

# ANNUAL TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT 2016-2017

## 1. Introduction

The Treasury Management Policy and Strategy for 2016-2017 was approved by Council on 23<sup>rd</sup> February 2016. 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 2016-2017 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 2016-2017 investments to individual counterparties were limited to:

	<b>Maximum to Lend £m</b>
<b>Upper Limit</b> 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
<b>Middle Limit</b> Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term	7
<b>UK Banks Part Nationalised</b> 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 2016 and 31st March 2017 are shown in the following table:

Investments	01.04.16				31.03.17			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks and 100% Wholly Owned Subsidiaries	13.00	0.65	13.65	30	15.00	5.63	20.63	51
Building Societies	0.00	7.00	7.00	15	0.00	0.00	0.00	0
Money Market Funds	15.00	0.00	15.00	33	15.00	0.00	15.00	37
Local Authorities	0.00	10.00	10.00	22	0.00	5.00	5.00	12
<b>TOTAL</b>	<b>28.00</b>	<b>17.65</b>	<b>45.65</b>	<b>100</b>	<b>30.00</b>	<b>10.63</b>	<b>40.63</b>	<b>100</b>

An analysis of the daily cash schedules indicates that the minimum balance lent over the twelve month period was £40.63m and the maximum balance lent was £90.15m. The average balance for the year was £65.88m.

The total investments made by the Council and repaid to the Council (the turnover) amounted to £1,071.62m. This averaged approximately £20.55m per week or £2.94m per day. A summary of the turnover is shown below:

	£m
Total Investments 1st April 2016	45.65
Investments made during the year	533.30
Sub Total	578.95
Investments Repaid during the year	(538.32)
<b>Total Investments 31st March 2017</b>	<b>40.63</b>

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 2016-2017 the Council has compared its performance against this "7 day LIBID rate". The average "7 day LIBID rate" was 0.20% whereas the actual rate the Council earned was 0.42%, an out performance of 0.22%.

This outperformance can be quantified as £141k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for 2016-2017 amounted to £0.272m, which was less than the estimated figure of £0.300m. The reason being that after the EU referendum the Bank

Rate was cut from 0.50% to 0.25% on the 4th August 2016. This resulted in a fall in investment returns.

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 October 2016 the Council received notification that it would receive a fourteenth dividend from the Administrators, in November 2016. This equated to 0.5p in the £ and amounted to £20k principal.

As at 31<sup>st</sup> March 2017 the sum of £3.37m principal and £207k interest had been received from the Administrators, which equates to 84.25% of the claim submitted. Further dividends will be paid in 2017-2018 and 2018-2019. The Administrators have upgraded their estimate of total dividends to non-preferential creditors to a minimum of 86.25%.

### **4. Security, Liquidity and Yield (SLY)**

Within the Treasury Management Strategy Statement for 2016-2017, 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 £0.63m in KSF) held as at the 31<sup>st</sup> March 2017 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 2016-2017 actual capital expenditure was £66.10m. This was financed from:

	£m
Borrowing	31.44
Grants and Contributions	21.84
Usable Capital Receipts Applied	6.65
Revenue and Reserves	6.17
<b>Total</b>	<b>66.10</b>

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 2016-17 to fund the capital programme:

Loan Reference	Amount (£m)	Interest Rate	Period	Maturity Date
505287	5.00	1.93%	48yrs	28th September 2064
505288	5.00	1.94%	49yrs	28th September 2065
505722	1.70	2.34%	43yrs	28th September 2059
505723	5.00	2.53%	50yrs	28th September 2066
<b>Total</b>	<b>16.70</b>			

The weighted average interest rate of these new loans was 2.15% which compares favourably with the weighted average rate of the respective loan periods throughout the year.

The total loans outstanding at 1<sup>st</sup> April 2016 and 31<sup>st</sup> March 2017 were:

Loans	Balance at 01.04.16 £m	Balance at 31.03.17 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	369.59	380.82	11.23
Market Loan	3.00	3.00	0.00
Salix, Invest-to-Save, HILS & TCL	3.44	4.15	0.71
<b>Total</b>	<b>376.03</b>	<b>387.97</b>	<b>11.94</b>

In 2016-17 the Council received £0.468m 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 2016-17 the Council received an additional £0.489m in relation to Invest-To-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 2016-2017 amounted to £17.64m, which compares favourably with the budget of £19.81m. The savings have arisen due to a reduction in the borrowing for the Modernisation Education Programme for current and previous years.

## 6. 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 2016-2017. The indicators set and the performance against those indicators is shown below:

### 6.1 The estimated and actual interest exposure limits as at 31<sup>st</sup> March 2017 were:

	Estimate 31.03.17 £m			Actual 31.03.17 £m		
	Fixed Interest Rate	Variable Interest Rate	Total	Fixed Interest Rate	Variable Interest Rate	Total
Borrowed	402.00	3.00	405.00	384.97	3.00	387.97
Invested	(20.00)	(30.00)	(50.00)	(10.63)	(30.00)	(40.63)
<b>Net</b>	<b>382.00</b>	<b>(27.00)</b>	<b>355.00</b>	<b>374.34</b>	<b>(27.00)</b>	<b>347.34</b>
Proportion of Total Net Borrowing	107.61%	(7.61)%	100.00%	107.77%	(7.77)%	100.00%
<b>Limit</b>	<b>150.00%</b>	<b>10.00%</b>				

### 6.2 Maximum principal sums invested > 364 days

	2016-2017 Limit £m	2016-2017 Actual £m
Maximum principal sums invested > 364 days	10	NIL

### 6.3 Interest rate exposure limits

	2016-2017 Limit £m	2016-2017 Actual £m
Limits on fixed interest rates based on net debt	445.00	374.34
Limits on variable interest rates based on net debt	20.00	(27.00)

6.4 The upper and lower limits set for the maturity structure of borrowing along with the actual maturity structure as at 31<sup>st</sup> March 2017.

	Estimated Upper Limit 2016-2017 %	Estimated Lower Limit 2016-2017 %	Actual 31.03.17 %
Under 12 months	15	0	2.58
12 months to 2 years	25	0	1.81
2 years to 5 years	50	0	6.15
5 years to 10 years	50	0	11.08
10 years to 20 years	50	0	18.32
20 years to 30 years	50	0	20.88
30 years to 40 years	50	0	21.73
40 years and above	50	0	17.45
<b>Total</b>			<b>100.00</b>

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 2018	9.71	10.76	0.30	0	10.01
1st April 2018 to 31st March 2019	6.69	5.60	0.34	0	7.03
1st April 2019 to 31st March 2022	22.81	6.52	1.05	0	23.86
1st April 2022 to 31st March 2027	42.98	4.94	0	0	42.98
1st April 2027 to 31st March 2037	68.63	4.51	2.46	0	71.09
1st April 2037 to 31st March 2047	81.00	4.01	0	0	81.00
1st April 2047 to 31st March 2057	81.30	5.02	3.00	4.72	84.30
After March 2057	67.70	3.80	0	0	67.70
<b>Total as at 31.03.17</b>	<b>380.82</b>		<b>7.15</b>		<b>387.97</b>

## 7. Prudential Indicators

### 7.1 Affordability

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

<b>Ratio of Financing Costs to Revenue Stream</b>		
	<b>2016-2017 Estimate %</b>	<b>2016-2017 Actual %</b>
Non-HRA	5.77	4.20
HRA	37.46	36.43

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

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

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

<b>Incremental Impact on Council Tax</b>		
	<b>2016-2017 Estimate £</b>	<b>2016-2017 Actual £</b>
Increase in Band D Council Tax	3.65	1.36

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.

#### 7.1.3 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.

<b>Incremental Impact on Weekly Housing Rent</b>		
	<b>2016-2017 Estimate £</b>	<b>2016-2017 Actual £</b>
Increase in Housing Rent	NIL	NIL

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

## 7.2 Prudence

### 7.2.1 The Capital Financing Requirement (CFR).

	<b>31.03.17 Estimate £m</b>	<b>31.03.17 Actual £m</b>
Non-HRA	263	258
HRA	137	136
HRAS	77	77
<b>Total</b>	<b>477</b>	<b>471</b>

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

### 7.2.2 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 2016-2017 plus the expected changes to the CFR over 2017-2018 and 2018-2019 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	2016-2017 Estimate	2016-2017 Actual
Debt at 1 <sup>st</sup> April 2016	381	376
Expected Change in Debt	24	12
<b>Gross debt at 31<sup>st</sup> March 2017</b>	<b>405</b>	<b>388</b>
<b>CFR</b>	<b>477</b>	<b>471</b>
<b>Under / (Over) borrowing</b>	<b>72</b>	<b>83</b>

The Section 151 Officer reports that the authority had no difficulty meeting this requirement in 2016-2017.

### 7.2.3 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 2016-2017 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.

	<b>2016-2017</b> <b>£m</b>
Authorised Limit	524.00
Gross borrowing	387.97
Operational Boundary	477.00
Average gross borrowing position	379.17
Financing costs as a proportion of net revenue stream	7.30%

## **8. MRP Policy Review**

County Council on 26<sup>th</sup> April 2017 approved an amended Minimum Revenue Provision (MRP) Policy which supported a more prudent annual provision.

This has resulted in:

- Supported borrowing and expenditure incurred before 1<sup>st</sup> April 2008, as at 31<sup>st</sup> March 2016 to be charged to revenue over 40 years on a straight line basis, with this policy being implemented for the 2016-2017 accounts and for the Revenue Budget Strategy 2017-2018 to 2019-2020
- B) The future borrowing value is charged to revenue over 40 years or by the estimated economic life of the asset if shorter for unsupported borrowing
- C) The MRP policy for the local Government Borrowing Initiative (LGBI) Highways and for the fleet programme to remain as previously approved.

## **9. Leasing**

No finance leases were negotiated during the year.

## **10. Rescheduling**

No rescheduling was undertaken during the year.

## **11. Conclusion**

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