Item 7

Resources and Fire & Rescue Overview and Scrutiny Committee

5 July 2017

Treasury Management Monitoring Report 2016/17

Recommendation

That the Resources and Fire & Rescue Overview and Scrutiny Committee considers and comments on Treasury Management in respect of 2016/17.

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 2016/17 was as follows:

Table 1: Investment Position at 31 March 2017

	Invested at 31 March 2017
	£m
In house deposits	5.051
Money Market/External Funds	218.894
Total	**223.945**

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

Table 2: Investment Performance to 31 March 2017

	Average Interest rate year to date	Target rate: 7 day LIBID	Variance
	%	%	%
In house deposits	0.41	0.20	0.21
Money Market/External Funds	1.22	0.20	1.02
Total	**1.10**	**0.20**	**0.90**

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

Table 3: Interest Earned to March 2017

	Year to date
	£m
In house deposits	0.170
Money Market/External Funds	2.942
Total	**3.112**

2.6 The table below details our consultant's view on interest rates. With continued uncertainty over the final terms of Brexit, base rate, and therefore Money Market rates are likely to remain at low levels until mid-2019. The impact of this is the continuation of low returns on cash deposits and money market funds.

Table 4: Interest Rate Forecast

	Present – Mar 2019 %	**Jun 2019 – Sept 2019 %**	**Dec 2019 %**
Interest Rate Forecast	0.25	0.50	0.75

Source: Capita

3 Debt Financing

3.1 As at 31st March 2017 the authority had borrowing held with The Public Works Loans Board (PWLB) of £353.408m. The weighted average interest payable on the loans during 2016/17 was 4.81%. Total interest payable for the year was £18.042m.

3.2 During the financial year, maturing debt of £25.000m was repaid. The weighted average interest rate of repaid debt was 4.05%. The County did not undertake any new long term borrowing in 2016/17.

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 2016/17 are shown in **Appendix A.** Explanations of the terminology employed is set out in **Appendix B.**

5 Sensitivity Analysis

5.1 For the purposes of disclosure on Market Risk a sensitivity analysis has been carried out to show the impact of a change in interest rates of + 1% on the debt and investment portfolios.

5.2 The following table shows the results of the sensitivity analysis:

	Actual	**+1% increase in Base Rate**	
	F.V. at 31.03.2017 £m	**F.V. at 31.03.2017 £m**	**Difference £m**
Investments	5.051	5.050	**£0.01**
Debt (new borrowing)	542.208	452.903	**89.305**
Debt (early repayment)	651.105	535.077	**116.028**

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
Joint Managing Director	David Carter	01926 412564 davidcarter@warwickshire.gov.uk

The report was circulated to the following members prior to publication:
Councillors Horner, Roberts, Boad, Kaur, O'Rourke, Dirveiks, N.Davies, Birdi

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	106,989	141,630	66,071	33,058
	%	%	%	%	%
Ratio of financing costs to net revenue stream	8.86	10.34	8.47	8.97	8.95
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	346,224	397,328	399,988	404,180
Under/(Over) Borrowing	(69,062)	(17,200)	35,054	37,714	51,906
	£'000	£'000	£'000	£'000	£'000
In year Capital Financing Requirement	14,004	26,862	51,104	2,660	4,192
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31 March	319,361	346,224	397,328	399,988	404,180
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	-17.26	10.82	-0.24

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	549,049	550,861	567,891
other long term liabilities	12,000	12,000	12,000	12,000	12,000
TOTAL	**538,219**	**509,346**	**561,049**	**562,861**	**579,891**
Operational boundary for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	438,516	414,455	457,540	459,051	473,243
other long term liabilities	10,000	10,000	10,000	10,000	10,000
TOTAL	**448,516**	**424,455**	**467,540**	**469,051**	**483,243**
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.