Council

Agenda Item: 12

Ward: All

Portfolio: Corporate Finance

Meeting Date: 18/12/2017

FROM: Paul Deal
Corporate Financial Advisor

Date: 18/12/2017

SUBJECT: Treasury Management Outturn Report 2016/17

Report Sign off:	**Seen by:**	**Name:**	**Date:**
	Chief Executive	Stuart Brown	Via CMT
	Legal	Donna Nolan	Via CMT
	Finance	Duncan Moss	14 July 2017
	Group Manager	Paul Deal	Via CMT
Summary:	The Treasury Management Outturn Report reflects on the performance against the Treasury Management strategy for the 2016/17 financial year.		
Recommendation:	**Members are asked to note that officers have complied with the Council's Treasury Management policies and practices during the 2016/17 financial year.**		
Direct and/or indirect impact on service delivery to our customers and communities	None as a direct result of this report.		
Financial Implications:	These are covered within the body of the report.		
Legal Implications:	None as a direct result of this report.		
Crime and Disorder Implications:	None as a direct result of this report.		
Equalities Implications:	None as a direct result of this report.		
Risk Assessment and Adverse Impact on Corporate Actions:	Treasury Management performance is influenced by global and national economic conditions. Restrictions set out in the manager's contract limit the institutions in which investments can be made, limit the Fund's exposure to the gilts market and control market risk.		

INTRODUCTION

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. 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).

During 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (reported to Council 25/02/2016);
- a mid-year (minimum) treasury update report (reported to Council 12/12/2016);
- an annual review following the end of the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, 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.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports before they were reported to the full Council.

THE ECONOMY AND INTEREST RATES

The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November.

After the EU referendum, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25%. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. However, the rate remained at that level for the rest of the year. Appendix 3 shows the implications for borrowing rates and investment rates.

In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks. As a result, Deposit rates fell before a weak recovery was made towards the end of 2016 but then fell to fresh lows in March 2017.

The Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016.

Market expectations as to the timing of the start of monetary tightening started the year at Quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at Quarter 3 2018.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts. After a disappointing Quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 of 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries.

Since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

OVERALL TREASURY POSITION AS AT 31 MARCH 2017

At the beginning and the end of 2016/17 the Council's treasury position was as follows:

(Taken from the Statement of Accounts 2016/17)	31ST March 2016 £000	31st March 2017 £000
Short-term Borrowing	(20)	(20)
Long-term Borrowing	(162)	(142)
Short-term Investments	7,636	5,633
Long-term Investments	0	0
Cash & Cash Equivalents	2,340	4,105

Further details of the treasury management indicators for 2016/17 can be found in Appendix 1 at the end of this report.

THE STRATEGY FOR 2016/17

The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in quarter 1 of 2017), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.

THE BORROWING REQUIREMENT AND DEBT

At the start of the year the Council had a small amount (£162,000) of long-term borrowing outstanding, related to residual loans undertaken before 24 August 1985. The Council had an unplanned short term borrowing need for 6 days of £2 million to prepay a contract which will give a return of 3%.

During the year the Council operated within the treasury limits set out in the Treasury Management Strategy and these can be seen in Appendix 1 to this report.

A 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 2016/17 unfinanced capital expenditure (see Appendix 1), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

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.

The total CFR can also be reduced by:

(a) the application of additional capital financing resources (such as unapplied capital receipts); or

(b) charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council has adopted the asset life method of calculating MRP where the charge is spread in equal annual instalments over the life of each asset that creates a borrowing requirement. MRP commences in the financial year following either the year in which the expenditure was incurred or the year when the asset becomes operational.

The Council's CFR for the year is shown in Appendix 1 at the end of this report and represents a key prudential indicator. This includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need, the CFR. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

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

INVESTMENT OUTTURN FOR 2016/17

Investment Policy – the Council's investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by the Council on 25th February 2016. 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.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Investments held by the Council - at the end of the financial year the Council held £7,910,842.50 of internally managed funds and it had placed a cumulative figure of £30,500,000 of individual investments during the year (Appendix 2). These investments earned a total interest of £89,354.22 during the year, an average rate of return of 0.63%.

The Council also held 3 call accounts, the main one at NatWest plus two others with the Bank of Scotland and Santander Bank. These accounts held varying overnight balances but did not exceed the £5 million daily limit.

Bank	Year End Balance	Interest Rate	Total Interest
Natwest	£0	0.01%	£4,543
Bank of Scotland	£0	0.15%	£2,523
Santander	£1,735,990.28	0.15%	£5,709

COMPLIANCE WITH TREASURY MANAGEMENT

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix 1.

RECOMMENDATION

Members are asked to note that officers have complied with the Council's Treasury Management policies and practices during the 2016/17 financial year.

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Background Papers
Treasury Management Strategy Statement and Annual Investment Strategy 2016-17 (Council 25th February 2016)

APPENDIX 1: PRUDENTIAL AND TREASURY INDICATORS

1. Prudential Indicators (Extract from budget setting report)	2015/16 Actual £000	2016/17 Estimate £000	2016/17 Actual £000
Capital Expenditure	1,063	1,426	1,263
Ratio of financing costs to net revenue stream	1.18%	0.94%	2.34%
Net debt (short and long term)	182	162	162
Capital Financing Requirement*	2,417	2,422	1,410
Annual change in Capital Financing Requirement	-436	-334	-1,007
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	-11.28	-5.71	-26.02

2. Treasury Management Indicators	2015/16 Actual £m	2016/17 Original £m	2016/17 Actual £m
Authorised limit for external debt			
Borrowing	10	10	10
Other long-term liabilities	0	0	0
Total	**10**	**10**	**10**
Operational boundary for external debt			
Borrowing	10	10	10
Other long-term liabilities	0	0	0
Total	**10**	**10**	**10**

At Decemebr Full Council a revised Authorisation limit and Operational boundary was approved up to £40m

Actual external debt – See Net Debt at 1 above

The authorised limit - the authorised limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2016/17 the Council has maintained gross borrowing within its authorised limit.

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.

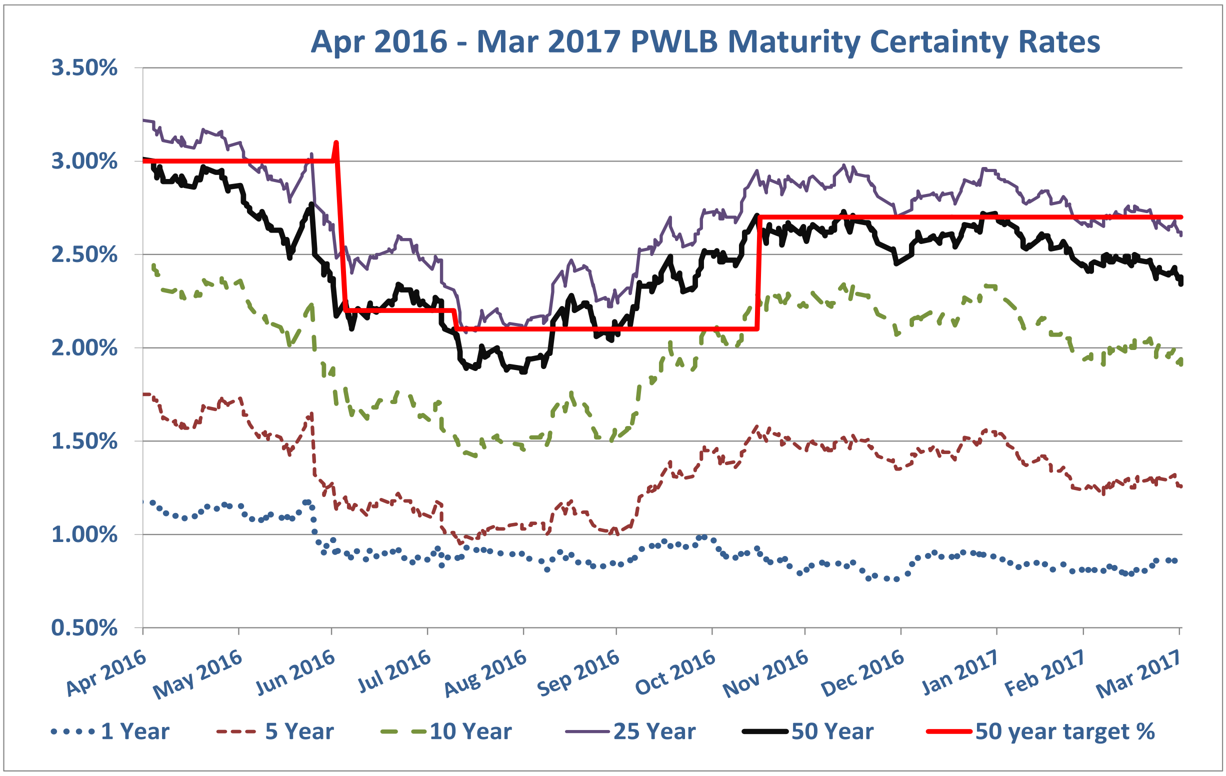
Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

APPENDIX 2: SCHEDULE OF ALL INVESTMENTS PLACED 2016/17

Borrower	Date Lent	Date Repaid	Interest Rate (%)	Amount (£)	Total Interest to 31/03/17 (£)
Lloyds Bank	01-Dec-15	01-Sep-16	0.85	2,000,000.00	12,808.22
Bank of Scotland	02-Dec-15	02-Jun-16	0.75	3,000,000.00	11,280.82
Barclays	13-Jan-16	13-Jul-16	0.70	1,000,000.00	3,490.41
Lloyds Bank	15-Apr-16	19-Oct-16	0.80	2,000,000.00	8,197.26
Barclays	06-May-16	16-Dec-16	0.71	2,000,000.00	8,665.42
Bank of Scotland	02-Jun-16	19-Oct-16	0.65	3,000,000.00	7,426.03
United Overseas Bank	01-Jun-16	19-Jan-17	0.66	3,000,000.00	12,585.21
Barclays	13-Jul-16	17-Nov-16	0.43	1,000,000.00	1,506.60
Lloyds Bank	15-Jul-16	20-Mar-17	0.90	1,000,000.00	6,115.07
Lloyds Bank	19-Sep-16	20-Mar-17	0.65	2,000,000.00	6,482.19
Lloyds Bank	01-Nov-16	20-Mar-17	0.55	2,000,000.00	4,189.04
Bank of Scotland	01-Nov-16	17-Feb-17	0.52	1,000,000.00	1,538.63
Bank of Scotland	15-Nov-16	17-Feb-17	0.45	1,500,000.00	1,738.36
Bank of Scotland	01-Dec-16	13-Mar-17	0.47	2,000,000.00	2,626.85
Bank of Scotland	15-Mar-17	21-Aug-17	0.55	2,000,000.00	482.19
Lloyds Bank	22-Mar-17	22-Jun-17	0.45	2,000,000.00	221.92
			0.63	**30,500,000.00**	**89,354.22**

APPENDIX 3: BORROWING RATES and INVESTMENT RATES

PWLB certainty maturity borrowing rates - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



INVESTMENT RATES 2016/17