

Resources and Fire & Rescue Overview and Scrutiny Committee

21 January 2016

Treasury Management Monitoring Report

Recommendation

That the Resources and Fire & Rescue Overview and Scrutiny Committee considers and comments on Treasury Management in respect of 2015/16 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 Resources and Fire & Rescue 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 2015/16 to 30 September 2015 was as follows:

Table 1: Investment Position at 30 September 2015

	Invested at 30 September 2015
	£m
In house deposits	61.8
Money Market/External Funds	138.0
Property	10.0
Social Bonds	40.0
Total	249.8

- 2.3 Performance of the Council’s investments versus the benchmark is:

Table 2: Investment Performance to 30 September 2015

	Average Interest rate year to date	Target rate: 7 day LIBID	Out- performance
	%	%	%
In house deposits	0.53	0.36	0.17
Money Market/External Funds	0.36	0.36	0.00
Property	4.00	0.36	3.64
Social Bonds	3.00	0.36	2.64

- 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 2015/16 was:

Table 3: Interest Earned to end September 2015

	Year to date
	£000
In house deposits	179
Money Market/External Funds	373
Property	100
Social Bonds	602
Total	1,254

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 2016 %	Sep 2016 %	Mar 2017 %	Sep 2017 %
Interest Rate Forecast	0.50	0.75	1.00	1.50

Source: Capita

3 Borrowing

3.1 The borrowing undertaken by the County with The Public Works Loans Board (PWLb) was £ 384.0m at 31 March 2015 and remains unchanged at 30 September 2015.

4 Compliance with Treasury Limits and Prudential Indicators

4.1 During the first two quarters of 2015/16 to 30 September 2015, 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 2015/16 are shown in **Appendix A**. Explanations of the terminology employed is set out in **Appendix B**.

5 Background Papers

None

6 Appendices

	Name	Contact Information
Report Author	Mathew Dawson	mathewdawson@warwickshire.gov.uk
Head of Service	John Betts	johnbetts@warwickshire.gov.uk
Strategic Directors	David Carter	01926 412564 davidcarter@warwickshire.gov.uk
Portfolio Holder	Councillor Alan Cockburn	cllrcockburn@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Councillors Cockburn, N. Davies, Dirveiks, Fowler, Western

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	110,200	83,400	58,145
	%	%	%	%	%
Ratio of financing costs to net revenue stream	9.97	9.23	9.33	9.65	9.93
	£'000	£'000	£'000	£'000	£'000
Gross borrowing requirement					
Gross Debt	396,043	393,485	388,424	363,424	382,274
Capital Financing Requirement as at 31 March	320,926	332,825	362,145	376,939	371,477
Under/(Over) Borrowing	(75,116)	(60,660)	(26,279)	13,515	(10,797)
	£'000	£'000	£'000	£'000	£'000
In year Capital Financing Requirement	(16,727)	11,899	29,320	14,794	(5,462)
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31 March	320,926	332,825	362,145	376,939	371,477
	£	£	£	£	£
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	5.76	5.42
PRUDENTIAL INDICATOR	2013/14	2014/15	2015/16	2016/17	2017/18
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS					
	approved	approved	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Authorised limit for external debt -					
Borrowing	505,536	501,915	501,438	501,861	466,687
other long term liabilities	12,000	12,000	12,000	12,000	12,000
TOTAL	517,536	513,915	513,438	513,861	478,687
	£'000	£'000	£'000	£'000	£'000
Operational boundary for external debt -					
Borrowing	421,280	418,263	417,865	418,218	388,906
other long term liabilities	10,000	10,000	10,000	10,000	10,000
TOTAL	431,280	428,263	427,865	428,218	398,906
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.