Item 7

Resources and Fire & Rescue Overview and Scrutiny Committee

15 September 2016

Treasury Management Monitoring Report 2015/16

Recommendation

That the Resources and Fire & Rescue Overview and Scrutiny Committee considers and comments on Treasury Management in respect of 2015/16.

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 (Revised) 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 Security and liquidity of cash was prioritised above the requirement to maximise returns. The Council adopted a cautious approach to lending to financial institutions, and continuously monitored credit quality information regarding the institutions on the Council's approved Lending List.

2.3 The Council's investment portfolio at the end the financial year 2015/16 was as follows:

Table 1: Investment Position at 31 March 2016

	Invested at 31 March 2016
	£m
In house deposits	51.764
Money Market/External Funds	183.991
Total	**235.756**

2.4 Performance of the Council's investments (weighted) versus the benchmark was:

Table 2: Investment Performance to 31 March 2016

	Average Interest rate year to date	Target rate: 7 day LIBID	Variance
	%	%	%
In house deposits	0.54	0.36	0.18
Money Market/External Funds	1.27	0.36	0.91
Total	**1.08**	**0.36**	**0.72**

2.5 The interest earned on the Council's investments was as follows:

Table 3: Interest Earned to March 2016

	Year to date
	£m
In house deposits	0.373
Money Market/External Funds	2.822
Total	**3.194**

2.6 The table below details our consultant's view on interest rates. As a result of the EU referendum outcome, base rate, and therefore Money Market rates, are likely fall from their already low 2015/16 levels and remain low until mid-2019.

Table 4: Interest Rate Forecast

	Present – Dec 2016 %	**Jan 2017 – Mar 2018 %**	**Apr 2018 – Jun 2019 %**	**Jun 2019 %**
Interest Rate Forecast	0.25	0.10	0.25	0.50

Source: Capita

3 Debt Financing

3.1 As at 31st March 2016 the authority had borrowing held with The Public Works Loans Board (PWLB) of £378.411m. The weighted average interest payable on the loans during 2015/16 was 4.86%. Total interest payable for the year was £18.631m.

3.2 During the financial year, maturing debt of £5.061m was repaid. The weighted average interest rate of repaid debt was 8.95%. The County did not undertake any new long term borrowing in 2015/16.

4 Compliance with Treasury Limits and Prudential Indicators

4.1 During 2015/16, 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 CIPFA Benchmarking

5.1 Warwickshire County Council takes part in the annual CIPFA treasury management benchmarking statistics. The main points of which are summarised below:-

5.2 Warwickshire County Council achieved a return on investments of 1.08% in 2015/16 compared to similar authorities who achieved an average return of 0.87%.

5.3 The above return was generated despite having a significantly shorter weighted average duration risk on its portfolio of 12.9 days, when compared to other authorities' average of 112.8 days.

5.4 The higher return with shorter duration was largely in as a result of Warwickshire County Council having a higher than average balances with external funds (e.g. Social Bond Fund) equivalent of 27% of the portfolio compared with 2% for other authorities.

5.5 Warwickshire County Council's weighted average interest rate for the 2015/16 was 4.86%, which is marginally higher than the authority average of 4.69%

Background Papers
None

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

Local Member(s):

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

Appendix A

PRUDENTIAL INDICATOR	2014/15	2015/16	2016/17	2017/18	2018/19
(1). AFFORDABILITY PRUDENTIAL INDICATORS					
	Actual	Actual	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	76,116	85,733	88,677	52,529	15,211
	%	%	%	%	%
Ratio of financing costs to net revenue stream	9.23	8.86	8.90	8.81	8.67
Gross borrowing requirement	£'000	£'000	£'000	£'000	£'001
Gross Debt	393,485	388,424	363,424	362,274	352,274
Capital Financing Requirement as at 31 March	305,357	319,361	332,560	328,289	312,113
Under/(Over) Borrowing	(88,128)	(69,062)	(30,864)	(33,985)	(40,160)
	£'000	£'000	£'000	£'000	£'001
In year Capital Financing Requirement	(15,569)	14,004	13,198	(4,271)	(16,175)
	£'000	£'000	£'000	£'000	£'001
Capital Financing Requirement as at 31 March	305,357	319,361	332,560	328,289	312,113
Affordable Borrowing Limit	£	£	£	£	£
Position as agreed at March 2016 Council	-5.96	1.90	5.05	-2.53	-2.35
Increase per council tax payer					
Updated position of Current Capital Programme					
Increase per council tax payer	-5.96	-5.81	1.32	-1.94	-1.79

PRUDENTIAL INDICATOR	2014/15	2015/16	2016/17	2017/18	2017/19
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS					
	approved	approved	estimate	estimate	estimate
Authorised limit for external debt -	£'000	£'000	£'000	£'000	£'001
Borrowing	501,915	526,219	497,346	461,130	449,993
other long term liabilities	12,000	12,000	12,000	12,000	12,000
TOTAL	**513,915**	**538,219**	**509,346**	**473,130**	**461,993**
Operational boundary for external debt -	£'000	£'000	£'000	£'000	£'001
Borrowing	418,263	438,516	414,455	384,275	374,994
other long term liabilities	10,000	10,000	10,000	10,000	10,000
TOTAL	**428,263**	**448,516**	**424,455**	**394,275**	**384,994**
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	200%
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 (CFR).

Actual and Estimated Capital Expenditure

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

Capital Financing Requirement

The 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.