Corporate Services Overview and Scrutiny Committee

25 November 2014

Treasury Management Monitoring Report

Recommendation
That the Corporate Services Overview and Scrutiny Committee considers and comments on Treasury Management in respect of 2014/15 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.

2.2 The Council's investment portfolio at the end of the first six months of 2014/15 to 30 September 2014 was as follows:

Table 1: Investment Position at 30 September 2014

	Invested at 30 September 2014
	£m
In house deposits	86.5
Aviva	47.6
Money Market/External Funds	131.4
Total	**265.5**

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

Table 2: Investment Performance to 30 September 2014

	Average Interest rate year to date	Target rate: 7 day LIBID	Out-performance
	%	%	%
In house deposits	**0.52**	**0.36**	**0.16**
Aviva	**0.83**	**0.36**	**0.47**
Money Market/External Funds	**1.11**	**0.36**	**0.75**

2.4 Both the in-house and external portfolio have beaten the benchmark return over the period.

2.5 Actual interest earned in the first six months of 2014/15 was:

Table 3: Interest Earned to end September 2014

	Year to date
	£000
In house deposits	469
Aviva	195
Money Market/External Funds	296
Total	**960**

2.6 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 2015 when rates are predicted to rise.

Table 4: Interest Rate Forecast

	Present – Mar 2015 %	**Sep 2015 %**	**Mar 2016 %**	**Sep 2016 %**
Interest Rate Forecast	0.50	0.75	1.00	1.25

Source: Capita

3 Borrowing

3.1 The borrowing undertaken by the County with The Public Works Loans Board (PWLB) was £ 386.0m at 31 March 2014 and remains unchanged at 30 September 2014.

4 Compliance with Treasury Limits and Prudential Indicators

4.1 During the first two quarters of 2014/15 to 30 September 2014, 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 2014/15 are shown in **Appendix A.** Explanations of the terminology employed is set out in **Appendix B.**

5 Background Papers

Treasury Management Strategy 2014/15

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Appendix A

PRUDENTIAL INDICATOR	2013/14	2014/15	2015/16	2016/17	2017/18
(1). AFFORDABILITY PRUDENTIAL INDICATORS					
	Actual	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure	75,633	100,973	59,573	28,798	20,239
	%	**%**	**%**	**%**	**%**
Ratio of financing costs to net revenue stream	9.97	9.46	9.59	9.94	10.08
Gross borrowing requirement	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross Debt	396,043	393,485	388,424	363,424	362,274
Capital Financing Requirement as at 31 March	320,926	340,881	372,687	378,120	379,370
Under/(Over) Borrowing	(75,116)	(52,603)	(15,737)	14,696	17,096
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
In year Capital Financing Requirement	(16,727)	19,955	31,805	5,433	1,250
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Financing Requirement as at 31 March	320,926	340,881	372,687	378,120	379,370
Affordable Borrowing Limit	**£**	**£**	**£**	**£**	**£**
Position as agreed at March 2014 Council					
Increase per council tax payer	-6.44	0.58	6.87	6.16	2.35
Updated position of Current Capital Programme					
Increase per council tax payer	-7.76	-6.11	4.20	6.69	2.86

PRUDENTIAL INDICATOR	2013/14	2014/15	2015/16	2016/17	2017/18
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS					
	approved	**approved**	**estimate**	**estimate**	**estimate**
Authorised limit for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	505,536	501,915	504,421	490,628	426,988
other long term liabilities	12,000	12,000	12,000	12,000	12,000
TOTAL	**517,536**	**513,915**	**516,421**	**502,628**	**438,988**
Operational boundary for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	421,280	418,263	420,351	408,857	355,823
other long term liabilities	10,000	10,000	10,000	10,000	10,000
TOTAL	**431,280**	**428,263**	**430,351**	**418,857**	**365,823**
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments	25%	25%	25%	25%	25%
Upper limit for total principal sums invested for over 364 days	£	£	£	£	£
(per maturity date)	£0	£0	£0	£0	£0

Maturity structure of new fixed rate borrowing during 2014/15	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

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.