Item 9

Resources and Fire & Rescue Overview and Scrutiny Committee

14 December 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 the first six months of 2016/17 to 30 September 2016.

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.

- The creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

- The 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.

- The 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 30 September 2016 was as follows:

Table 1: Investment Position at 30 September 2016

	Invested at 30 September 2016
	£m
In house deposits	5.0
Money Market/External Funds	178.6
Property	10.0
Social Bonds	40.0
Total	**233.6**

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

Table 2: Investment Performance to 30 September 2016

	Average Interest rate year to date	**Target rate: 7 day LIBID**	**Out-performance**
	%	**%**	**%**
In house deposits	0.35	0.28	0.07
Money Market/External Funds	0.64	0.28	0.36
Property	4.50		
Social Bonds	3.00		
Total weighted performance	**1.11**	**0.28**	**0.83**

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.

2.5 Actual interest earned in the first six months of 2016/17 was:

Table 3: Interest Earned to 30 September 2016

	Year to date
	£000
In house deposits	112
Money Market/External Funds	446
Property	226
Social Bonds	602
Total	**1,386**

2.6 The budgeted interest receivable for 2016/17 is £2,314k, and £1,157k for the first 6 months of 2016/17. The original budget was based on a forecast interest rate cut in the second half of the year. However given recent changes in the economic climate, our advisers have revised their interest rate forecast. The first 6 months of 2016/17 has shown an out performance against budget of £229k.

2.7 The table below details our consultant's view on interest rates. Based on this opinion, the money market will remain at very low interest levels, with a rise to 0.50% forecast in June 2019, and a further rise to 0.75% in December 2019.

Table 4: Interest Rate Forecast

	Dec 2016 %	**June 2019 %**	**Dec 2019 %**
Interest Rate Forecast	0.25	0.50	0.75

Source: Capita

3 Borrowing

3.1 The borrowing undertaken by the County with The Public Works Loans Board (PWLB) was £ 378.1m at 31 March 2016. £10m of debt was repaid at 30 September 2016, leaving the balance of £368.1m as at 30 September 2016. A further £15m is due to be repaid during the financial year.

4 Compliance with Treasury Limits and Prudential Indicators

4.1 During the six months of 2016/17 to 30 September 2016, 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 updated Prudential Indicators set for 2016/17 are shown in **Appendix A.** Explanations of the terminology employed is set out in **Appendix B.**

5 Sensitivity Analysis

5.1 A sensitivity analysis has been carried out to show the potential impact of an increase in BoE base rate by 1% on the Council's debt an investment portfolio as at 31.03.2016, the results of which are detailed in the following table.

Table 5: Sensitivity Analysis

	Actual	**+1% increase in Base Rate**	
	Fair Value at 31.03.2016	**Fair Value at 31.03.2016**	Difference
Investments	£46,728,140	£46,910,711	-£182,571
Debt (new borrowing)	£518,929,944	£440,041,876	£78,888,068
Debt (early repayment)	£614,633,467	£512,535,318	£102,098,149

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

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

Local Member(s):

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

Appendix A

` (1). AFFORDABILITY PRUDENTIAL INDICATORS	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	85,733	113,788	84,278	33,365	9,380
	%	%	%	%	%
Ratio of financing costs to net revenue stream	8.86	8.75	8.80	8.90	8.66
Gross borrowing requirement	£'000	£'000	£'000	£'000	£'000
Gross Debt	388,424	363,424	362,274	362,274	352,274
Capital Financing Requirement as at 31 March	319,361	343,088	351,898	335,443	319,310
Under/(Over) Borrowing	(69,062)	(20,336)	(10,375)	(26,831)	(32,964)
	£'000	£'000	£'000	£'000	£'000
In year Capital Financing Requirement	14,004	23,727	8,810	(16,456)	(16,133)
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31 March	319,361	343,088	351,898	335,443	319,310
Affordable Borrowing Limit	£	£	£	£	£
Position as agreed at March 2016 Council	1.90	5.05	-2.53	-2.35	
Increase per council tax payer					
Updated position of Current Capital Programme					
Increase per council tax payer	-5.81	1.30	0.98	1.84	-5.44

PRUDENTIAL INDICATOR (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2015/16	2016/17	2017/18	2018/19	2019/20
	approved	estimate	estimate	estimate	estimate
Authorised limit for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	526,219	497,346	494,533	473,406	466,046
other long term liabilities	12,000	12,000	12,000	12,000	12,000
TOTAL	**538,219**	**509,346**	**506,533**	**485,406**	**478,046**
Operational boundary for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	438,516	414,455	412,111	394,505	388,372
other long term liabilities	10,000	10,000	10,000	10,000	10,000
TOTAL	**448,516**	**424,455**	**422,111**	**404,505**	**398,372**
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%

Appendix B

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.