

EXECUTIVE BOARD
26TH JULY 2016

**ANNUAL TREASURY MANAGEMENT AND
PRUDENTIAL INDICATOR REPORT
2015-2016**

1. Introduction

The Treasury Management Policy and Strategy for 2015-2016 was approved by Council on 24th February 2015. Section B 1.1(2) stated that a year end annual report would be produced.

This report meets the requirements of both the CIPFA Code of Practice on Treasury Management 2012 and the CIPFA Prudential Code for Capital Finance in Local Authorities and outlines the Treasury Management activities in the 2015-2016 financial year.

2. Investments

One of the primary activities of the Treasury Management operation is the investment of surplus cash for which the Authority is responsible. As well as the Authority's own cash the County Council invests School Funds, Trust Funds and other Funds, with any interest derived from these investments being passed over to the relevant Fund.

All surplus money is invested daily with the approved counterparties either via brokers on the Money Markets or direct. The security of the investments is the main priority, appropriate liquidity should be maintained and returns on the investments a final consideration. It continues to be difficult to invest these funds as the market continues to be insecure and as a consequence appropriate counterparties are limited.

For 2015-2016 investments to individual counterparties were limited to:

	Maximum to Lend £m
Upper Limit Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term or AA-, Aa3 or AA- long term	10
Middle Limit Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term	7
UK Banks Part Nationalised Included as investment counterparties, as long as they continue to have appropriate UK Government support	7
Any one Local Authority	10
Any one AAA Rated Money Market Fund	5
Debt Management Office	40

The total investments at 1st April 2015 and 31st March 2016 are shown in the following table:

Investments	01.04.15				31.03.16			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks and 100% wholly owned Subsidiaries	13.50	0.70	14.20	35	13.00	7.65	20.65	45
Money Market Funds	1.50	0.00	1.50	4	15.00	0.00	15.00	33
Local Authorities	0.00	25.00	25.00	61	0.00	10.00	10.00	22
TOTAL	15.00	25.70	40.70	100	28.00	17.65	45.65	100

An analysis of the daily cash schedules indicates that the minimum balance lent over the twelve month period was £32.60m and the maximum balance lent was £73.60m. The average balance for the year was £52.56m.

The total investments made by the Council and repaid to the Council (the turnover) amounted to £931.05m. This averaged approximately £17.81m per week or £2.54m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2015	40.70
Investments made during the year	468.00
Sub Total	508.70
Investments Repaid during the year	(463.05)
Total Investments 31st March 2016	45.65

The main aim of the Treasury Management Strategy is to manage the cash flows of the Council and the risks associated with this activity. Lending on the money market secures an optimum rate of return, allows for diversification of investments and consequently reduction of risk, which is of paramount importance in today's financial markets.

The benchmark return for the money market is the "7 day LIBID rate". For 2015-2016 the Council has compared its performance against this "7 day LIBID rate". The average "7 day LIBID rate" was 0.36% whereas the actual rate the Council earned was 0.56%, an out performance of 0.20%.

This outperformance can be quantified as £103k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for 2015-2016 amounted to £0.305m, which was higher than the estimated figure of £0.300m.

The income from investments is used by the Authority to reduce the net overall costs to the Council taxpayer.

3. Update on the investments with Kaupthing Singer & Friedlander (KSF)

The latest position with the Council's investments with KSF was reported in the Quarterly Treasury Management and Prudential Indicator Reports to Executive Board during the year.

In February 2016 the Council received notification that it would receive a thirteenth dividend from the Administrators, before the end of the financial year. This equated to 1.25p in the £ and amounted to £50k principal.

As at 31st March 2016 the sum of £3.35m principal and £205k interest had been received from the Administrators, which equates to 83.75% of the claim submitted. Further dividends will be paid in 2016-2017 and 2017-2018. The Administrators have upgraded their estimate of total dividends to non-preferential creditors to a minimum of 85.5%.

4. Security, Liquidity and Yield (SLY)

Within the Treasury Management Strategy Statement for 2015-2016, the Council's investment priorities are:

- Security of Capital
- Liquidity and
- Yield

The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is still considered appropriate to keep investments short term to cover cash flow requirements.

Attached at Appendix 1 is a list of the individual investments (excluding the £0.65m in KSF) held as at the 31st March 2016 together with their credit ratings, historic risk of default and the risk weighting attached to each investment.

5. Borrowing

As Members are aware the Authority has a substantial capital investment programme. For 2015-2016 actual capital expenditure was £163.79m. This was financed from:

	£m
Borrowing	90.59
Grants and Contributions	41.48
Usable Capital Receipts Applied	10.05
Revenue and Reserves	21.67
Total	163.79

Under the Treasury Management Strategy it was resolved:

- To borrow to meet the funding requirements of the Authority, after allowing for capital grants, capital receipts and capital contributions, and to stay within the Prudential Indicators to ensure affordability, prudence and sustainability.
- To borrow when interest rates are at their most advantageous, after considering cash flow requirements.

The following loans were borrowed during 2015-16 to remove the HRA from the housing subsidy system:

Loan Reference	Amount (£m)	Interest Rate	Start Date	Period	Maturity Date
503900	2.50	3.10%	2nd April 2015	5yrs	15th April 2020
503901	1.40	3.73%	2nd April 2015	12 yrs	15th October 2026
503902	2.00	3.76%	2nd April 2015	12yrs	15th April 2027
503903	1.00	3.80%	2nd April 2015	13yrs	15th January 2028
503904	1.00	3.83%	2nd April 2015	13yrs	15th April 2028
503905	0.97	3.85%	2nd April 2015	14yrs	15th October 2028
503906	1.80	4.16%	2nd April 2015	21yrs	15th October 2035
503907	2.00	4.18%	2nd April 2015	22yrs	15th January 2037
503908	3.40	4.20%	2nd April 2015	23yrs	15th January 2038
503909	1.60	4.22%	2nd April 2015	24yrs	15th January 2039
503910	1.50	4.23%	2nd April 2015	25yrs	15th January 2040
503911	2.80	4.24%	2nd April 2015	26yrs	15th January 2041
503912	2.50	4.25%	2nd April 2015	27yrs	15th October 2041
503913	2.50	4.25%	2nd April 2015	28yrs	15th January 2043
503914	2.50	4.25%	2nd April 2015	28yrs	15th July 2043
503915	3.20	4.25%	2nd April 2015	29yrs	15th July 2044
503916	4.50	4.25%	2nd April 2015	30yrs	15th July 2045
503917	4.00	4.25%	2nd April 2015	31yrs	15th January 2046
503918	4.50	4.25%	2nd April 2015	31yrs	15th July 2046
503919	4.00	4.25%	2nd April 2015	32yrs	15th January 2047
503920	4.40	4.25%	2nd April 2015	32yrs	15th July 2047
503921	4.00	4.25%	2nd April 2015	33yrs	15th January 2048
503922	4.40	4.24%	2nd April 2015	34yrs	15th January 2049
503923	4.00	4.24%	2nd April 2015	34yrs	15th July 2049
503924	4.30	4.24%	2nd April 2015	35yrs	15th January 2050
503925	4.00	4.24%	2nd April 2015	35yrs	15th April 2050
503926	2.60	4.24%	2nd April 2015	36yrs	15th January 2051
503927	1.60	4.23%	2nd April 2015	36yrs	15th July 2051
Total	78.97				

The following loans were borrowed during 2015-16 to fund the capital programme:

Loan Reference	Amount (£m)	Interest Rate	Period	Maturity Date
504388	5.00	3.18%	45yrs	28th September 2060
504389	5.00	3.17%	46yrs	28th September 2061
504624	5.00	3.04%	48yrs	28th September 2063
504704	5.00	2.61%	47yrs	28th September 2062
Total	20.00			

The weighted average interest rate of these new loans was 3% which compares favourably with the weighted average rate of the respective loan periods throughout the year.

The total loans outstanding at 1st April 2015 and 31st March 2016 were:

Loans	Balance at 01.04.15 £m	Balance at 31.03.16 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	275.64	369.59	93.95
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	1.20	3.44	2.24
Total	279.84	376.03	96.19

In 2015-2016 the Council received an additional £0.854m interest free loan from the Welsh Government in relation to the Home Improvement Loan Scheme (HILS). The purpose of the scheme is to help individual home owners, small portfolio landlords, developers and charities to improve homes and increase housing supply. The Council will repay the money to the Welsh Government by March 2030.

The Council also received £0.7m from the Welsh Government in relation to Town Centre Loans (TCL). The purpose of the scheme is to provide loans to reduce the number of vacant, underutilised and redundant sites and premises in town centres and to support the diversification of the town centres by encouraging more sustainable uses for empty sites and premises, such as residential, leisure and for key services. The term of the funding is until 31st March 2031, with advances to third parties repayable interest free.

During 2015-16 the Council also received £0.918m in relation to Invest-2-Save funding. This interest free funding is to assist in the conversion of traditional street lighting to LED, which will help deliver a legacy of reduced energy costs and associated carbon taxes.

The total external interest paid in 2015-2016 amounted to £17.64m, which compares favourably with the budget of £19.44m. The savings have arisen due to a reduction in the borrowing for the Modernisation Education Programme and Fleet replacement programme for current and previous years. Additionally it was initially anticipated that up to £98m would need to be borrowed to fund the HRAS buyout. The final figure was £79m.

6. HRA Reform in Wales

The Council initiated loans of £79m on 31st March 2015 to remove the HRA from the housing subsidy system. The funds were received from the Public Works Loans Board on 2nd April 2015, with the terms being agreed on an all Wales basis between the Welsh Government and HM Treasury. Specific rates above the prevailing market rate were applied and all other borrowing for capital purposes was suspended for the day for the HRA authorities.

7. Treasury Management Prudential Indicators

Under the requirements of the Prudential Code of Practice for Capital Finance in Local Authorities, the Council are required to set a number of treasury management prudential indicators for the year 2015-2016. The indicators set and the performance against those indicators is shown below:

7.1 The estimated and actual interest exposure limits as at 31st March 2016 were:

	Estimate 31.03.16 £m			Actual 31.03.16 £m		
	Fixed Interest Rate	Variable Interest Rate	Total	Fixed Interest Rate	Variable Interest Rate	Total
Borrowed	436.00	3.00	439.00	373.03	3.00	376.03
Invested	(20.00)	(30.00)	(50.00)	(17.65)	(28.00)	(45.65)
Net	416.00	(27.00)	389.00	355.38	(25.00)	330.38
Proportion of Total Net Borrowing	106.94%	(6.94)%	100.00%	107.57%	(7.57)%	100.00%
Limit	150.00%	10.00%				

7.2 Maximum principal sums invested > 364 days

	2015-2016 Limit £m	2015-2016 Actual £m
Maximum principal sums invested > 364 days	10	NIL

7.3 Interest rate exposure limits

	2015-2016 Limit £m	2015-2016 Actual £m
Limits on fixed interest rates based on net debt	480.00	434.00
Limits on variable interest rates based on net debt	48.00	(45.65)

7.4 The upper and lower limits set for the maturity structure of borrowing along with the actual maturity structure as at 31st March 2016.

	Estimated Upper Limit 2015-2016 %	Estimated Lower Limit 2015-2016 %	Actual 31.03.16 %
Under 12 months	15	0	1.52
12 months to 2 years	25	0	2.65
2 years to 5 years	50	0	6.56
5 years to 10 years	50	0	11.00
10 years to 20 years	50	0	18.09
20 years to 30 years	50	0	21.94
30 years to 40 years	50	0	23.88
40 years and above	50	0	14.36
Total			100.00

Details of the above maturity structure are shown below:

Loan Maturities	PWLB Debt £m	Average Interest Rate %	Market Loans/ Invest to Save/Salix/ HILS/TCL £m	Average Rate %	Total Debt Outstanding £m
Before 1st April 2017	5.48	10.39	0.25	0	5.73
1st April 2017 to 31st March 2018	9.71	7.06	0.26	0	9.97
1st April 2018 to 31st March 2021	23.73	6.16	0.94	0	24.67
1st April 2021 to 31st March 2026	41.34	5.36	0	0	41.34
1st April 2026 to 31st March 2036	66.03	4.54	1.99	0	68.02
1st April 2036 to 31st March 2046	82.50	4.01	0	0	82.50
1st April 2046 to 31st March 2056	86.80	4.85	3.00	4.72	89.80
After March 2056	54.00	4.52	0	0	54.00
Total as at 31.03.16	369.59		6.44		376.03

8. Prudential Indicators

8.1 Affordability

8.1.1 Actual and estimated ratio of financing costs to net revenue stream.

Ratio of Financing Costs to Revenue Stream		
	2015-2016 Estimate %	2015-2016 Actual %
Non-HRA	5.68	4.95
HRA	35.00	33.81

The indicator shows the proportion of income taken up by capital financing costs.

8.1.2 The incremental impact of capital investment decisions on the Council Tax.

This indicator identifies the revenue costs associated with changes to the three year capital programme compared to the Council's existing approved commitments and current plans.

Incremental Impact on Council Tax		
	2015-2016 Estimate £	2015-2016 Actual £
Increase in Band D Council Tax	2.44	0.39

The difference between the estimate and actual is due to less actual expenditure than forecast on new capital project costs and a significantly higher % of expenditure funded from external sources.

8.1.3 The incremental impact of capital investment decisions on housing rents.

Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

The proposed changes are shown as the total revenue impact on Housing Rents. Items in the capital programme where there is already a commitment to carry out that scheme are excluded from this Indicator.

Incremental Impact on Weekly Housing Rent		
	2015-2016 Estimate £	2015-2016 Actual £
Increase in Housing Rent	NIL	NIL

The final affect on the housing rent will be mitigated by rent controls.

8.2 Prudence

8.2.1 The Capital Financing Requirement (CFR).

	31.03.16 Estimate £m	31.03.16 Actual £m
Non-HRA	265	244
HRA	137	131
HRAS	98	79
Total	500	454

The Capital Financing Requirement reflects the underlying need to borrow for capital purposes.

8.2.2 Gross Borrowing against the Capital Finance Requirement indicator.

To ensure that borrowing levels are prudent over the medium term the Council's external borrowing must only be for a capital purpose. Gross borrowing must not exceed the CFR for 2015-2016 plus the expected changes to the CFR over 2016-2017 and 2017-2018 but can in the short term due to cash flows. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

£m	2015-2016 Estimate	2015-2016 Actual
Debt at 1 st April 2015	296	280
Expected Change in Debt	143	96
Gross debt at 31st March 2016	439	376
CFR	500	454
Under / (Over) borrowing	61	78

The Section 151 Officer reports that the authority had no difficulty meeting this requirement in 2015-2016.

8.2.3 The Authorised Limit and Operational Boundary.

The Authorised Limit is the "Affordable Borrowing Limit" required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2015-2016 the Council has maintained gross borrowing within its Authorised Limit.

The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

The actual financing costs as a proportion of net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2015-2016 £m
Authorised Limit	549.00
Gross borrowing	376.03
Operational Boundary	500.00
Average gross borrowing position	364.94
Financing costs as a proportion of net revenue stream	7.30%

9. Leasing

No finance leases were negotiated during the year.

10. Rescheduling

No rescheduling was undertaken during the year.

11. European Union (EU) Referendum

The majority vote in favour of leaving the EU in the referendum held on 23rd June 2016 will signal a period of uncertainty in the UK, with implications for the country's medium-term growth outlook. Since the referendum result, rating agencies Fitch and Standard & Poor's have downgraded the UK's sovereign rating. However, none of the three major rating agencies have taken any action in relation to the UK banking credit ratings. The rating status of the UK banks will continue to be monitored and if there is a rating movement then appropriate action will be taken in accordance with 'Appendix C - Approved Counterparties for Lending' of the 'Treasury Management Policy and Strategy 2016-17'.

While the uncertainty within the markets continues, the Bank of England has stated that it will take all necessary steps to ensure stability. One tool at its disposal is to adjust the base rate.

12. Conclusion

This report demonstrates compliance with the reporting requirements of the CIPFA Treasury Management Code of Practice Revised 2012.

13. Recommendations

It is recommended that this report be received by the Executive Board.