

POLICY & RESOURCES CABINET BOARD

REPORT OF THE HEAD OF FINANCIAL SERVICES – MR DAVID REES

21st September 2016

SECTION B – MATTERS FOR INFORMATION

WARDS AFFECTED: ALL

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2015/16

1. Purpose of Report

- 1.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2015/16 (this report).
- 1.2 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). Some information incorporated within this report has been provided by the Council's Treasury Advisors Capita Asset Services.
- 1.3 Recent changes in the regulatory environment place a much greater 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.
- 1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to the annual strategy report, which was submitted to Cabinet in February 2015 before being reported to full Council.

2.0 Executive Summary

- 2.1 During 2015/16, 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:

Prudential and Treasury Indicators	2014/15 Actual £000	2015/16 Revised Estimate £000	2015/16 Actual £000
Capital Expenditure	57,902	66,729	62,999
Capital Financing Requirement	242,118	276,744	270,267
External debt(gross)	194,224	220,685	225,686
Less Investments	(47,550)	(60,000)	(79,870)
Net Borrowing	146,674	160,685	145,816

2.2 The full list of prudential and treasury indicators are to be found in Appendix 1. During the financial year the Council operated within its treasury limits and Prudential Indicators.

2.3 The financial year 2015/16 was once again a challenging environment as in previous years with low investment returns and continuing counterparty risk.

3.0 Introduction and Background

3.1 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

4.0 The Council's Capital Expenditure and Financing 2015/16

4.1 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.

4.2 Actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2014/15 Actual £'000	2015/16 Revised Estimate £'000	2015/16 Actual £'000
Total capital expenditure	57,902	66,729	62,999
Resourced by:			
• Capital receipts	(1,250)	(3,700)	(2,077)
• Capital grants & contributions	(22,708)	(19,628)	(24,499)
• Capital reserves + Direct Revenue Financing	(2,432)	(2,192)	(1,836)
Unfinanced capital expenditure (to be funded from Borrowing)	(31,512)	(41,209)	(34,587)

5.0 The Council's Overall Borrowing Need

5.1 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 2015/16 unfinanced capital expenditure (see previous table), and prior years' net of

unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

- 5.2 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.
- 5.3 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 is effectively a repayment of the borrowing need. 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.
- 5.4 The total CFR can also 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).
- 5.5 The Council's amended 2015/16 MRP Policy was approved by Council during February 2016.
- 5.6 The Council's CFR for the year is shown below, and represents a key prudential indicator.

CFR	2014/15 Actual £'000	2015/16 Revised Estimate £'000	2015/16 Actual £'000
Opening balance	219,942	242,118	242,118
Add unfinanced capital expenditure (as above)	31,512	41,209	34,587
Less MRP/Set aside receipts	(9,336)	(6,583)	(6,438)
Closing balance	242,118	276,744	270,267

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

5.8 Net 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 used 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 2015/16 plus the expected changes to the CFR over 2016/17 and 2017/18. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2015/16. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31/3/15 Actual £'000	31/3/16 Revised Estimate £'000	31/3/16 Actual £'000
Net borrowing position	146,674	160,685	145,816
CFR	242,118	276,744	270,267

5.9 The authorised limit – the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level.

5.10 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.

	Actual 2015/16 £000
Operational boundary	319,336
Authorised limit	299,336
Maximum Gross Borrowing during 2015/16	
<u>Comprising of:</u>	
Maximum Long Term Borrowing at any point during year	225,686
Maximum Short Term Borrowing at any point during year	2,000

The Council has maintained gross borrowing below the Authorised limit.

6.0 Treasury Position as at 31st March 2016

- 6.1 The Council's debt and investment position is managed by Finance Treasury Staff 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 executive summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2015/16 the Council's treasury position was as follows:

	31 March 2015 Principal	Rate / Return	31 March 2016 Principal	Rate / Return
Fixed rate funding:	£m	%	£m	%
-PWLB	127.926	5.03	150.258	4.56
-Market (Rifw & LOBO)	65.298	3.93	75.428	3.69
-Other	1.000	0.5		
Variable rate funding:				
-PWLB	-	-		
-Market	-	-		
Total debt	194.224	4.80	225.686	4.27
Investments:				
- in house	47,550	1.20	79,870	0.78
- with managers				
Total investments	47,550		79,870	0.78

PWLB = Public Works Loans Board which is a body the Government has established to lend money to Local Government.

Market LOBO's = Lender Option Borrower Option – this is borrowing from the market when the lender has offered a long term loan but with options to continue or foreclose on the loan at various specific intervals.

7.0 The Strategy for 2015/16

7.1 The strategy for 2015/16 was approved by Cabinet and Council in February 2015.

7.2 New Borrowing:

The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However this strategy can only be used as a short term measure therefore consideration will be given to entering into external borrowing during 2015/16.

The following types of loan arrangement will be considered (in no particular order):

- Temporary borrowing from the money markets or other local authorities.
- Short dated borrowing from the market or PWLB.
- Long term fixed rate market or PWLB loans

7.3 Investments

The Council continued with its main investment priorities:

- (a) security of capital
- (b) liquidity of capital

with the aim of achieving the optimum return commensurate with proper levels of security and liquidity. With investments being dominated by low counterparty risk considerations, relatively low returns were expected when compared to borrowing rates.

7.4 For balances generated through normal cashflow the strategy looked to utilise the business reserve (call account) and short dated deposits.

7.5 Debt Rescheduling

The strategy did allow for the use of investment balances to repay debt prematurely providing it was economically worthwhile and it enhanced the maturity profile of the debt portfolio.

No debt rescheduling was anticipated (or took place) in 2015/16 particularly as the PWLB rate structures have made it more expensive in recent years to do so.

8. Borrowing Outturn for 2015/16

8.1 The following long term loans were entered into during 2015/16 due to the fact that PWLB loan rates were at historic low rates. These loans are used to finance capital expenditure on projects such as the Strategic School Improvement Programme, Street Lighting Replacement Programme and the new Aberafan Leisure and Fitness Centre.

Lender	Date	Amount £'000	Rate %	Period	Details
PWLB	30/7/15	9,000	3.12	48yrs	Maturity
PWLB	11/1/16	10,000	1.99	10yrs	EIP
PWLB	8/3/16	5,000	2.74	50yrs	Maturity

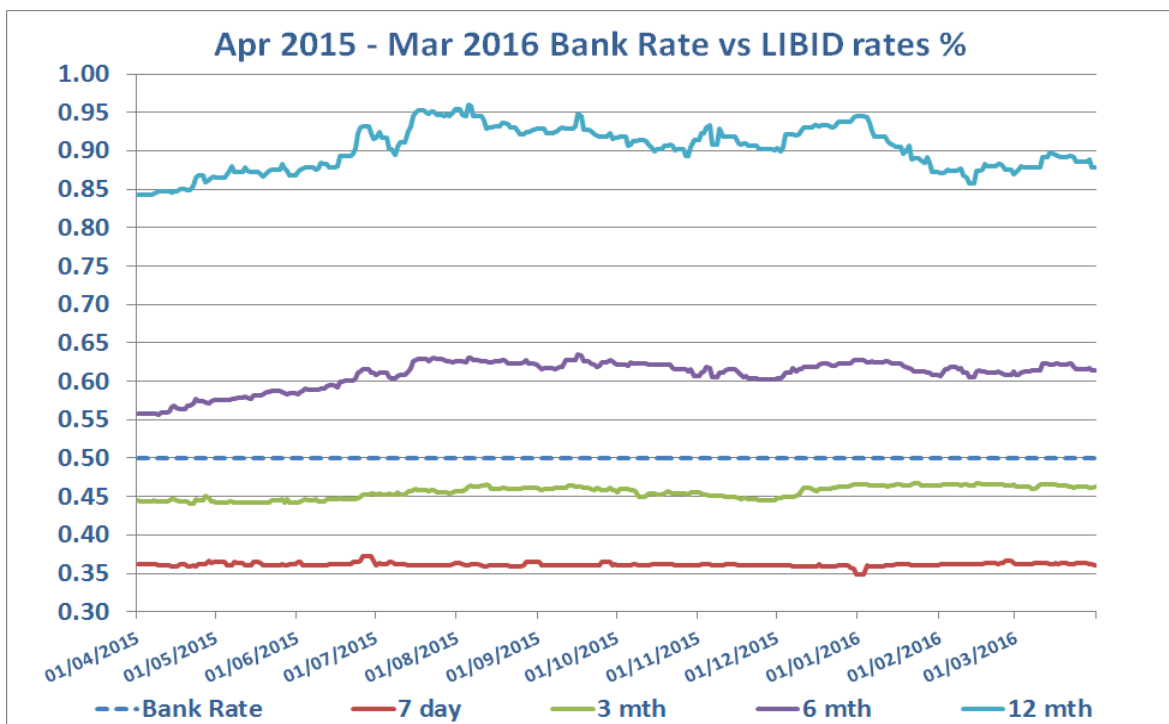
8.2 Treasury Borrowing – The following short term temporary loans were undertaken during the year:-

Start Date	End Date	Lender	Value £'000	Rate %
31/7/15	3/8/15	Leicester County Council	2,000	0.35

8.3 Rescheduling – No loans were rescheduled during 2015/16

9. Investment Rates in 2015/16

9.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year.



10. Investment Outturn for 2015/16

- 10.1 Investment Policy – the Council’s investment policy is governed by Welsh Government guidance, which has been implemented in the annual investment strategy approved by Council in February 2015. 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 additional market data (such as rating outlooks, credit default swaps, bank share prices etc).
- 10.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 10.3 Resources – the Council’s longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council’s core cash resources comprised the following:

Balance Sheet Resources	31 March 2015 £'000	31 March 2016 £'000
Balances and Earmarked Reserves	42,972	48,857
Provisions	8,238	8,290
Usable capital receipts	6,826	5,484
Total	58,038	62,631

- 10.4 Investments held by the Council – The Council received the following return on its investments:

Average Investment £'000	External Interest Earned £'000	Rate of Return %	Benchmark Return %
69,456	545	0.78	0.45

The benchmark for funds managed in house is the 3 month LIBID uncompounded. The rate reflects a more realistic neutral position for core investments with a medium term horizon and a rate which is more stable with fewer fluctuations caused by market liquidity.

11. Performance Measurement

- 11.1 One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide (as incorporated in the table in section 6). The Council's original performance indicators for 2015/16 were set out in the Annual Treasury Strategy approved by Council in February 2015.

12. Financial Impact

All financial impacts are detailed within the body of the report.

13. Equality impact assessment

There is no requirement for an equality impact assessment for this report.

14. Workforce impacts

There are no workforce impacts resulting from this report.

15. Legal impacts

The report deals with the Council's legal requirements as set out in Local Government Act 2003.

16. Risk management

Compliance with the strategies outlined in this report should be sufficient in terms of managing risks in this area.

17. Recommendations

It is recommended that Members note the 2015/16 treasury management function performance as set out in this report including the actual 2015/16 prudential and treasury indicators.

18. Reasons for proposed decisions

For Members to note the Treasury Management Performance for last financial year.

19. Implementation of decision

Not applicable

20. Appendices

Appendix 1 – Prudential Indicators

List of Background Papers

Treasury Management Closing Files 2015/16

Capita Asset Services - Treasury Management Templates

Officer Contact

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PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS	2014/15 Actual	2015/16 Revised Estimate	2015/16 Actual
Capital Expenditure	£'000 57,902	£'000 66,729	£'000 62,999
Ratio of financing costs to net revenue stream	% 6.70	% 5.96	% 5.80
In year borrowing requirement	£'000 31,512	£'000 41,209	£'000 34,587
Capital Financing Requirement as at 31 st March	£'000 242,118	£'000 276,744	£'000 270,267
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (Band D) per annum *	14.69	21.05	15.35

*However due to the change in the Minimum Revenue Provision Policy the net cost per band D property of the Council's funding decisions reduced by £51.25.

PRUDENTIAL INDICATORS

TREASURY MANAGEMENT INDICATORS	2014/15 Actual	2015/16 Revised Estimate	2015/16 Actual
	£'000	£'000	£'000
Authorised Limit for External Debt: Borrowing and other long term liabilities	249,861	299,336	299,336
Operational Boundary for External Debt: Borrowing and other long term liabilities	229,861	319,336	319,336
External Debt (Gross)	194,224	220,685	225,686
Less Investments	(47,550)	(60,000)	(79,780)
Net Borrowing Position	146,674	160,685	145,816

PRUDENTIAL INDICATORS

Maturity Structure of Fixed Rate Borrowing During 2014/15	2014/15 Actual	2015/16 Original Estimate		2015/16 Actual
		Upper Limit	Lower Limit	
	%	%	%	%
Under 12 months	1	15	0	2
12 months to 2 years	2	15	0	6
2 to 5 years	6	40	0	9
5 to 10 years	12	60	0	8
10 years and above	79	100	15	75

