

Corporate Services Overview and Scrutiny Committee

September 2015

Treasury Management Monitoring Report 2014/15

Recommendation

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

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 the financial year 2014/15 was as follows:

Table 1: Investment Position at 31 March 2015

	Invested at 31 March 2015
	£m
In house deposits	49.8
Money Market/External Funds	195.5
Total	245.3

2.3 Performance of the Council’s investments (weighted) versus the benchmark is:

Table 2: Investment Performance to 31 March 2015

	Average Interest rate year to date	Target rate: 7 day LIBID	Variance
	%	%	%
In house deposits	0.57	0.36	0.21
Money Market/External Funds	1.23	0.36	0.87
Total	0.91	0.36	0.55

2.6 The interest earned on the Council’s investments was as follows:

Table 3: Interest Earned to March 2015

	Year to date
	£000
In house deposits	730.0
Money Market/External Funds	1,773.0
Total	2503.0

- 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 %	To Jul 2016 %	To Dec 2016 %	To Jun 2017 %
Interest Rate Forecast	0.50	0.75	1.00	1.25
	To Sep 2017 %	To Mar 2018 %		
Interest Rate Forecast	1.50	1.75		

Source: Capita

3 Borrowing

- 3.1 The County did not undertake any long term borrowing in 2014/15. The total amount of borrowing held with The Public Works Loans Board (PWLB) was £ 383.5m at 31 March 2015.

4 Compliance with Treasury Limits and Prudential Indicators

- 4.1 During 2014/15, 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**.

Background Papers

None

	Name	Contact Information
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
Head of Service	John Betts, Head of Finance	01926 412441 johnbetts@warwickshire.gov.uk
Strategic Director	David Carter, Strategic Director, Resources Group	01926 412564 davidcarter@warwickshire.gov.uk

Appendix A

PRUDENTIAL INDICATOR	2013/14	2014/15	2015/16	2016/17	2017/18
(1). AFFORDABILITY PRUDENTIAL INDICATORS					
	Actual	Actual	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	75,633	91,458	76,190	67,388	20,239
	%	%	%	%	%
Ratio of financing costs to net revenue stream	9.97	9.23	9.33	9.01	9.68
Gross borrowing requirement	£'000	£'000	£'000	£'000	£'000
Gross Debt	396,043	393,485	388,424	363,424	382,274
Capital Financing Requirement as at 31 March	320,926	332,825	317,275	359,767	361,931
Under/(Over) Borrowing	(75,116)	(60,660)	(71,149)	(3,657)	(20,343)
In year Capital Financing Requirement	£'000	£'000	£'000	£'000	£'000
	(16,727)	11,899	(15,550)	42,492	2,164
Capital Financing Requirement as at 31 March	£'000	£'000	£'000	£'000	£'000
	320,926	332,825	317,275	359,767	361,931
Affordable Borrowing Limit	£	£	£	£	£
Position as agreed at March 2015 Council	-7.76	-5.98	1.90	11.22	12.13
Increase per council tax payer					
Updated position of Current Capital Programme					
Increase per council tax payer	-7.76	-5.96	1.90	-6.09	13.03
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	447,594	535,099	509,076
other long term liabilities	12,000	12,000	12,000	12,000	12,000
TOTAL	517,536	513,915	459,594	547,099	521,076
Operational boundary for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	421,280	418,263	372,995	445,916	424,230
other long term liabilities	10,000	10,000	10,000	10,000	10,000
TOTAL	431,280	428,263	382,995	455,916	434,230
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.

Gross Borrowing

Gross borrowing refers to the Authority's total external borrowing and other long term liabilities versus the Capital Financing Requirement.

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, cash flow 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 Exposure

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