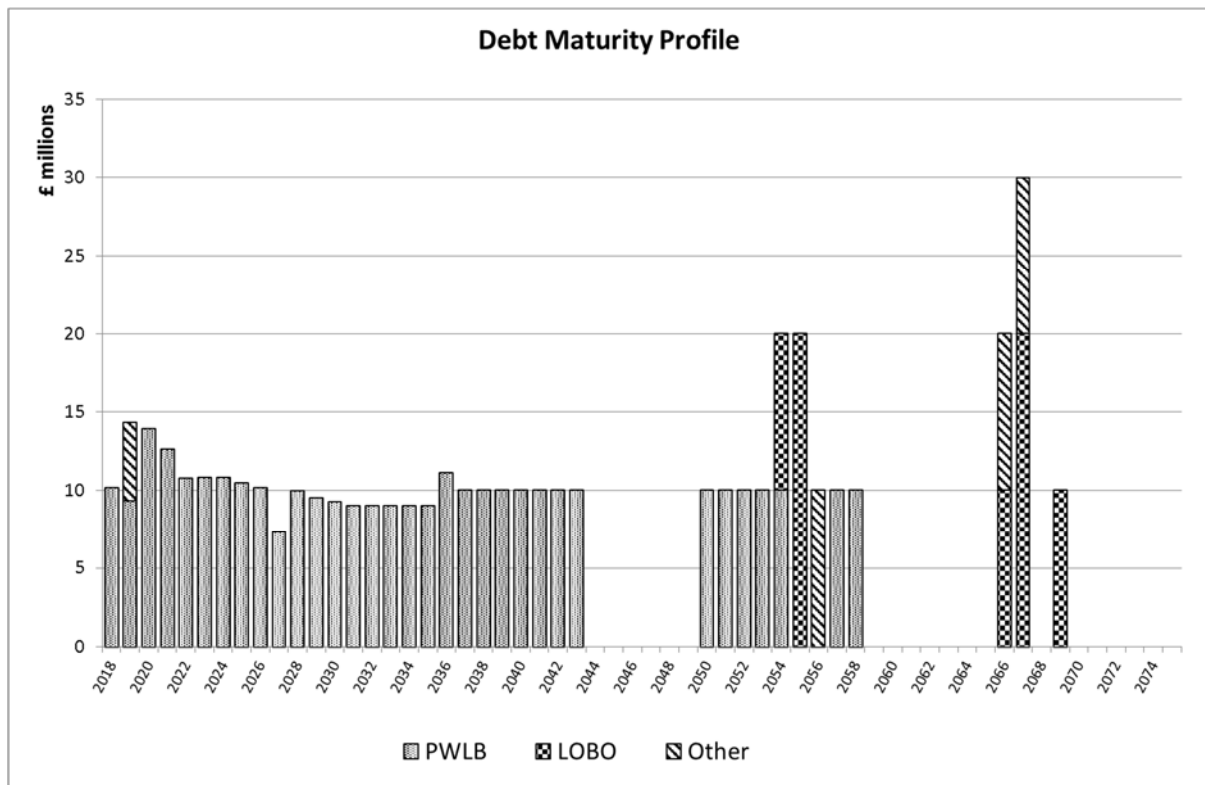
Table 4 Movements in Long-term Borrowing 2016/17

Lender	B/fwd 01/04/16 £m	Advances 2016/17 £m	Normal Repayments 2016/17 £m	Premature Repayments 2016/17 £m	C/fwd 31/03/17 £m
PWLB	332.1	10.0	(10.9)	0.0	331.2
LOBO	100.0	(30.0)	0.0	0.0	70.0
Other	5.0	30.0	0.0	0.0	35.0
Total	437.1	10.0	(10.9)	0.0	436.2

- 5.5 Over the course of 2016/17 PWLB rates (which vary with gilt yields) declined, and this was particularly marked after the EU referendum result as investors sought to panic-buy gilts in the immediate aftermath. Yields recovered somewhat over the following months but PWLB rates still remained relatively low by the year-end. The movement in PWLB standard maturity rates over 2016/17 is shown in the chart below.



5.6 The chart below shows the debt maturity profile as at 31 March 2017. This is fairly evenly spread until 2043, thereby minimising refinancing risk. In this chart it is assumed that the remaining LOBO loans will run to maturity, and not be called at an earlier date. The average rate on external debt was 4.56% compared to 4.71% in the previous year, reflecting both the lower rates now available to the Council and the higher rates of the Council's maturing debt.



5.7 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.

6. Prudential Indicators for Treasury Management

6.1 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.

Table 6 TREASURY MANAGEMENT INDICATORS 2016/17	Approved limits	Outturn
Authorised Limit for external debt	£527m	£436m
Operational Boundary for external debt	£502m	£436m
Upper limit for Rate Exposure – Fixed	100%	100%
Upper limit for Rate Exposure - Variable	75%	0%
Upper limit for principal sums invested for over 364 days	Higher of £20m and 15%	£4.5m

Maturity structure of fixed rate borrowing	Approved Lower limit	Approved Upper limit	Outturn
under 12 months	0%	25%	3.8%
12 months and within 24 months	0%	25%	3.2%
24 months and within 5 years	0%	75%	8.4%
5 years and within 10 years	0%	100%	11.2%
10 years and above	0%	100%	73.4%
Adoption of CIPFA's Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes			Adopted