

# Resources and Fire & Rescue Overview and Scrutiny Committee

18 May 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 up to December 2015.

### 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 nine months of 2015/16 to 31 December 2015 was as follows:

**Table 1: Investment Position at 31 December 2015**

	<b>Invested at 31 December 2015</b>
	<b>£m</b>
In house deposits	56.0
Money Market/External Funds	134.8
Property	10.0
Social Bonds	40.0
<b>Total</b>	<b>240.8</b>

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

**Table 2: Investment Performance to 31 December 2015**

	<b>Average Interest rate year to date</b>	<b>Target rate: 7 day LIBID</b>	<b>Out- performance</b>
	%	%	%
In house deposits	0.54	0.36	0.18
Money Market/External Funds	0.51	0.36	0.15
Property	4.00	-	-
Social Bonds	3.00	-	-
<b>Total weighted performance</b>	<b>0.99</b>	<b>0.36</b>	<b>0.63</b>

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

- 2.5 LIBID is the average interest rate which major London banks borrow Eurocurrency deposits from other banks.
- 2.6 Actual interest earned in the first nine months of 2015/16 was:

**Table 3: Interest Earned to end December 2015**

	<b>Year to date</b>
	<b>£000</b>
In house deposits	272
Money Market/External Funds	579
Property	268
Social Bonds	959
<b>Total</b>	<b>2,078</b>

- 2.7 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 early 2017 when rates are predicted to rise.

**Table 4: Interest Rate Forecast**

	<b>Present – Mar 2016 %</b>	<b>Sep 2016 %</b>	<b>Mar 2017 %</b>	<b>Sep 2017 %</b>
Interest Rate Forecast	0.50	0.50	0.75	1.00

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 31 December 2015.

### **4 Compliance with Treasury Limits and Prudential Indicators**

- 4.1 During the first three quarters of 2015/16 to 31 December 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**.

#### **Background Papers**

None

	<b>Name</b>	<b>Contact Information</b>
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227  <a href="mailto:mathewdawson@warwickshire.gov.uk">mathewdawson@warwickshire.gov.uk</a>
Head of Service	John Betts, Head of Finance	01926 412441  <a href="mailto:johnbetts@warwickshire.gov.uk">johnbetts@warwickshire.gov.uk</a>
Strategic Director	David Carter, Strategic Director, Resources Group	01926 412564  <a href="mailto:davidcarter@warwickshire.gov.uk">davidcarter@warwickshire.gov.uk</a>
Portfolio Holder	Councillor Kam Kaur	<a href="mailto:kamkaur@warwickshire.gov.uk">kamkaur@warwickshire.gov.uk</a>

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

Local Member(s): None

Other members: Councillor Neil Dirveiks, Councillor Nicola Davies, Councillor Peter Fowler, Councillor John Appleton, Councillor John Horner, Councillor Kam Kaur and Councillor Matt Western

PRUDENTIAL INDICATOR	2014/15	2015/16	2016/17	2017/18	2018/19
<b>(1). AFFORDABILITY PRUDENTIAL INDICATORS</b>					
	<b>Actual</b>	<b>estimate</b>	<b>estimate</b>	<b>estimate</b>	<b>estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Capital Expenditure</b>	76,116	85,700	88,677	52,529	15,211
	%	%	%	%	%
<b>Ratio of financing costs to net revenue stream</b>	9.23	8.86	8.73	8.56	8.49
<b>Gross borrowing requirement</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'001</b>
Gross Debt	393,485	388,424	363,424	362,274	352,274
Capital Financing Requirement as at 31 March	305,357	319,228	332,433	328,169	311,999
Under/(Over) Borrowing	(88,128)	(69,195)	(30,991)	(34,105)	(40,274)
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'001</b>
<b>In year Capital Financing Requirement</b>	(15,569)	13,871	13,205	(4,264)	(16,169)
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'001</b>
<b>Capital Financing Requirement as at 31 March</b>	305,357	319,228	332,433	328,169	311,999
<b>Affordable Borrowing Limit</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Position as agreed at March 2015 Council</b>	-5.98	1.90	11.22	12.13	
Increase per council tax payer					
<b>Updated position of Current Capital Programme</b>					
Increase per council tax payer	-5.96	-5.81	1.29	-1.93	-1.79
<b>PRUDENTIAL INDICATOR</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2017/19</b>
<b>(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>					
	<b>approved</b>	<b>approved</b>	<b>estimate</b>	<b>estimate</b>	<b>estimate</b>
<b>Authorised limit for external debt -</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'001</b>
Borrowing	501,915	526,219	499,954	466,217	457,434
other long term liabilities	12,000	12,000	12,000	12,000	12,000
<b>TOTAL</b>	<b>513,915</b>	<b>538,219</b>	<b>511,954</b>	<b>478,217</b>	<b>469,434</b>
<b>Operational boundary for external debt -</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'001</b>
Borrowing	418,263	438,516	416,629	388,514	381,195
other long term liabilities	10,000	10,000	10,000	10,000	10,000
<b>TOTAL</b>	<b>428,263</b>	<b>448,516</b>	<b>426,629</b>	<b>398,514</b>	<b>391,195</b>
<b>Upper limit for fixed interest rate exposure</b>					
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	200%
<b>Upper limit for variable rate exposure</b>					
Net principal re variable rate borrowing / investments	25%	25%	25%	25%	25%
<b>Upper limit for total principal sums invested for over 364 days</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
(per maturity date)	£0	£0	£0	£0	£0
<b>Maturity structure of new fixed rate borrowing during 2014/15</b>	<b>upper limit</b>	<b>lower limit</b>			
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.