



POLICY AND RESOURCES SCRUTINY COMMITTEE – INFORMATION ITEM

SUBJECT: TREASURY MANAGEMENT AND CAPITAL FINANCING PRUDENTIAL INDICATORS OUTTURN REPORT FOR 2015/16

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND S151 OFFICER

1. PURPOSE OF REPORT

- 1.1 To present Members with details of Treasury Management activities and Capital Financing, together with the related Prudential Indicators for 2015/16.

2. SUMMARY

- 2.1 The revised Code of Practice on Treasury Management in the Public Services, which was adopted by the Council on 12th October 2010, sets out a framework of operating procedures, which is encompassed in the Treasury Management Practices (TMPs). The Council subsequently approved the detailed TMPs on 23rd November 2010. TMP6 (Reporting Requirements and Management Information Arrangements) provides for the submission of monitoring reports to the appropriate Committee on a quarterly basis.
- 2.2 Under the provisions of the Local Government Act 2003, The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [The Capital Regulations], and the CIPFA's "The Prudential Code for Capital Finance in Local Authorities" [the Code], the Authority is obliged to approve and publish a number of indicators relevant to Capital Finance and Treasury Management.
- 2.3 The Authority's Annual Investment Strategy and Capital Financing Prudential Indicators for 2015/16 were approved by Council on 25th February 2015.

3. LINKS TO STRATEGY

- 3.1 This report has links to the Treasury Management Strategy 2015/16 as agreed by Council on 25th February 2015.

4. THE REPORT

4.1 Background – Interest Rates

- 4.1.1 The Monetary Policy Committee (MPC) decreased the Bank Rate in March 2009 to 0.50% as part of the Government's strategy to stimulate the economy. The Bank Rate has remained at 0.50% throughout 2015/16 and the level of the Bank of England's quantitative easing programme remained at £375bn as at 31 March 2016.

4.2 Treasury Management Advice

4.2.1 The Authority receives treasury management advice from Arlingclose Limited.

4.3 Borrowing Activity

4.3.1 During the period covered by this report a single PWLB loan of £75.9m was raised for the HRA for the purpose of exiting the Subsidy arrangement. The loan was raised on the 2nd April 2015 at a rate of 4.17% and will be held for 21.5 years. Loan proceeds were transferred to the Welsh Government resulting in the Authority exiting the Subsidy arrangement. The loan was raised in accordance with the report approved at full Council on 17th December 2014. No General Fund borrowing has been undertaken during the 2015/16 financial year.

4.3.2 Borrowing rates were volatile throughout 2015/16 with the 25-year maturity loan rate reached a high of 3.86% and a low of 3.18% and an overall average rate of 3.55%. The average rate for a 25 year annuity loan was 3.15%.

4.3.3 During the period covered by this report, PWLB loans to the value of £6.49m were repaid on maturity. Such loans had an average interest rate of 5.38%. A loan repayment of £30k was also made to the WRU in accordance with the loan agreement as agreed at the Cabinet meeting held on 30th October 2013. Furthermore a temporary loan of £400k was repaid during the year. This loan was raised for the purpose of cashflow requirements as investments were tied in, and was held for 1 day.

4.3.4 As at 31st March 2016 the value of the Council's debt portfolio was £287.4m and comprised of £40m LOBO loans, £247.2m of PWLB loans and a £240k WRU loan in respect of the Ystrad Mynach Centre of Sporting Excellence.

4.4 Rescheduling

4.4.1 No loans were rescheduled during 2015/16.

4.5 Investments

4.5.1 Short-term Investments – up to 364 Days -Throughout the year the in-house team managed investments averaging £117.1m. The return on these investments, which ranged from overnight deposits and deposits with a duration of 2.9 years, was 0.60% compared with the target of 0.25%. The improvement in returns reflect the Authority's change in investment strategy and lending to high creditworthy counterparties that consist of banks; building societies; supranational institutions; the DMO, local authorities; and corporates using a range of investment instruments such as corporate bonds; covered bonds; cash deposits and treasury bills. Whilst the returns have improved, the riskiness of the investment portfolio has been quantified with a weighted average credit score equivalent to an AA rating. As at 31st March 2016 the UK government was rated by two credit rating agencies at AA+. Therefore the Authority's portfolio is one notch below the UK Government rating.

4.5.2 The total value of investments as at 31st March 2016 (short-term and long-term) was £129.1m. The nominal value of short-term investments as at 31st March 2016 (excluding accrued interest and accounting charges) was £118.1m and comprised of £41.4m deposited with Local Authorities; £36.9m deposited with banks; £25.1m invested in bonds; £7.0m invested in UK Government T-Bills and £7.7m deposited in the DMADF.

4.5.3 Long-term Investments - The value of long-term investments as at 31st March 2016 was £11.04m and invested in AAA rated bonds with an average duration of 2 years, with an average rate of return of 1.16%.

4.6 Prudential Indicators

4.6.1 Capital Financing Requirement

4.6.1.1 The capital financing requirement measures the Authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Authority does not associate borrowing with particular items or types of expenditure. In practice, the raising and repaying of loans is determined primarily by professional / expert advice, and may not necessarily take place in the relevant year. In order to create an operating environment within which the Treasury Manager can legitimately react to appropriate advice, the various authorised limits as identified in **Appendix 1** are set at a level in excess of the capital financing requirement. During the year, the Authority operated within the approved limits.

4.6.1.2 **Appendix 2** shows the value of the Capital Financing Requirement as at 31 March 2016 based on the audited Balance Sheet position. This is calculated to be £344.6m.

4.6.2 Prudential Indicators – “Prudence”

4.6.2.1 The Prudential Indicators for Treasury Management are shown in **Appendix 1**. Whilst the Authorised Limit has remained unchanged when compared to the original Council approved figure, the Operational Boundary limit has decreased as a result of new planned debt not being raised.

4.6.3 Prudential Indicators – “Affordability”

4.6.3.1 There is a requirement to analyse and report the capital financing costs, and express those costs as a percentage of the net revenue streams of the Authority. These are identified in **Appendix 2**.

4.6.3.2 Financing Costs to Net Revenue Stream - General Fund - the audited outturn shows a decrease on the budgeted position. This is mainly attributable to reduced interest costs as a result of deferred borrowing for the capital programme. The income generated from investments came in higher than anticipated as the Authority locked into interest rates higher than the DMADF rate and the Base Rate.

4.6.3.3 Financing Costs to Net Revenue Stream - Housing Revenue Account (HRA) - The ratio is higher due to the HRA Self Financing loan raised in April 2015.

4.6.3.4 Incremental Effect of Capital Investment - The General Fund shows a decrease in this measure as a result of the method of funding the capital programme from internal resources rather than externally funding expenditure. The HRA also shows a decrease in this measure as a result of the method of funding the capital programme from internal reserves.

4.6.4 Capital Expenditure and Funding

4.6.4.1 Capital Expenditure is reported in **Appendix 3**, for information purposes. The table indicates the audited position as at 31st March 2016.

5. EQUALITIES IMPLICATIONS

5.1 This report is for information purposes, so the Council's Equality Impact Assessment (EqIA) process does not need to be followed.

6. FINANCIAL IMPLICATIONS

6.1 As presented throughout the report.

7. PERSONNEL IMPLICATIONS

7.1 There are no personnel implications.

8. CONSULTATIONS

8.1 There are no consultation responses that have not been reflected in this report.

9. RECOMMENDATIONS

9.1 Members are asked to note the contents of the report.

10. REASONS FOR THE RECOMMENDATIONS

10.1 To ensure compliance with the CIPFA “Code of Practice for Treasury Management in the Public Services”.

11. STATUTORY POWER

11.1 Local Government Act 2003.

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Background Papers:

- Treasury Management Working Papers – Accountancy Section
- CIPFA “Code of Practice for Treasury Management in the Public Services”
- The Local Government Act 2003
- Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2004

Appendices:

- Appendix 1 Prudential Indicators - Treasury Management
- Appendix 2 Prudential Indicators - Capital Finance
- Appendix 3 Capital Expenditure and Funding

	Budget 2015/16	Actual 2015/16
	£000	£000
Authorised limit for external debt -		
Borrowing	375,328	375,328
Other long term liabilities	37,869	36,988
Total	413,197	412,316
Operational boundary for external debt -		
Borrowing	300,262	287,428
Other long term liabilities	37,869	36,988
Total	338,132	324,416
Upper limits for interest rate exposure		
Principal outstanding on borrowing	300,262	287,428
Principal outstanding on investments	65,000	129,133
Net principal outstanding	235,262	158,295
Fixed rate limit – 100%	235,262	158,295
Variable rate limit – 50%	70,579	79,148
Upper limit for total invested for over 364 days	40,000	0

Maturity structure of fixed rate borrowing: Debt outstanding at 31 March 2016	Upper Limit	Lower Limit	ACTUAL 2015/16	
			£000	
Under 12 months	35%	0%	3,576	2%
Over 12 months and within 24 months	40%	0%	4,354	1%
Over 2 years and within 5 years	50%	0%	6,723	2%
Over 5 years and within 10 years	75%	0%	13,729	5%
Over 10 years	95%	0%	259,046	89%
			287,428	100%

Appendix 2- Prudential Indicators - Capital Finance

Outturn Report

Ratio of Financing costs to net revenue stream	Budget 2015/16	Actual 2015/16
General Fund	£000	£000
Principal repayments (MRP)	8,437	7,795
Less commutation		
Net interest costs	9,418	8,609
Debt Management costs	60	46
Rescheduling discount	-226	-226
Investment income	-163	-788
Interest applied to internal balances	847	812
Total General Fund	18,374	16,248
Net revenue stream	324,413	325,842
Total as percentage of net revenue stream	5.66%	4.99%
Housing Revenue Account		
Principal repayments	914	852
Interest costs	2,082	5,709
Rescheduling discount	-58	-58
Debt Management costs	15	24
Total HRA	2,953	6,527
Net revenue stream	41,000	43,238
Total as percentage of net revenue stream	7.20%	15.10%

Estimate of incremental impact of capital investment on Council Tax and Housing Rents	Budget 2015/16	Actual 2015/16
General Fund	£000	£000
costs of unsupportive borrowings - principal	493	116
- interest	643	187
Loss of investment income	36	66
Running costs		
Total	1,172	369
Impact on Band D council tax **	19.67	57.28
Housing Revenue Account		
Loss of investment income	217	128
Unsupported borrowings - principal	1,509	0
- interest	3,771	3,169
Running costs	0	0
Total	5,497	3,297
Impact on average weekly rent **	0.09	0.04

** These are notional calculations as per regulations

Capital Financing Requirement	Budget 2015/16	Actual 2015/16
	£000	£000
Council Fund	239,890	228,057
Housing Revenue Account	116,434	116,512
Total Authority	356,324	344,569

Appendix 3 - Capital Expenditure and Funding

Outturn Report

	Budget 2015/16	Actual 2015/16
Expenditure		
	£000	£000
Council Fund	14,861	32,124
Housing Revenue Account	36,290	28,861
Total	51,151	60,985
Funding		
Surplus/ (Deficit) Balance b/f	1,624	
RCCO - Senior Pay (GF)	52	
RCCO- 12/13 Debt Management Saving (14/15 RCCO Budget)	128	
Borrowings - Supported (GF)	4,985	
Internal Borrowing		8,026
General Capital Grant - WG	3,033	3,030
Customer First Capital Budget Underspend	122	
Borrowings - Unsupported (GF)	2,000	
RCCO- (GF)		5,842
General Fund Working Balances	4,845	
Specific Grants & Contributions		15,227
Capital Receipts 2014/15	43	
RCCO- (HRA)	28,700	21,287
Capital Receipts (HRA)	260	
Other HRA Grants		229
Major Repairs Allowance (HRA)	7,330	7,345
Total	53,122	60,985
Surplus	1,971	-