



POLICY AND RESOURCES SCRUTINY COMMITTEE – FOR INFORMATION

SUBJECT: TREASURY MANAGEMENT AND CAPITAL FINANCING PRUDENTIAL INDICATORS OUTTURN REPORT FOR 2016/17

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151 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 2016/17.

2. SUMMARY

- 2.1 The Code of Practice on Treasury Management in the Public Services 2009, 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). 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 2016/17 were approved by Council on 24th February 2016.

3. LINKS TO STRATEGY

- 3.1 Treasury Management Strategy 2016/17 as agreed by Council on 24th February 2016.
- 3.2 Prudent financial management contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015:-
- A prosperous Wales.
 - A resilient Wales.
 - A healthier Wales.
 - A more equal Wales.
 - A Wales of cohesive communities.
 - A Wales of vibrant culture and thriving Welsh Language.
 - A globally responsible Wales.

4. THE REPORT

4.1 Background – Interest Rates

4.1.1 The Monetary Policy Committee (MPC) decreased the Bank Rate in August 2016 to 0.25% following the EU referendum. The repercussions of the referendum also resulted in the Bank of England restarting Quantitative Easing (QE) programme by gilt and corporate bond purchases; and providing cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy.

4.2 Treasury Management Advice

4.2.1 The Authority receives treasury management advice from Arlingclose Limited.

4.3 Borrowing Activity

4.3.1 No long-term loans were raised during 2016/17 other than three temporary loans totalling £11.91m. Temporary loans were raised for the purpose of cashflow requirements as investments were tied in.

4.3.2 Borrowing rates were volatile throughout 2016/17 with the 25-year maturity loan rate reached a high of 3.48% and a low of 2.28% and an overall average rate of 2.92%. The average rate for a 25 year annuity loan was 2.51%.

4.3.3 During the period covered by this report, PWLB loans to the value of £3.55m were repaid on maturity. Such loans had an average interest rate of 4.79%. 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 temporary loans of £5.91m were repaid during the year.

4.3.4 Previously the Authority held four LOBO (Lender's Option Borrower's Option) loans with a total value of £40m. However in June 2016, a lender converted a LOBO loan to a fix rate loan (long-term bank loan) at no cost to the Authority and with no further changes to the original loan terms. This removes the uncertainty of future rate changes. At 31 March 2017, the Authority held £30m in LOBO loans and a £10m long-term bank loan.

4.3.5 As at 31st March 2017 the nominal value of the Council's treasury management debt portfolio was £289.8m and comprised of £30m LOBO loans, £10m long-term bank loan; £243.6m of PWLB loans; £6m local authority temporary loan and a £210k WRU loan in respect of the Ystrad Mynach Centre of Sporting Excellence.

4.4 Rescheduling

4.4.1 No loans were rescheduled during 2016/17.

4.5 Investments

4.5.1 Short-term Investments – up to 364 Days -Throughout the year the in-house team managed investments with a daily average of £1.42m. The return on these investments, which ranged from overnight deposits and deposits with duration of 1.8 years, was 0.69% 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; Gilts; treasury bills and moneymarket fund. 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 2017 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 nominal value of investments as at 31st March 2017 (short-term and long-term) was £125.2m. The nominal value of short-term investments as at 31st March 2017 (excluding accrued interest and accounting charges) was £93.3m and comprised of £10.4m deposited with Local Authorities; £23.0m deposited with banks; £50.5m invested in bonds; and £9.4m deposited in the DMADF.

4.5.3 Long-term Investments- The value of long-term investments as at 31st March 2017 was £31.9m and invested in AAA rated bonds with an average duration of 4 years, with an average rate of return of 1.0%.

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 2017 based on the audited Balance Sheet position. This is calculated to be £341.6m.

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 was higher than anticipated as the Authority locked into interest rates higher than the DMADF rate and the Base Rate. Furthermore, the Authority revised its MRP policy during the year (Council report 24th January 2017) that has resulted in significant savings as a result of a lower MRP charge for 2016/17. The saving will be held in a capital earmarked reserve and will be made available to the capital programme.

4.6.3.3 Financing Costs to Net Revenue Stream- General Fund and Housing Revenue Account (HRA) - The ratio is lower due the General Fund and the HRA not borrowing to fund the capital programme.

4.6.3.4 Incremental Effect of Capital Investment- The General Fund and the HRA show a decrease in this measure as a result of the method of funding the capital programme from internal resources.

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 2017.

5. WELL-BEING OF FUTURE GENERATIONS

- 5.1 The effective management of the Authority's borrowing and investments are key in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

6. EQUALITIES IMPLICATIONS

- 6.1 This report is for information purposes, so the Council's Equalities Impact Assessment (EqIA) process does not need to be applied.

7. FINANCIAL IMPLICATIONS

- 7.1 As detailed throughout the report.

8. PERSONNEL IMPLICATIONS

- 8.1 There are no direct personnel implications arising from this report.

9. CONSULTATIONS

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

10. RECOMMENDATIONS

- 10.1 Members are asked to note the contents of this report.

11. REASONS FOR THE RECOMMENDATIONS

- 11.1 Compliance with the CIPFA "Code of Practice for Treasury Management in the Public Services".

12. STATUTORY POWER

- 12.1 Local Government Acts 1972 and 2003.

Author: N. Akhtar – Group Accountant (Financial Advice and Support)

E-mail: akhtar@caerphilly.gov.uk Tel: 01443 863313

Consultees: N. Scammell – Acting Director of Corporate Services & S151 Officer

S. Harris - Interim Head of Corporate Finance

A. Southcombe – Finance Manager, Corporate Finance

Cllr B. Jones- Deputy Leader and Cabinet Member for Finance, Performance and Governance

Appendices:

Appendix 1 – Treasury Management Prudential Indicators – Prudence

Appendix 2 – Capital Finance Prudential Indicators – Affordability

Appendix 3 – Capital Expenditure and Funding