

Report to: **Audit Committee**
Date: **27th September 2016**
Title: **ANNUAL TREASURY MANAGEMENT REPORT
2015/16**
Portfolio Area: **Support Services – Councillor C Edmonds**
Wards Affected: **ALL**
Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: Lisa Buckle Role: **Finance Community of
Practice Lead**
David Bennett **Specialist Accountant**
Contact: **Email Lisa.buckle@swdevon.gov.uk 01803 861413**

Recommendations:

That the Audit Committee:

1. Approves the actual 2015/16 prudential and treasury indicators in this report
2. Notes the Annual Treasury Management Report for 2015/16

1. Executive summary

Income from investments this year was £54,268 which is £13,947 higher than the budget of £40,321 at an average return of 0.59%. The comparable performance indicator (Benchmark) is the average 7-day LIBID rate which was 0.36%. Therefore the Council achieved 0.23% return on investments over the benchmark for 15/16.

2. Background

Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

Treasury management 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 ”

During 2015/16 the minimum reporting requirements were that the full Council should receive the following reports

- An annual treasury strategy in advance of the year (Audit Committee 24/02/2015 – AC 39)
- A mid-year (minimum) treasury update report (Audit Committee 19/01/16 AC27 approved at Council 16/02/16 CM51)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council’s policies previously approved by members.

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council.

The Economy and Interest Rates

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year for the seventh successive year for the period up to 31st March 2016. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

UK vote to leave the European Union

The full implications of the decision on 23 June 2016 by the UK to negotiate an exit from the European Union (EU) will become apparent over time. There may be changes in Government policy and any significant changes in the economy may have an impact on local government financing. The Medium Term Financial Strategy will contain the latest high level forecasts in the public domain for budgeting purposes (those announced in the Local Government Finance Settlement in February 2016) and the Council will continue to monitor any impact on public sector funding and the Council's treasury management activity closely.

Overall Treasury Position as at 31 March 2016

At the beginning and the end of 2015/16 the Council's treasury position was as follows:

Investment Type	As at 31/03/2015		As at 31/03/2016	
	Principal	Interest	Principal	Interest
	£	%	£	%
Call Account	1,456,341	0.30	-	
Short Fixed	2,000,000	0.46	4,000,000	0.69
Money Market Funds	4,000,000	0.40	3,875,000	0.48
Total	7,456,341	0.40	7,875,000	0.59

The Following is a list of our fixed investments at 31 March 2016

	Fixed to	£	Interest Rate
Barclays Bank	06/07/2016	2,000,000	0.71%
Nationwide BS	11/08/2016	2,000,000	0.68%

The Strategy for 2015/16

The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit ratings are required together with a limit of £3m per counterparty. This has resulted in only a small number of institutions in which we can invest (see Appendix B).

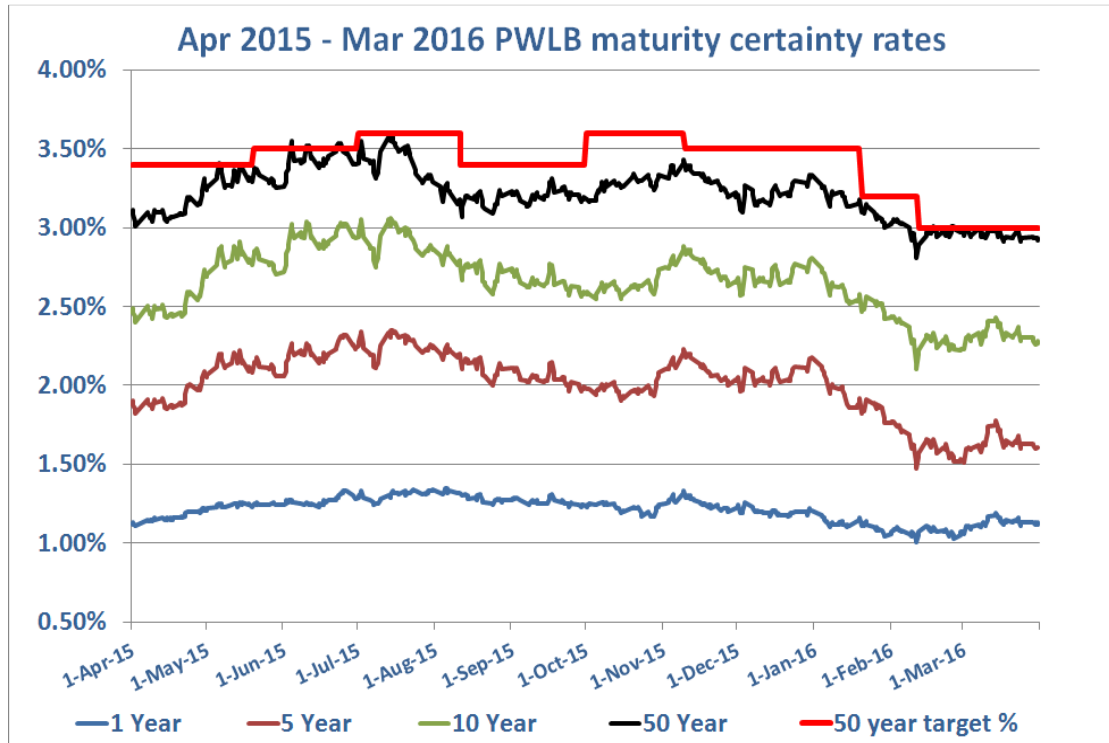
The Borrowing Requirement and Debt

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31-Mar-15 Actual	31-Mar-16 Budget	31-Mar-16 Actual
CFR General Fund (£m)	1,799	1,757	1,757

Borrowing Rates in 2015/16

PWLB borrowing rates - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



Borrowing Outturn for 2015/16

Repayments

On 28/07/2015 & 28/01/2016 the Council repaid £47,775 at an average rate of 4.55%

Investment Rates in 2015/16

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. On 4th August the bank rate was cut from 0.5% to 0.25%. This occurred after 31st March 2016 that this report covers.

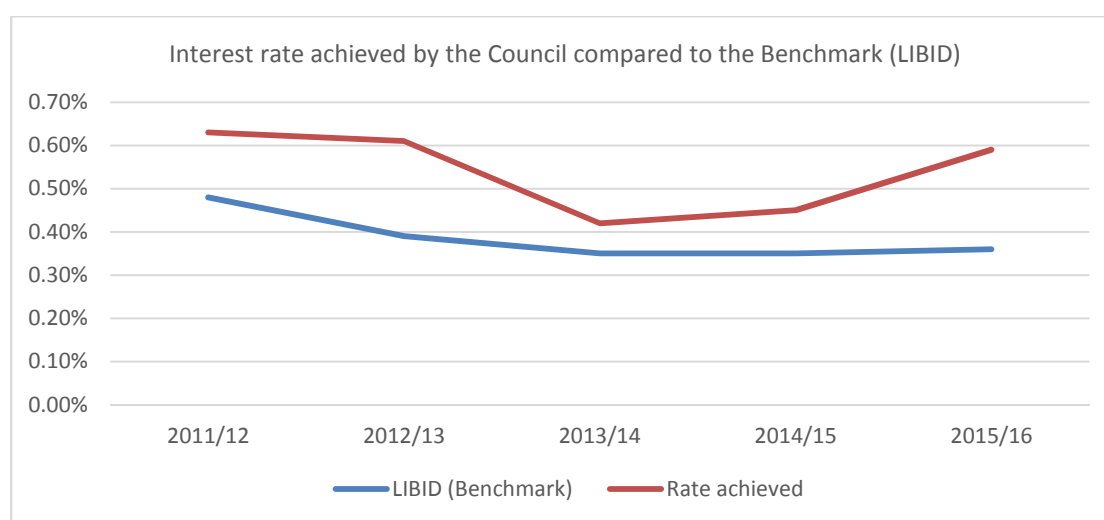
Investment Outturn for 2015/16

Investment Policy – the Council's investment policy is governed by the Department for Communities and Local Government (DCLG) guidance, which has been implemented in the annual investment strategy approved by the Audit Committee on 24/02/2015 (AC39). This policy sets out the

approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.)

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Income from investments this year was £54,268 which is £13,947 higher than the budget of £40,321 at an average return of 0.59%. The comparable performance indicator (Benchmark) is the average 7-day LIBID rate which was 0.36%. Therefore the Council achieved 0.23% return on investments over the benchmark for 15/16.



	2011/12	2012/13	2013/14	2014/15	2015/16
LIBID (Benchmark)	0.48%	0.39%	0.35%	0.35%	0.36%
Rate achieved	0.63%	0.61%	0.42%	0.45%	0.59%

3. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003
Financial	Y	Income from Treasury Management activities amounted to £54,268 in 2015/16.

		Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning.
Risk	Y	<p>The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.</p> <p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Members.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	N/a
Safeguarding	N	N/a
Community Safety, Crime and Disorder	N	N/a
Health, Safety and Wellbeing	N	N/a
Other implications	N	none

Supporting Information

Appendices:

Appendix A – Lending list as at 31 March 2016

Appendix B - Prudential and Treasury Indicators 2015/16

Background Papers:

Annual treasury strategy in advance of the year (Audit Committee 24/02/2015 – AC 39)

A mid-year treasury update report (Audit Committee 19/01/16 AC27 approved at Council 16/02/16 CM51)

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/a

APPENDIX A

West Devon Borough Council lending list as at 31 March 2016.

Barclays Bank Plc
HSBC Bank plc
Lloyds Banking Group Plc: <ul style="list-style-type: none">• Bank of Scotland plc• Lloyds Bank plc
Nationwide Building Society
Royal Bank of Scotland Group Plc: <ul style="list-style-type: none">• The Royal Bank of Scotland plc• National Westminster Bank plc
Government UK Debt Management Facility
Local Authorities (as defined under Section 23 of the Local Government Act 2003)
AAA rated Money Market Funds

APPENDIX B

PRUDENTIAL AND TREASURY INDICATORS 2015/16

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

Capital Expenditure.

This prudential Indicator is a summary of the Council's capital expenditure.

Capital Expenditure	2014/15 Actual £000	2015/16 Estimate £000	2015/16 Actual £000
Total spend	473	451	300

The table below summarises the financing of the Council's capital programme. Any shortfall of resources would result in a funding need (borrowing).

Capital Expenditure	2014/15 Actual £000	2015/16 Estimate £000	2015/16 Actual £000
Total spend			
Financed by:			
Capital receipts	259	0	32
Capital grants	186	239	244
Revenue reserves	28	0	24
New Homes Bonus	0	212	0
Total funding	473	451	300

Nb. Please note that the estimate for 2015-16 represents the approved capital programme for that year. However, actual capital spend includes not only expenditure on projects within that capital programme, but also expenditure on schemes carried forward from previous capital programmes.

The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). It is essentially a measure of the Council's underlying need to borrow if the figure is greater than zero.

	2014/15 Actual £000	2015/16 Estimate £000	2015/16 Actual £000
Total CFR	1,799	1,757	1,757
Movement in CFR	42	42	42

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the receipt of net investment income against the net revenue stream. It is calculated by dividing investment income and interest received by the Council's Net Budget.

	2014/15 Actual	2015/16 Estimate	2015/16 Actual
Ratio of net investment income to net revenue stream (surplus).	1.24%	1.20%	1.15%

Estimates of the incremental impact of capital investment decisions on council tax

This indicator calculates the notional cost of the impact of lost investment income on the Council Tax, from spending capital resources.

Incremental impact of capital investment decisions on the band D council tax (notional cost as explained above)

	2014/15 Actual £	2015/16 Estimate £	2015/16 Actual £
Future incremental impact of capital investment decisions on the Band D council tax (Notional cost)	0.03	0.03	0.01

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2014/15	2015/16
	£	£
Borrowing	3,000,000	3,000,000
Other long term liabilities	-	-
Total	3,000,000	3,000,000

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

Authorised limit	2014/15	2015/16
	£	£
Borrowing	6,000,000	6,000,000
Other long term liabilities	-	-
Total	6,000,000	6,000,000