Agenda Item No:	14	
Committee:	Council	
Date:	21 July 2016	
Report Title:	Treasury Management Annual Report 2015/16	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to consider the overall financial and operational performance of the Council's treasury management activity for 2015/16.

2 Key issues

- In accordance with the Treasury Management Strategy approved in February 2016, Council receives an annual report after the financial year-end on its' treasury management activities.
- The Treasury Management Annual Report 2015/16 as considered by Cabinet on 16 June 2016 and Corporate Governance Committee on 12 July 2016 is attached.
- The report highlights all the key activities carried out within the Treasury Management function during 2015/16. All activities have been conducted in accordance with the approved strategy and policies.
- 2015/16 has been a challenging year and the report highlights the success in maximising investment income whilst ensuring the security and liquidity of the Council's investments.

3 Recommendations

- It is recommended that members note the report.

Wards Affected	All
Portfolio Holder(s)	Cllr John Clark, Leader Cllr Chris Seaton, Portfolio Holder for Finance
Report Originator(s)	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Treasury Management and Annual Investment Strategy 2015/16

Agenda Item No:	12	
Committee:	Corporate Governance Committee	
Date:	12 July 2016	
Report Title:	Treasury Management Annual Report 2015/16	

Cover sheet:

4 Purpose / Summary

The purpose of this report is to consider the overall financial and operational performance of the Council's treasury management activity for 2015/16. This report has been considered by Cabinet on 16 June 2016 and will be presented to Council on 21 July 2016.

5 Key issues

- Outstanding loans and finance lease liabilities of £8,812,591 and temporary investments of £18,550,000 as at 31 March 2016.
- The average rate on the long term external debt portfolio was 5.78% at 31 March 2016.
- Due to the Council's long term PWLB debt portfolio (£4.5m at 31/03/16) currently attracting excessive premiums it was not financially advantageous for the Council to comply with the Gross borrowing and Capital Financing Prudential Indicator in 2015/16. This is consistent with the strategy approved by Council in February 2015.
- No new borrowing was undertaken and the authorised limit was not breached during 2015/16.
- The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- Amount received from external investments £175,970.
- Overall interest rate achieved from investments 0.67% (7 day LIBID uncompounded rate for 2015/16 0.36%).

6 Recommendations

- It is recommended that members note the report.

Wards Affected	All
Portfolio Holder(s)	Cllr John Clark, Leader Cllr Chris Seaton, Portfolio Holder, Finance
Report Originator(s)	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Treasury Management and Annual Investment Strategy 2015/16

Report:

1 Introduction

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

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

- an annual treasury strategy in advance of the year (Council 26/02/2015);
- a mid-year treasury update report (Council 17/12/2015);
- an annual review following the end of the year, describing the activity compared to the strategy (this report).

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 The Council 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 Corporate Governance Committee before they were reported to Council.

2 The Economy and Interest Rates

2.1 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon to move 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.

2.2 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 remained unchanged at 0.5% for the seventh successive year. 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.

2.3 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. 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.

2.4 The European Central Bank commenced a full blown quantitative easing (QE) programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

2.5 As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015, since then there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

2.6 The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of the parliament.

3 Overall Treasury Position as at 31 March 2016

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

	31 March 2016 Principal £000	Rate / Return	Average Life years	31 March 2015 Principal £000	Rate / Return	Average Life years
Fixed rate funding						
• PWLB	4,500	7.29%	14.40 yrs	4,500	7.29%	15.40 yrs
• LOBO	3,300	4.70%	37.96 yrs	3,300	4.70%	38.96 yrs
• Finance Leases	1,013	1.64%	4.25 yrs	626	3.00%	3.22 yrs
Total debt	8,813			8,426		
Investments	(18,550)	0.67%		(18,300)	0.77%	
Net debt /(Investments)	(9,737)			(9,874)		

4 The Strategy for 2015/16

4.1 The expectation for interest rates within the treasury management strategy for 2015/16 anticipated low but rising Bank Rate, starting in quarter 1 of 2016 with gradual rises in the medium and longer term fixed borrowing rates during 2016/17. Variable or short term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5 The Borrowing Requirement

5.1 The Council's Capital Financing Requirement (CFR) for the year is shown below and represents a key prudential indicator.

	31 March 2015 Actual £000	31 March 2016 Estimate £000	31 March 2016 Actual £000
CFR opening balance	326	663	663
Capital expenditure on finance leases	477	658	587
Less finance lease repayments	(140)	(184)	(187)
CFR Closing balance	663	1,137	1,063

5.2 The CFR includes finance leases. A finance lease is a commercial arrangement between the Council and a lessor (finance company), where in consideration for a series of payments the Council has the right to use an asset (e.g. refuse vehicle, leisure equipment) for the lease duration (typically 3 to 7 years). The annual lease payment is made up of a capital and interest repayment.

5.3 Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan.

5.4 One of the key prudential indicators is Gross borrowing and the CFR. This indicator is to ensure that borrowing levels are prudent over the medium term and only for a capital purpose. The Council should ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years and ensures that long term borrowing is not undertaken for revenue purposes. Appendix A highlights the Council's borrowing position against the CFR.

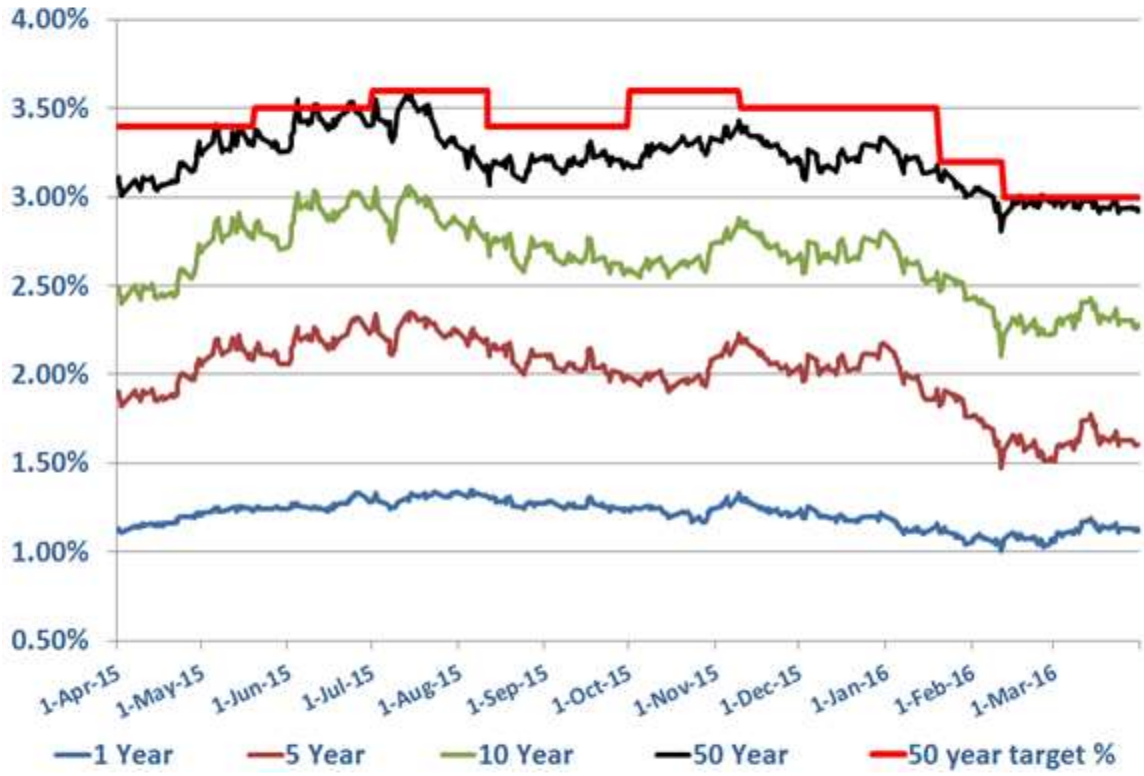
5.5 As a result of the Council's long term PWLB debt portfolio (£4.5m at 31/03/16) currently attracting excessive premiums (£3.138m at the time of writing this report), if it were prematurely repaid, it is not financially advantageous for the Council to comply with this prudential indicator. This is consistent with the strategy approved by Council in February 2015.

5.6 The authorised limit is the "affordable borrowing limit" required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. 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 authorised limit was not breached during 2015/16.

6 Borrowing Outturn

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

PWLB Borrowing Rates for 2015/16

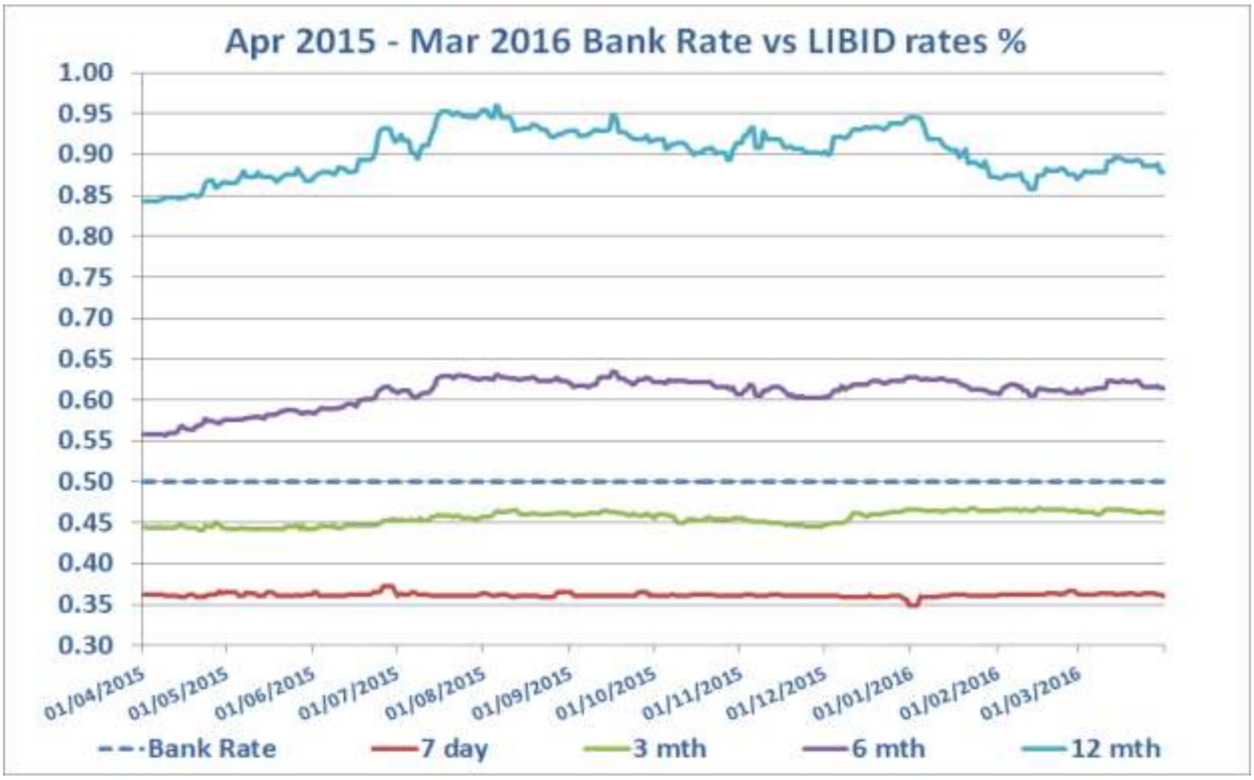


6.2 No long term or temporary borrowing was required. The approach during the year was to use cash balances to finance new capital expenditure, so as to run down cash balances that were earning low investment returns and to minimise counterparty risk incurred on investments.

6.3 No rescheduling was completed during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates and the penalty position which can arise from early repayment of debt, made rescheduling unviable.

7 Investment Outturn

7.1 Bank rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. 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 around quarter 2 2018. Deposit rates remained depressed during the whole year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.



7.2 The Council's investment policy is governed by Communities and Local Government guidance, which has been implemented in the annual investment strategy approved by Council on 26 February 2015. 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 and bank share price).

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

7.4 The Council maintained an average balance of £24.213m of internally managed funds. The internally managed funds earned an average rate of return of 0.67% (£175,970). The comparable performance indicator is the average 7-day LIBID rate, which was 0.36%. No other benchmarking information is currently available but members will be updated at the meeting should any become available.

8 Prudential and Treasury Indicators

8.1 During 2015/16 the Council complied with its legislative and regulatory requirements with the exception of gross borrowing and the CFR (see paragraph 5.4 above).

Appendix A - Prudential Indicators

	Prudential Indicators	2014/15 Actual £000	2015/16 Estimate £000	**2015/16 Actual £000**
1	**Capital Expenditure**	3,411	3,702	**2,965**
2	**Ratio of Financing Costs to Net Revenue Stream (external interest – investment income)**	2.38%	2.52%	**2.35%**
3	**Gross Borrowing and the Capital Financing Requirement**			
	Gross Debt	8,426	8,900	**8,813**
	CFR	663	1,137	**1,063**

	Treasury Management Indicators	2014/15 Actual £000	2015/16 Estimate £000	**2015/16 Actual £000**
4	**Authorised Limit for External Debt**			
	Borrowing	15,000	15,000	**15,000**
	Other Long Term Liabilities	2,000	2,000	**2,000**
	Total	17,000	17,000	**17,000**
5	**Operational Boundary for External debt**			
	Borrowing	10,000	10,000	**10,000**
	Other Long Term Liabilities	2,000	2,000	**2,000**
	Total	12,000	12,000	**12,000**
6	**Actual External debt (as at 31 March)**			
	Borrowing	7,800	7,800	**7,800**
	Other Long Term Liabilities	626	1,100	**1,013**
	Total	8,426	8,900	**8,813**
7	**Interest Rate Exposures**			
	Upper Limit - Fixed Rates	(3,874)	(7,686)	**(4,987)**
	Upper Limit - Variable Rates	(6,000)	(8,700)	**(4,750)**
8	**Upper Limit for Total Principal Sums Invested for Periods Longer than 364 Days**	4,000	5,000	**0**