Agenda 8

Corporate Services Overview and Scrutiny Committee

11 December 2013

Treasury Management Monitoring Report

Recommendation
That the Corporate Services Overview and Scrutiny Committee considers and comments on Treasury Management in respect of 2013/14 to date.

1 Introduction

1.1 Warwickshire County Council fully complies with the requirements of The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice (COP) on Treasury Management 2009. The primary requirements of the Code are the:

- creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

- receipt by the Cabinet of an Annual Treasury Management Strategy Report for the year ahead, a midyear review report (as a minimum) and an annual review report of the previous year.

- delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices, and for the execution and administration of treasury management decisions.

1.2 Under the CIPFA Code, the Cabinet is required to receive a report on the outturn of the annual treasury management activity for the authority. Monitoring reports regarding treasury management are an agenda item for the Corporate Services Overview and Scrutiny Committee throughout the year.

1.3 Treasury management in the context of this report is defined as:

"The management of the local authority's 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." *(CIPFA Code of Practice)*.

2 Investments

2.1 The Council has an investment portfolio consisting of reserves and cash arising from daily receipts being in excess of payments on a short term basis. This cash is invested partly by an in house treasury function and partly by an external cash manager, approximately on a 70/30 basis. Such investments earn investment income.

2.2 The Council's investment portfolio at the end of the first six months of 2013/14 to 30 September 2013 was as follows:

Table 1: Investment Position at 30 September 2013

	Invested at 30 September 2013
	£m
In-house fixed term deposits	184.6
RBS	10.0
Total In-house	**194.6**
Aviva Investors	47.2
CCLA Public Sector Fund	10.0
Total All Investments	**251.8**

2.3 The council is currently investing according to a low risk, high quality lending list in line with the policy approved in the Treasury Management Strategy.

2.4 All counterparties (banks and other institutions to which we lend) have a time limit of one year.

2.6 Performance of the Council's investments versus the benchmark is:

Table 2: Investment Performance to 30 September 2013

	Average Interest rate year to date	Target rate: 7 day LIBID (+10% for the externally managed Aviva portfolio)	Variance
	%	%	%
In house	0.28	0.36	-0.08
RBS	0.80	0.36	0.44
Total In house (weighted)	**0.30**	**0.36**	**-0.06**
Aviva Investors	0.59	0.40	0.19
CCLA Public Sector Fund	0.32	0.36	-0.04

Total All Investments	**0.35**	**0.36**	**-0.01**

2.6 The in-house operation under performed slightly, however, following a review of investment policy, counterparty group limits have been increased and work is underway to appoint a second segregated cash manager.

Table 3: Interest Earned to September 2013

	Year to date
	£000
In house	296
RBS	38
Total In house	**334**
Aviva Investors	138
CCLA Public Sector Fund	9
Total All Investments	**481**

2.8 The table below details our consultant's view on interest rates. Based on this opinion, the money market will continue to be at current levels until late 2016 when rates are predicted to rise.

Table 4: Interest Rate Forecast

	Present - Jun 2016 %	**Sep 2016 %**	**Dec 2016 %**	**Mar 2017 %**
Interest Rate Forecast	0.50	0.75	1.00	1.25

Source: Sector Treasury Services

3 Borrowing

3.1 The borrowing undertaken by the County with The Public Works Loans Board (PWLB) was £ 389.1m at 31 March 2013 and remains unchanged.

4 Compliance with Treasury Limits and Prudential Indicators

4.1 During the first two quarters of 2013/14 to 30 September 2013, the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and Treasury Management Strategy. Full details of the Prudential Indicators set for 2013/14 are shown in **Appendix A.** Explanations of the terminology employed is set out in **Appendix B.**

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Appendix A

PRUDENTIAL INDICATOR (1). AFFORDABILITY PRUDENTIAL INDICATORS	2012/13 Actual	2013/14 estimate	2014/15 estimate	2015/16 estimate
	£'000	£'000	£'000	£'000
Capital Expenditure	72,315	102,319	69,448	51,774
	%	%	%	%
Ratio of financing costs to net revenue stream	10.60	9.96	10.13	10.27
Gross borrowing requirement	£'000	£'000	£'000	£'000
Gross Debt	399,096	396,041	393,483	388,422
Capital Financing Requirement as at 31 March	337,653	354,103	370,187	396,628
Under/(Over) Borrowing	(61,443)	(41,938)	(23,296)	8,206
	£'000	£'000	£'000	£'000
In year Capital Financing Requirement	(17,860)	16,450	16,084	26,441
	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31 March	337,653	354,103	370,187	396,628
Affordable Borrowing Limit	£	£	£	£
Position as agreed at March 2013 Council				
Increase per council tax payer	-3.30	-2.23	8.95	5.95
Updated position of Current Capital Programme				
Increase per council tax payer	-2.19	-6.44	3.02	3.13

PRUDENTIAL INDICATOR (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2012/13 approved	2013/14 approved	2014/15 estimate	2015/16 estimate
Authorised limit for external debt -	£'000	£'000	£'000	£'000
Borrowing	490,097	505,536	485,619	497,983
other long term liabilities	12,000	12,000	12,000	12,000
TOTAL	**502,097**	**517,536**	**497,619**	**509,983**
Operational boundary for external debt -	£'000	£'000	£'000	£'000
Borrowing	408,415	421,280	404,683	414,985
other long term liabilities	10,000	10,000	10,000	10,000
TOTAL	**418,415**	**431,280**	**414,683**	**424,985**
Upper limit for fixed interest rate exposure				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Upper limit for variable rate exposure				
Net principal re variable rate borrowing / investments	25%	25%	25%	25%
Upper limit for total principal sums invested for over 364 days	£	£	£	£
(per maturity date)	£0	£0	£0	£0

Maturity structure of new fixed rate borrowing during 2012/13	lower limit
under 12 months	0%
12 months and within 24 months	0%
24 months and within 5 years	0%
5 years and within 10 years	0%
10 years and above	0%

Appendix B

PRUDENTIAL INDICATORS

Ratio of financing costs to net revenue stream

The ratio of financing costs to net revenue stream shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, plus repayments of capital, as a proportion of annual income from council taxpayers and central government. The estimates of financing costs include current and future commitments based on the capital programme.

Net Borrowing

Net borrowing refers to the Authority's total external borrowing.

Actual and Estimated Capital Expenditure

Actual and estimates of capital expenditure for the current and future years.

Capital Financing Requirement

The Capital Financing Requirement (CFR) represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR measures the Authority's underlying need to borrow externally for a capital purpose. The Authority has a treasury management strategy which accords with the CIPFA Code of Practice for Treasury Management in the Public Services.

Authorised Limit

In respect of its external debt, the Authority approves authorised limits for its total external debt gross of investments. These limits separately identify borrowing from other long-term liabilities such as finance leases. Authorised limits are consistent with the Authority's current commitments, service plans, proposals for capital expenditure and associated financing, cashflow and accord with the approved treasury management policy statement and practices. The Authorised limit is based on the estimate of most likely prudent, but not necessarily the worst-case scenario and provides sufficient additional headroom over and above the Operational Boundary.

Operational Boundary

The operational boundary for external debt is based on the same estimates as the authorised limit but reflects the Head of Finance's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Limits on Interest Rate Exposures

This means that the Authority will manage fixed interest rate exposures within the ranges and variable interest rate exposures within the ranges. This provides flexibility to take advantage of any favourable movements in interest rates.