

**Committee:** Cabinet

**Agenda Item**

**Date:** 10 July 2017

**8**

**Title:** 2016/17 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 2016/17:
  - a) No short term or long term borrowing was required to meet the Council's commitments in year.
  - b) No cash flow difficulties were experienced in year.
  - c) 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 2016/17 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.
9. The Treasury Management Strategy is approved by the Council as part of the annual budget setting process. Monitoring reports relating to investments are submitted to the Cabinet as part of the quarterly budget monitoring process.
10. The Council is supported in its treasury management activity by our independent financial advisers Arlingclose Limited.
11. 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:

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

<b>BALANCES</b>		
<b>01-Apr-16</b>		<b>01-Apr-17</b>
<b>£ m</b>		<b>£ m</b>
(88,407)	Long Term Borrowing	(88,407)
0	Short Term Borrowing	0
<b>(88,407)</b>	<b>Total Borrowing</b>	<b>(88,407)</b>
(4,957)	Other Long Term Liabilities, PFI Contract	(4,852)
<b>(93,364)</b>	<b>TOTAL EXTERNAL BORROWING</b>	<b>(93,259)</b>
4,221	Funds on Call	4,847
30,000	Short Term Investments	25,000
0	Long Term Investments	0
<b>34,221</b>	<b>Total Investments</b>	<b>29,847</b>
<b>(59,143)</b>	<b>NET TREASURY POSITION</b>	<b>(63,412)</b>
<b>(96,578)</b>	<b>Capital Financing Requirement * (notional indicator of need to borrow)</b>	<b>(118,053)</b>

\*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

13. As part of the Council's strategy for 2016/17 there was no requirement to take out external borrowing to finance capital expenditure. The table below shows how capital expenditure was financed.

<b>2015/16</b>		<b>2016/17</b>
<b>£ '000</b>		<b>£ '000</b>
247	Capital Receipts	78
938	Grants & Other Contributions	1,794
3,127	Revenue Contributions	4,119
3,334	Major Repairs Reserve	3,445
549	Underlying need to borrow	891
<b>8,195</b>	<b>TOTAL</b>	<b>10,327</b>

14. 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.
15. 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:

<b>Amount (£m)</b>	<b>Loan Type</b>	<b>Remaining Term</b>	<b>Interest rate</b>	<b>Fixed or Variable</b>	<b>Maturity Date</b>
2.000	Maturity	1 year	0.65%	Variable	28/03/2018
2.000	Maturity	2 years	0.65%	Variable	28/03/2019
2.000	Maturity	3 years	0.65%	Variable	28/03/2020
2.000	Maturity	4 years	0.65%	Variable	28/03/2021
2.000	Maturity	5 years	0.65%	Variable	28/03/2022
2.000	Maturity	6 years	2.56%	Fixed	28/03/2023
3.000	Maturity	7 years	2.70%	Fixed	28/03/2024
3.000	Maturity	8 years	2.82%	Fixed	28/03/2025
3.000	Maturity	9 years	2.92%	Fixed	28/03/2026
3.000	Maturity	10 years	3.01%	Fixed	28/03/2027
3.000	Maturity	11 years	3.08%	Fixed	28/03/2028
3.000	Maturity	12 years	3.15%	Fixed	28/03/2029
4.000	Maturity	13 years	3.21%	Fixed	28/03/2030
4.000	Maturity	14 years	3.26%	Fixed	28/03/2031
4.000	Maturity	15 years	3.30%	Fixed	28/03/2032
4.000	Maturity	16 years	3.34%	Fixed	28/03/2033
4.000	Maturity	17 years	3.37%	Fixed	28/03/2034
4.000	Maturity	18 years	3.40%	Fixed	28/03/2035
4.000	Maturity	19 years	3.42%	Fixed	28/03/2036
5.000	Maturity	20 years	3.44%	Fixed	28/03/2037
5.000	Maturity	21 years	3.46%	Fixed	28/03/2038
5.000	Maturity	22 years	3.47%	Fixed	28/03/2039
5.000	Maturity	23 years	3.48%	Fixed	28/03/2040
5.000	Maturity	24 years	3.49%	Fixed	28/03/2041
5.407	Maturity	25 years	3.50%	Fixed	28/03/2042
<b>88.407</b>	<b>Total</b>				

16. These loans were taken out on the basis of interest only for the first five years. The interest paid in 2016/17 was £2.627m and this is the final year where there are no principal repayments.
17. No short term borrowing was required in order to meet cash flow commitments.
18. 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

19. The approved latest investment strategy for 2016/17 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.

20. The table below summarises counterparty list and the risk appetite of the Council in 2016/17 as approved by the Cabinet in February 2016 and amended in December 2016:

General Counterparty List *	Credit Rating	Cash Limit £'M	Time Limit Days
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is;	AAA	3	365
	AA +	3	365
	AA	3	365
	AA -	3	365
	A +	3	365
	A	3	365
	A -	3	365
	BBB +	1	100
Council's General Bank Account if it fails to meet the above criteria, excluding fixed term deposit accounts		2	Next Day
UK Central Government (Debt Management Office, DMO)	N/A	Unlimited	50 years
UK Local Authorities including Police and Fire Authorities (irrespective of credit rating) per authority (From 1st December 2016)	N/A	Unlimited	730
UK Local Authorities including Police and Fire Authorities (irrespective of credit rating) per authority (1st April - 30th November 2016)	N/A	5	365
UK Building Societies without credit ratings		1	365
Saffron Building Society		0.5	100
Money Market Funds (per fund)	AAA	3	Next Day
* This list is the maximum risk appetite the Council is willing to take and is within the limit set by Arlingclose Counterparty List. For practicality UDC cash limit is set prior to start of the year. The time limit set by Arlingclose in their regularly updated counterparty report will not be exceeded even if it is shorter than the limit shown above.			

21. During the year 2016/17 we were advised by our Treasury Management Consultants, Arlingclose that investing with UK Local Authorities was as secure as investing with the DMO.

22. Following this advice and to maximise our invest income, the Cabinet approved as part of the Treasury Management mid-year review (1<sup>st</sup> December 2016) the following amendments to the Counterparty List relating to UK Local Authorities;

- a) The cash limit be increased from £5m to unlimited
- b) The previous restriction that only 70% of investments could be deposited be increased to 100%
- c) The time limit be increased from 365 to 730 days

23. 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
	31/03/2016	Made	Repaid	31/03/2017
	£ '000	£ '000	£ '000	£ '000
Local Authorities	0	83,500	60,500	23,000
Government Deposits	30,000	195,500	223,500	2,000
Barclays Call Accounts	2,000	0	1,000	1,000
Barclays Stockbroker	0	1,000	1,000	0
Bank of Scotland Call Account	1,000	3,000	3,000	1,000
Nationwide	0	1,000	1,000	0
MMF CCLA	1,000	0	0	1,000
<b>TOTAL</b>	<b>34,000</b>	<b>284,000</b>	<b>290,000</b>	<b>28,000</b>

24. 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.
25. The minimum long term counterparty credit rating determined by the authority for 2016/17 treasury strategy was [BBB+] across rating agencies Fitch, S&P and Moody's.
26. The total cash investments for 2016/17 and the average interest rate are summarised by individual counterparty in the table below. A full list of all investments is detailed in Appendix B.

Institution	Treasury Deals	No. of Deposits	Average No. of Days	Credit Rating	Average Interest
	£M				Rate %
Debt Management Office, (DMO)	195.5	58	17	AA	0.18
Nationwide Building Society	3.0	1	182	A	0.42
Bank of Scotland/Lloyds	4.0	3	178	A+	0.40
Lancashire County Council	5.0	1	325	N/A	0.65
Dunfries & Galloway Council	1.0	1	77	N/A	0.20
West Dunbartonshire Council	5.0	1	294	N/A	0.55
Salford City Council	5.0	2	85	N/A	0.25
Plymouth Council	2.0	1	134	N/A	0.27
Telford & Wrekin Council	3.0	1	202	N/A	0.50
Leeds City Council	5.5	2	109	N/A	0.36
Herefordshire Council	5.0	1	358	N/A	0.63
Birmingham City Council	5.0	1	322	N/A	0.59
Thames Valley PCC	5.0	1	6	N/A	0.42
Dundee City Council	5.0	1	183	N/A	0.50
Lincolnshire County Council	3.0	1	120	N/A	0.25
North Lanarkshire Council	2.0	1	151	N/A	0.28
Central Bedfordshire Council	10.0	2	14	N/A	0.29
Bromsgrove District Council	2.0	1	10	N/A	0.14
Brentwood Council	5.0	2	3	N/A	0.26
London Borough of Haringey	10.0	1	11	N/A	0.35
West Yorkshire PCC	5.0	1	11	N/A	0.35
FIBCA, (Barclays Call Account)	1.0	2	365	A	0.10
CCLA, (MMF)	1.0	2	365	AA	0.26
Barclays Stockbroker	1.0	1	365	A	0.37
<b>Total</b>	<b>289.0</b>	<b>89.0</b>			

27. The average rate of interest achieved over the year was 0.25% and the total investment income received was £143,000, which was £24,000 higher than budgeted.

### Liquidity Management

28. In keeping with the DCLG's guidance on Investments, the authority maintained a sufficient level of liquidity averaging £1.112m through the use of its main call account.

### Prudential Indicators

29. The Council is required to calculate and publish a set of statutory prudential indicators. These are technical measurements of the Council's indebtedness and exposure to risk, and are intended to ensure that treasury management is prudent, sustainable and affordable.

30. The prudential indicators are set out in Appendix A of this report. There are no concerns or issues to highlight for Members' attention.

### Compliance

31. The Authority confirms that it has complied with its Prudential Indicators for 2016/17 which was approved as part of the Council's Treasury Management Strategy Statement.

32. The authority also confirms that during 2016/17 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

### Investment Training

33. The needs of The Authority's treasury management staff for training in investment management are assessed regularly as part of the appraisal process. During 2016/17 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**

	<b>2016/17 Estimate*</b>	<b>2016/17 outturn</b>
Upper limit for principal sums invested for over 364 days	£0	£0

**INTEREST RATE EXPOSURE**

	<b>2016/17 Estimate*</b>	<b>2016/17 outturn</b>
Upper limit for fixed interest rate exposure	£78.4m	£78.4m
Upper limit for variable interest rate exposure	£10m	£10m

**BORROWING LIMITS**

	<b>2016/17 Estimate*</b>	<b>2016/17 outturn</b>
Authorised Limit (maximum level of external borrowing)	£93.5m	£250.0m
Operational Boundary (risk of Authorised Limit breach)	£101.5m	£250.8m

**DEBT PORTFOLIO - MATURITY**

<b>Maturity structure of fixed rate borrowing</b>	<b>2016/17 Estimate* (as per HRA borrowing strategy)</b>	<b>2016/17 outturn (as per actual HRA loans)</b>
Under 12 months	0%	0%
12-24 months	0%	0%
24 months – 5 years	0%	0%
<6 to 10 years	11.00%	11.00%
<11 to 20 years	32.54%	32.54%
<21 to 25 years	20.84%	20.84%



**CAPITAL FINANCING COSTS**

	<b>2016/17 Estimate*</b>	<b>2016/17 outturn</b>
Incremental impact of capital investment financed from Internal Borrowing – General Fund	£54.31	£17.11
Incremental impact of capital investment financed from Internal Borrowing – Housing Revenue Account	£(2.51)	£(0.32)
Ratio of financing costs to non-HRA net revenue stream	14.6%	16.4%
Ratio of financing costs to HRA net revenue stream	16.11%	16.2%
Minimum Revenue Provision charged to the accounts	£1,712,000	£573,000

\*Estimate from the 2016/17 Treasury Management Strategy approved by the Cabinet in February 2016.

**BALANCED BUDGET REQUIREMENT**

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

## Appendix B

### 2016/17 INVESTMENTS

Investment Date	Borrower	Amount	Rate	No of Days
01-Apr-15	CCLA	500,000	0.26%	0
01-Apr-15	CCLA	500,000	0.26%	0
01-Apr-15	Barclays StockBroker	1,000,000	0.38%	562
01-Apr-15	Bank of Scotland CA	1,000,000	0.40%	0
03-Aug-15	FIBCA	1,000,000	0.15%	0
30-Mar-16	DMO	23,000,000	0.25%	8
31-Mar-16	DMO	7,000,000	0.25%	19
01-Apr-16	Bank of Scotland	1,500,000	0.80%	180
07-Apr-16	Herefordshire Council	5,000,000	0.63%	358
07-Apr-16	Bank of Scotland	1,500,000	0.97%	355
29-Apr-16	Lancashire County Council	5,000,000	0.65%	325
07-Apr-16	DMO	18,000,000	0.25%	22
29-Apr-16	Birmingham City Council	5,000,000	0.59%	322
15-Apr-16	DMO	2,000,000	0.25%	33
29-Apr-16	West Dunbartonshire	5,000,000	0.55%	294
19-Apr-16	DMO	2,000,000	0.25%	29
29-Apr-16	Telford & Wrekin Council	3,000,000	0.50%	202
10-May-16	DMO	1,000,000	0.25%	7
16-May-16	DMO	2,500,000	0.25%	15
23-May-16	DMO	2,500,000	0.25%	8
01-Jun-16	Thames Valley PCC	5,000,000	0.42%	6
06-Jun-16	Dundee City Council	5,000,000	0.50%	183
03-Jun-16	DMO	5,000,000	0.25%	3
05-Aug-16	Leeds City Council	3,500,000	0.48%	153
08-Jun-16	DMO	5,000,000	0.25%	12
10-Jun-16	DMO	2,000,000	0.25%	3
13-Jun-16	DMO	1,500,000	0.25%	3
21-Jun-16	DMO	2,000,000	0.25%	9
30-Jun-16	DMO	2,500,000	0.25%	53
01-Jul-16	DMO	4,500,000	0.25%	17
06-Jul-16	DMO	1,000,000	0.25%	26
15-Jul-16	DMO	4,000,000	0.25%	3
18-Jul-16	DMO	8,500,000	0.25%	1
19-Jul-16	DMO	1,000,000	0.25%	3
25-Jul-16	DMO	1,000,000	0.25%	37
01-Aug-16	DMO	5,000,000	0.25%	4
02-Aug-16	DMO	1,000,000	0.25%	9
05-Aug-16	DMO	1,500,000	0.15%	6
11-Aug-16	DMO	2,500,000	0.15%	13
12-Aug-16	DMO	1,500,000	0.15%	5
15-Aug-16	DMO	3,500,000	0.15%	2
24-Aug-16	DMO	2,000,000	0.15%	68
01-Sep-16	DMO	6,000,000	0.15%	18
30-Sep-16	Nationwide BS	3,000,000	0.42%	182
17-Nov-16	Lincolnshire CC	3,000,000	0.25%	120
13-Sep-16	DMO	1,000,000	0.15%	78
15-Sep-16	DMO	1,000,000	0.15%	76
16-Sep-16	DMO	2,000,000	0.15%	3
15-Nov-16	Salford City Council	3,000,000	0.28%	120
29-Sep-16	DMO	1,000,000	0.15%	62
03-Oct-16	DMO	4,500,000	0.15%	16
17-Nov-16	Plymouth CC	2,000,000	0.27%	134
31-Oct-16	North Lanarkshire Council	2,000,000	0.28%	151
14-Oct-16	DMO	3,000,000	0.15%	38
17-Oct-16	DMO	3,500,000	0.15%	2
25-Oct-16	DMO	1,000,000	0.15%	66
01-Nov-16	DMO	4,000,000	0.15%	8
10-Nov-16	DMO	4,500,000	0.15%	7
25-Jan-17	Leeds City Council	2,000,000	0.23%	65
11-Nov-16	DMO	1,500,000	0.15%	6
01-Dec-16	Salford City Council	2,000,000	0.22%	49
30-Nov-16	DMO	3,000,000	0.15%	36
01-Dec-16	DMO	2,000,000	0.15%	49
06-Dec-16	DMO	5,000,000	0.15%	13
15-Dec-16	DMO	3,500,000	0.15%	4
20-Dec-16	DMO	2,000,000	0.15%	2
22-Dec-16	DMO	1,000,000	0.15%	6
30-Dec-16	DMO	1,000,000	0.10%	26
03-Jan-17	DMO	5,000,000	0.15%	8
05-Jan-17	DMO	7,000,000	0.15%	7
09-Jan-17	DMO	1,000,000	0.15%	17
11-Jan-17	DMO	5,000,000	0.15%	1
13-Jan-17	Dumfries & Galloway Council	1,000,000	0.20%	77
16-Jan-17	DMO	2,000,000	0.15%	2
17-Jan-17	DMO	2,000,000	0.15%	1
20-Jan-17	DMO	1,000,000	0.15%	3
01-Feb-17	DMO	1,000,000	0.15%	8
15-Feb-17	DMO	3,000,000	0.15%	5
15-Mar-17	Central Bedfordshire Council	5,000,000	0.22%	16
17-Mar-17	DMO	2,000,000	0.10%	3
21-Mar-17	Bromsgrove D C	2,000,000	0.14%	10
28-Mar-17	Brentwood Council	2,000,000	0.23%	3
22-Mar-17	DMO	1,000,000	0.10%	6
31-Mar-17	L B of Haringey	10,000,000	0.35%	11
31-Mar-17	Brentwood Council	3,000,000	0.30%	3
31-Mar-17	PCC West Yorks	5,000,000	0.35%	11
31-Mar-17	Central Bedfordshire Council	5,000,000	0.35%	11
31-Mar-17	DMO	2,000,000	0.05%	3
		<b>289,000,000</b>	<b>0.25%</b>	