

Committee: Cabinet

Agenda Item

Date: 1 December 2016

9

Title: 2015/16 Treasury Management Outturn

Portfolio Holder: Councillor Simon Howell

Key decision: **No**

Summary

1. It is a requirement of the Council's Constitution that the Cabinet receives an annual statement of the key treasury management activity and outcomes during the year.
2. Treasury Management is the activity of the Council's finance function which manages cash flows, bank accounts, deposits, investments and borrowing. The objective is to manage risk effectively in order to ensure the security of funds, sufficient liquidity to enable commitments to be met, to generate income and minimise cost.
3. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of these risks.
4. In summary, during 2015/16:
 - a) No other short term or long term borrowing was needed to meet the Council's commitments and no cash flow difficulties were experienced.
 - b) The Council continued to operate a cautious approach when lending money to counterparties. All deposits and investments made were in compliance with the Council's approved treasury management strategy which is prepared with the assistance of the Council's independent treasury consultants, Arlingclose Ltd.

Recommendations

5. The Cabinet is recommended to approve the 2015/16 treasury management outturn as set out in this report.

Financial Implications

6. Included in the body of the report

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Background

7. Treasury management is defined as: “The management of the local authority’s investments and cash flows, 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.”
8. The Council’s treasury management activity is underpinned by CIPFA’s Code of Practice on Treasury Management (“The Code”), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy on the likely financing and investment activity. This is approved by the Council as part of the annual budget setting process. Monitoring reports are submitted to the Cabinet as part of regular budget monitoring reports.
9. The Council is supported in its treasury management activity by our independent financial advisers Arlingclose Limited.
10. All responsibility for decision making rests with the Council. Under the Council’s constitution the Assistant Director of Resources is authorised to make investment and borrowing decisions in line with the policy approved by the Council.

Treasury Position:

11. The Council’s Treasury Position for the year is summarised in the table below, and explained in the following sections of the report.

BALANCES		
01-Apr-15		01-Apr-16
£ m		£ m
(88,407)	Long Term Borrowing	(88,407)
0	Short Term Borrowing	0
<u>(88,407)</u>	Total Borrowing	<u>(88,407)</u>
(5,063)	Other Long Term Liabilities, PFI Contract	(4,957)
<u>(93,470)</u>	TOTAL EXTERNAL BORROWING	<u>(93,364)</u>
2,834	Funds on Call	4,221
23,500	Short Term Investments	30,000
0	Long Term Investments	0
<u>26,334</u>	Total Investments	<u>34,221</u>
<u>(67,136)</u>	NET TREASURY POSITION	<u>(59,143)</u>
<u>(96,520)</u>	Capital Financing Requirement * <i>(notional indicator of need to borrow)</i>	<u>(96,578)</u>

*The capital financing requirement (CFR) measures an authority's underlying need to borrow or finance by other long-term liabilities for a capital purpose.

Borrowing

12. As part of the Council's strategy for 2015/16 there was no need to take out external borrowing to finance capital expenditure. The table below shows how capital expenditure was financed.

2014/15		2015/16
£ '000		£ '000
730	Capital Receipts	247
3,768	Grants & Other Contributions	938
3,374	Revenue Contributions	3,127
3,227	Major Repairs Reserve	3,334
(522)	Underlying need to borrow	549
<u>10,577</u>	TOTAL	<u>8,195</u>

13. The Localism Act enabled the reform of council housing finance and the abolition of the housing subsidy system. This required the Council to make a one off payment of £88.407m to the Government on 28 March 2012. This was funded by loans taken out from the Public Works Loans Board, in accordance with a borrowing strategy approved by the Council on 23 February 2012. The loans taken out were as follows:

Amount (£m)	Loan Type	Remaining Term	Interest rate	Fixed or Variable	Maturity Date
2.000	Maturity	2 years	0.65%	Variable	28/03/2018
2.000	Maturity	3 years	0.65%	Variable	28/03/2019
2.000	Maturity	4 years	0.65%	Variable	28/03/2020
2.000	Maturity	5 years	0.65%	Variable	28/03/2021
2.000	Maturity	6 years	0.65%	Variable	28/03/2022
2.000	Maturity	7 years	2.56%	Fixed	28/03/2023
3.000	Maturity	8 years	2.70%	Fixed	28/03/2024
3.000	Maturity	9 years	2.82%	Fixed	28/03/2025
3.000	Maturity	10 years	2.92%	Fixed	28/03/2026
3.000	Maturity	11 years	3.01%	Fixed	28/03/2027
3.000	Maturity	12 years	3.08%	Fixed	28/03/2028
3.000	Maturity	13 years	3.15%	Fixed	28/03/2029
4.000	Maturity	14 years	3.21%	Fixed	28/03/2030
4.000	Maturity	15 years	3.26%	Fixed	28/03/2031
4.000	Maturity	16 years	3.30%	Fixed	28/03/2032
4.000	Maturity	17 years	3.34%	Fixed	28/03/2033
4.000	Maturity	18 years	3.37%	Fixed	28/03/2034
4.000	Maturity	19 years	3.40%	Fixed	28/03/2035
4.000	Maturity	20 years	3.42%	Fixed	28/03/2036
5.000	Maturity	21 years	3.44%	Fixed	28/03/2037
5.000	Maturity	22 years	3.46%	Fixed	28/03/2038
5.000	Maturity	23 years	3.47%	Fixed	28/03/2039
5.000	Maturity	24 years	3.48%	Fixed	28/03/2040
5.000	Maturity	25 years	3.49%	Fixed	28/03/2041
5.407	Maturity	26 years	3.50%	Fixed	28/03/2042
88.407	Total				

14. The interest cost in 2015/16 for these loans was £2.64m.

15. No short term borrowing was required in order to meet cash flow commitments.

16. The only other debt during the year was the Council's ongoing long term liability relating to the PFI Contract and Finance Leases, which under accounting rules is recognised as a debt on the Council's balance sheet.

Investments

17. The approved latest investment strategy for 2015/16 is summarised as follows:

- To prioritise security and liquidity of the investment over yield
- To place funds with UK Banks and Building Societies that have a minimum credit rating of BBB+ or to place funds with the UK Government bodies or approved Building Societies.

18. The table below summarises the risk appetite of the Council in 2015/16:

General Counterparty list *		Cash limit	Time limit	
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£2m	365 days	
	AA+	£2m	365 days	
	AA	£2m	365 days	
	AA	£2m	365 days	
	AA-	£2m	365 days	
	A+	£2m	182 days	
	A	£2m	182 days	
	A-	£2m	182 days	
	BBB+	£1m	100 days	
Council's General bank account if it fails to meet the above criteria, excluding fixed term deposit accounts		£1.5m	next day	
UK Central Government (irrespective of credit rating)		unlimited	50 years	
UK Local Authorities including Fire and Police (irrespective of credit rating), per authority		£3m	182 days	
UK Building Societies without credit ratings		£1m	100 days	
Saffron Building Society		£0.5m	100 days	
Money Market Funds, UK Domiciled per fund		AAA	£1m	next day

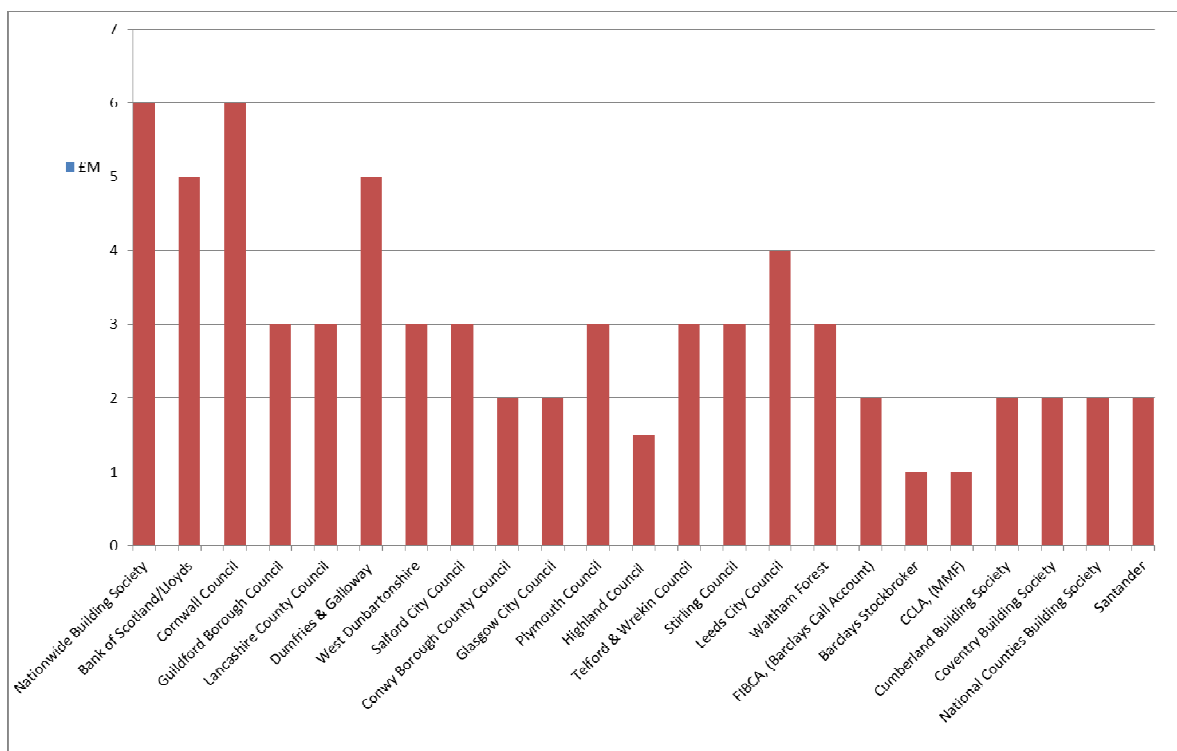
* The list is the maximum risk appetite the Council is willing to take and will not invest with Counterparties outside of the Arlingclose Counterparty list. Furthermore UDC will not exceed the cash, credit rating and time limit set by Arlingclose in their regularly updated counterparty report

19. All deposits placed during the year complied with the Council's policy. All deposits expected to be repaid during the year were received without difficulty. The table below summarises the investment activity during the year;

Institutions	Balance	Investments	Investments	Balance
	31/03/15	Made	Repaid	31/03/16
	£M	£M	£M	£M
Local Authorities	0	44.5	44.5	0
Treasury Bills	0	0	0	0
Government Deposits	23.5	135	128.5	30
Barclays Call Accounts	1	2	1	2
Barclays Stockbroker	0	1	1	0
Bank of Scotland/Lloyds	0	5	5	0
Nationwide	0	6	6	0
MMF CCLA	1	1	0	2
Unrated Building Societies	0	6	6	0
Leeds Building Society	0	0	0	0
Santander	0	2	2	0
TOTAL	25.5	202.5	194	34

20. The Authority assessed and monitored counterparty credit quality with reference to credit ratings; Gross Domestic Product (GDP) of the country in which the institution operates; the country's net debt as a percentage of GDP and share price. The minimum long term counterparty credit rating determined by the authority for 2015/16 treasury strategy was [BBB+] across rating agencies Fitch, S&P and Moody's.
21. The Council aimed to achieve credit ratings of at least BBB+ to reflect the Councils overriding priority of security of monies invested with counterparties as shown in the table below.

Institution	Treasury Deals £M	No. of Deposits	Average No. of Days	Credit Rating	Average Interest Rate
Debt Management Office, (DMO)	135.0	39	38	AA	0.25%
Nationwide Building Society	6.0	2	117	A	0.54%
Bank of Scotland/Lloyds	5.0	3	187	A+	0.50%
Cornwall Council	6.0	2	176	N/A	0.40%
Guildford Borough Council	3.0	1	160	N/A	0.40%
Lancashire County Council	3.0	1	181	N/A	0.40%
Dumfries & Galloway	5.0	2	124	N/A	0.36%
West Dunbartonshire	3.0	1	182	N/A	0.45%
Salford City Council	3.0	1	94	N/A	0.30%
Conwy Borough County Council	2.0	1	150	N/A	0.40%
Glasgow City Council	2.0	1	173	N/A	0.40%
Plymouth Council	3.0	1	129	N/A	0.40%
Highland Council	1.5	1	120	N/A	0.40%
Telford & Wrekin Council	3.0	1	68	N/A	0.35%
Stirling Council	3.0	1	119	N/A	0.45%
Leeds City Council	4.0	2	53	N/A	0.40%
Waltham Forest	3.0	1	69	N/A	0.40%
FIBCA, (Barclays Call Account)	2.0	2	177	A	0.45%
Barclays Stockbroker	1.0	1	365	A	0.37%
CCLA, (MMF)	1.0	2	365	AA	0.40%
Cumberland Building Society	2.0	2	86	Unrated	0.53%
Coventry Building Society	2.0	1	96	A	0.45%
National Counties Building Society	2.0	2	97	Unrated	0.56%
Santander	2.0	1	169	A	0.60%
TOTAL	£202.5	72			



The graph above excludes DMO deals and provides an overview of all the other counterparties the Council has invested, within 2015/16.

Liquidity Management

22. In keeping with the DCLG's guidance on Investments, the authority maintained a sufficient level of liquidity averaging £1.158m through the use of its main call account.

Prudential Indicators

23. The Council is required to calculate and publish a set of statutory prudential indicators. These are technical measures of the Council's indebtedness and exposure to risk, and are intended to ensure that treasury management is prudent, sustainable and affordable.
24. The prudential indicators are set out in Appendix A of this report. There are no concerns or issues to highlight for Members' attention.

Compliance

25. The Authority confirms that it has complied with its Prudential Indicators for 2015/16 which was approved as part of the Council's Treasury Management Strategy Statement.
26. The authority also confirms that during 2015/16 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

Investment Training

27. The needs of The Authority's treasury management staff for training in investment management are assessed regularly as part of the appraisal process. During 2015/16 staff attended training courses, seminars and conferences provided by Arlingclose, CIPFA and other relevant organisations.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Loss of council funds through failure of banking counterparty	1 (minimal risk due to nature of institutions used)	4 (significant sums are placed on deposit)	Treasury Management Strategy and regular monitoring with independent advice from Arlingclose Treasury consultants.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

PRUDENTIAL INDICATORS**INVESTMENTS**

	2015/16 Estimate	2015/16 outturn
Upper limit for principal sums invested for over 364 days	£0	£0

INTEREST RATE EXPOSURE

	2015/16 Estimate*	2015/16 outturn
Upper limit for fixed interest rate exposure	£78.4m	£78.4m
Upper limit for variable interest rate exposure	£10m	£10m

BORROWING LIMITS

	2015/16 Estimate*	2015/16 outturn
Authorised Limit (maximum level of external borrowing)	£93.5m	£93.5m
Operational Boundary (risk of Authorised Limit breach)	£101.5m	£101.5m

DEBT PORTFOLIO - MATURITY

Maturity structure of fixed rate borrowing	2015/16 Estimate* (as per HRA borrowing strategy)	2015/16 outturn (as per actual HRA loans)
Under 12 months	0%	0%
12-24 months	0%	0%
24 months – 5 years	0%	0%
<5 to 10 years	11.00%	11.00%
<10 to 20 years	32.54%	32.54%
<20 to 26 years	20.84%	20.84%

CAPITAL FINANCING COSTS

	2015/16 Estimate*	2015/16 outturn
Incremental impact of capital investment financed from Internal Borrowing – General Fund	£13.31	
Incremental impact of capital investment financed from Internal Borrowing – Housing Revenue Account	£2.51	
Ratio of financing costs to non-HRA net revenue stream	7.5%	7.2%
Ratio of financing costs to HRA net revenue stream	15.7%	16.2%
Minimum Revenue Provision charged to the accounts	£479,000	£505,000

*Estimate from the 2015/16 Treasury Management Strategy approved in February 2015.

BALANCED BUDGET REQUIREMENT

The Council complied with the statutory requirement to set and remain within a balanced budget.