CITY OF PLYMOUTH

Subject:	Annual Report on Treasury Management Activities for 2015/16
Committee:	Full Council
Date:	11 July 2016
Cabinet Member:	Councillor Darcy
CMT Member:	Andrew Hardingham (Assistant Director for Finance)
Author:	Chris Flower Lead Accountant for Capital and Treasury Management
Contact:	Tel: 01752 304212 Email: chris.flower@plymouth.gov.uk
Ref:	Fin/CF
Key Decision	No
Part:	I

Purpose of the report:

In order to comply with the Code of Practice for Treasury Management, the Council is required to formally report on its treasury management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report covers the treasury management activities for financial year 2015/16 including the final position on the statutory Prudential Indicators.

This report:

a) is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
b) confirms capital financing, borrowing, debt rescheduling and investment transactions for the year 2015/16 and confirms the borrowing limits for 2015/16 to 2017/18;
c) provides an update on the risk inherent in the portfolio and outlines actions taken by the authority during the year to minimise risk;
d) gives details of the outturn position on Treasury Management transactions in 2015/16;
e) confirms compliance with treasury limits and Prudential Indicators (PIs) and the outlines the final position on the PI's for the year

In line with the recommendations in the Code of Practice, this report is submitted to Audit Committee as the committee responsible for scrutiny of the treasury management function.

In accordance with Treasury Management Practices note 6, this report is required to be submitted to Full Council.

The Brilliant Co-operative Council Corporate Plan 2016 - 19:

Effective financial management is fundamental to the delivery of corporate improvement priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

Into the medium and longer term the Council is facing significant pressures due to the national economic situation, which has led to a reduction in resources for local authorities over the Government's latest spending period. Effective Treasury Management will be essential in ensuring the Council's cash flows are used to effectively support the challenges ahead.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management, Equality, Diversity and Community Cohesion:

There is an inherent risk to any Treasury Management activity. The Council continues to manage this risk by ensuring all investments are undertaken in accordance with the approved investment strategy, and keeping the counterparty list under constant review.

Recommendations & Reasons for recommended action:

1. Council to note the Treasury Management Annual Report for 2015/16.

Alternative options considered and reasons for recommended action:

None - it is requirement to report to Council on the treasury management activities for the year.

Background papers:

- Treasury Management Strategy report to Audit Committee 16 February 2015
- Mid-Year Review report to Audit Committee 17 December 2015

Sign off:

Fin	djn1617.12	Leg/ Dem& Gov	lt25986	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member: Andrew Hardingham, Assistant Director for Finance											
Has the Cabinet Member(s) agreed the content of the report? Yes											

Annual Report on Treasury Management Activities for 2015/16

Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

The Authority's Treasury Management Strategy for 2015/16 was approved by full Council on 16 February 2015.

The Authority has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury management activity and the associated monitoring and control of risk.

External Context

Growth, Inflation, Employment: The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from $67 a barrel in May 2015 to just under $28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences: The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

UK Monetary Policy:

The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its *Inflation Reports* and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction:
From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

Local Context

At 31/03/2016 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £422m, while usable reserves and working capital which are the underlying resources available for investment were £58m.
At 31/03/2016, the Authority had £240m of borrowing and £66m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of £15m.

The Authority has an increasing CFR over the next 3 years due to the capital programme, with minimal investments and will therefore be required to borrow up to £110m over the forecast period.

Minimum Revenue Provision

Change of Minimum Revenue Provision (MRP) Policy

Under regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003/146, as amended, local authorities are required to charge to their revenue account, for each financial year, MRP to account for the account for the cost of their unfinanced capital expenditure.

Prior to its amendment by the 2008 Regulations, regulation 28 (as amended by regulation 3 (1), and read with regulation 3(2) and (3), of the 2007 Regulations) sets out the method authorities were required to follow in calculating MRP.

There has also been a recent change of advice from CIPFA on MRP calculations and the use of the annuity method. Prior years involved detailed calculations which were very perspective but these have been replaced with a requirement that local authorities calculate an amount or MRP which they consider to be prudent.

During 2015/16 the Council has undertaken a review of its MRP calculation method and accounting assumptions. The Council's calculations were driven by a very complex methodology that needed a full overhaul. The Council's calculations were driven by a very complex methodology that needed a full overhaul. The Council therefore engaged its TM advisors, Arlingclose to review and advise practice. The main conclusions were that, due to the way we were calculating our annual MRP charge has resulted in an over-provision for many years and it also recommended a change in the calculation method.

The Council wants to match the economic benefits from its assets with the life of those assets. Therefore the Council wants to use the annuity method which not only spreads the cost of the borrowing over the life of the assets but it also takes into account the time value of money.

The Council's previous method of calculating MRP was to spread the cost of borrowing in a straight line over a maximum of 25 years. The current council tax payers would therefore pay a relative higher charge than council tax payers in the future. For example if an asset cost of £20m to build and has a life of 20 years then there would have been a £1m charged each year on the straight line basis. The annuity method takes into account the time of value because £1m today has a higher value (NPV) that £1m in 20 years' time.

The resulting change from the over provision of MRP in prior years will be to reduce the MRP charge in 2015/16 by £5.96m in each year. The change of calculation method to the annuity method will reduce the MRP charge for the following years as follows; 2016/17 £4.70m; 2017/18 £0.89m; 2018/19 £0.73m; 2019/20 £0.57m (these figures would be subject to additional MRP charges for assets added during these periods).

Borrowing Strategy

At 31/03/2016 the Authority held £240m of loans, (an increase of £24m on 31/03/2015) as part of its strategy for funding previous years' capital programmes.

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to borrow short-term loans instead.

The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Authority with this 'cost of carry' and breakeven analysis. Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, also remained affordable and attractive.

Borrowing Activity in 2015/16

	Balance on 01/04/2015 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2016 £m	Avg Rate % and Avg Life (yrs)
Capital Financing Requirement (CFR)	267.65				251.72	
Short Term Borrowing[1]	68.2	-197.5	-	225.36	96.06	0.01%
Long Term Borrowing	144.37	-	-	-	144.37	5.76%
TOTAL BORROWING	212.57	-197.5	-	225.36	240.43	3.51%
Other Long Term Liabilities	39.15	-	-	93.15	132.30	-
TOTAL EXTERNAL DEBT	251.72	-197.5	-	318.51	372.73	-
Increase/ (Decrease) in Borrowing £m					121.01	

[1] Loans with maturities less than 1 year.

LOBOs: The Authority holds £100m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £58m of these LOBOS had options during the year, none of which were exercised by the lender.

LGA Bond Agency: UK Municipal Bonds Agency (MBA) plc. was established in 2014 by the Local Government Association as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. In early 2016 the Agency declared itself open for business, initially only to English local authorities. The Authority has analysed the potential rewards and risks of borrowing from the MBA and has approved and signed the Municipal Bond Agencies framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee.

Debt Rescheduling:

The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

Energy from Waste PFI

During the year the Council has opened a new waste plant in Plymouth. The investment of £195m (Plymouth's Share is £93m) has been funded by a private finance initiative over the life of the asset of 50 years. The PFI is reflected within "other Long Term Liabilities".

The Council has obtained professional accountancy advice to regarding the treatment of the assets. The final decision has recently been obtained and the Energy from Waste Plant will be treated as an asset in the council accounts with a corresponding liability for the PFI scheme. The Councils in the Energy from Waste Partnership (Plymouth City Council, Devon County Council and Torbay Council) will bring a proportion of the value of the plant onto their balance sheet based on the contract agreed split of waste.

The liability for the PFI scheme has increased our requirement for finance and therefore we have increased our Operational Boundary and Authorised limit as set out on page 14 of this report.

Investment Activity

The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Authority's investment balances have ranged between £79 and £65 million.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Investment Activity in 2015/16

Investments	Balance on 01/04/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/03/2016 £m	Avg Rate/Yield (%)
Short term Investments (call accounts, deposits)	45.1	38.2	(56.3)	27.0	0.76%
Other Pooled Funds	23.0	431.9	(410.6)	44.3	6.8%
Bonds issued	6.0	2.0	(8.0)	0.0	0.74%
TOTAL INVESTMENTS	**74.1**	**472.1**	**(474.9)**	**71.3**	
Increase/ (Decrease) in Investments £m				(2.8)	

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

The authority will also considered the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

Counterparty Update

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Authority therefore increasingly favoured secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits.

The Authority has invested in shares in the Local Capital Finance Company (UK Municipal Bonds Agency Plc) was has been created to enable local authority bond issues. The UK Municipal Bonds Agency Plc helps local councils' to finance their investment in projects, including infrastructure and housing, efficiently and cost effectively.

The UK Municipal Bonds Agency Plc is a first for the sector. It issues bonds to finance local authority projects at a lower cost than the Debt Management Office. This lowers council's finance cost, which means more can be invested into local economies, infrastructure and housing projects. The UK Municipal Bonds Agency Plc helps councils borrow from one another, thereby reducing borrowing costs. It helps councils negotiate better rates from banks, pension funds and insurance companies. The agency also acts as a centre of expertise, offering tailored lending services.

Budgeted Income and Outturn

The average cash balances were £14.6m during the year. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 1). New deposits were made at an average rate of 0.05%. Investments in Money Market Funds generated an average rate of 0.5%.

The Authority's budgeted investment income for the year was £1.26m. The Authority's investment outturn for the year was £1.35m.

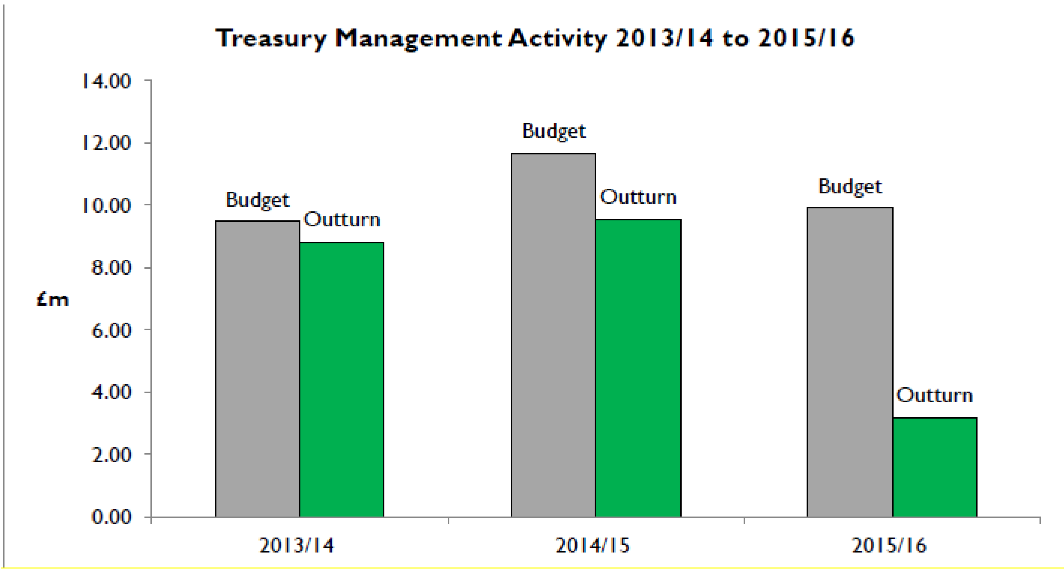
Budget Income and Expenditure

Treasury Management Outturn Position 2015/16

	2015/16 Budget	2015/16 Outturn	Year End Variance
	£m	£m	£m
Interest Payable			
LOBO (Lender Option, Borrower Option)		4.381	
PWLB (Public Works Loan Board)		2.550	
Temporary loans		0.242	
Recharge to Departments for Unsupported Borrowing		(4.436)	
Total Interest Payable	**3.727**	**2.737**	**(0.990)**
Interest Receivable			
CCLA Property Fund		(0.951)	
Money Market Fund		(0.084)	
Other Funds		(0.015)	
Deposits		(0.107)	
Other Accounts		(0.090)	
Other External Interest		(0.107)	
Total Interest Receivable	**(1.257)**	**(1.354)**	**(0.097)**
Other Charges			
Debt Management	0.126	0.250	0.124
Amortised Premiums	(0.096)	0.105	0.201
Total Other Charges	**0.030**	**0.355**	**0.325**
Minimum Revenue Provision	**7.395**	**1.431**	**(5.964)**
TOTAL	**9.895**	**3.169**	**(6.726)**

The table below shows the savings made over the last three years.

Treasury Management Activity 2013/14 to 2015/16



Externally Managed Funds:
The Authority also has investments in cash plus bond and property funds which allow the Authority to diversify into asset classes other than cash with the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Authority's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.

Although money can be redeemed from the pooled funds at short notice, the Authority's intention is to hold them for the medium-term. Their performance and suitability in meeting the Authority's investment objectives are monitored regularly and discussed with Arlingclose.

Update on Investments with Icelandic Banks
The latest position on the recoveries of monies invested in the Icelandic banks is as follows:

Bank	Original Deposit £m	Balance March 2016 £m
Heritable Bank	3.00	0.06
Glitnir	6.00	1.40
Landsbanki	4.00	0.00
Total	**13.00**	**1.46**

Further recoveries
The Council continues to pursue recovery of the outstanding monies in partnership with the LGA.

Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2015/16, which were set in February 2015.

The Following indicators are set and monitored each year:

- Estimates of Capital Expenditure
- Estimates of Capital Financing Requirement
- Gross Debt and the Capital Financing Requirement
- Operation Boundary for External Debt
- Authorised Limit for External Debt
- Ratio of Financing Costs to Net Revenue Stream
- Incremental Impact of Capital Investment Decisions

Due to PFI changes effective 31 March 2016, it is necessary to increase both our Operational Boundary Authorised Borrowing limits for 2015/16 to 2017/18.

Operational Boundary for External Debt:

The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Revised Operational Boundaries

Operational Boundary	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	260.00	350.00	380.00
Other Long-Term Liabilities	140.00	140.00	140.00
Total Debt	**400.00**	**490.00**	**520.00**

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003.

It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Revised Authorised Limit

Authorised Limit	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	280.00	400.00	430.00
Other Long-Term Liabilities	160.00	160.00	160.00
Total Debt	**440.00**	**560.00**	**590.00**

Further details of the Prudential Indicators will be included in the Treasury Management Report that will go to Audit Committee on the 30 June 2016.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposure	210%	210%	210%
Actual	143%		
Upper limit on variable interest rate exposure	80%	80%	80%
Actual	30%		

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	Actual
Under 12 months	100%	0%	40.00%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	1.55%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	58.45%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£40m	£35m	£35m
Actual	£3m		

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	*A*	*A*

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	Actual
Total cash available within 3 months	£15 m	£15.6m

Investment Training
Officers have undergone the following training during the year:

CIPFA - Treasury Management Accounting Special.

Arlingclose – Review of Minimum Revenue Provision.

Arlingclose – Principles of Treasury Management Workshop.

Arlingclose – Review of Borrowing and Investments.

Logotech – Treasury Management Workshop.

Arlingclose - Accounts closedown 2015/16.

Prudential Indicators 2015/16

The Local Government Act 2003 requires the Authority to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m
General Fund	62.22	108.20	49.22
Total Expenditure	**62.22**	**108.20**	**49.22**
Capital Receipts	10.68	0.72	-1.81
Grants	34.10	15.94	20.11
Contributions	4.47	11.51	6.38
Reserves	0.34	0	0
Revenue		0.52	0.53
Borrowing	11.28	86.04	24.02
Leasing and PFI	93.00	0	0
Total Financing	**155.22**	**108.20**	**49.22**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
General Fund	**155.22**	108.20	49.22
Total CFR	**155.22**	**108.2**	**49.22**

The CFR is forecast to rise by £110.06m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.16 Actual £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**
Borrowing	240.00	326.04	350.07
Finance leases	1.72	1.60	1.50
PFI liabilities	131.00	131.00	131.00
Total Debt	**372.72**	**458.64**	**482.57**

Total debt is expected to remain below the CFR during the forecast period.
The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
Borrowing	260.00	350.00	380.00
Other long-term liabilities	140.00	140.00	140.00
Total Debt	**400.00**	**490.00**	**520.00**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003

It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
Borrowing	280.00	400.00	430.00
Other long-term liabilities	160.00	160.00	160.00
Total Debt	**440.00**	**560.00**	**590.00**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %
General Fund	**5.13%**	4.95%	4.88%

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed earlier in this report.

Incremental Impact of Capital Investment Decisions	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
General Fund - increase in annual Band D Council Tax	**5.8**	10.2	16.4

Adoption of the CIPFA Treasury Management Code: The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition*.

Recommendations

That Cabinet:-

Note the Treasury Management Outturn Position and approve the new operational and authorised limits for 2015/16 to 2017/18.

Appendix 1

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015		0.50		0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015		0.50		0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015		0.50		0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015		0.50		0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015		0.50		0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015		0.50		0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015		0.50		0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
31/10/2015		0.50		0.36	0.41	0.43	0.54	0.77	1.00	0.97	1.16	1.49
30/11/2015		0.50		0.30	0.42	0.43	0.54	0.88	1.00	0.93	1.10	1.39
31/12/2015		0.50		0.43	0.35	0.43	0.54	0.76	1.01	1.09	1.30	1.58
31/01/2016		0.50		0.43	0.42	0.43	0.54	0.71	0.99	0.77	0.89	1.14
29/02/2016		0.50		0.25	0.43	0.43	0.54	0.73	0.99	0.71	0.74	0.85
31/03/2016		0.50		0.30	0.44	0.52	0.62	0.71	0.93	0.79	0.84	1.00
Average		**0.50**		**0.38**	**0.45**	**0.43**	**0.54**	**0.76**	**0.99**	**0.96**	**1.14**	**1.43**
Maximum		**0.50**		**0.48**	**0.58**	**0.57**	**0.66**	**0.92**	**1.02**	**1.17**	**1.44**	**1.81**
Minimum		**0.50**		**0.17**	**0.35**	**0.43**	**0.51**	**0.55**	**0.84**	**0.68**	**0.73**	**0.85**
Spread		**--**		**0.31**	**0.23**	**0.14**	**0.15**	**0.37**	**0.18**	**0.49**	**0.71**	**0.96**

Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.33	2.10	2.69	3.24	3.37	3.32	3.31
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
31/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
31/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
31/10/2015	423/15	1.44	2.38	2.93	3.56	3.65	3.56	3.53
30/11/2015	465/15	1.42	2.23	2.85	3.48	3.54	3.42	3.39
31/12/2015	505/15	1.41	2.38	3.01	3.61	3.68	3.56	3.53
31/01/2016	040/16	1.24	1.96	2.62	3.28	3.37	3.23	3.20
29/02/2016	082/16	1.27	1.73	2.43	3.23	3.36	3.24	3.19
31/03/2016	124/16	1.33	1.81	2.48	3.21	3.30	3.16	3.12

	Low	1.21	1.67	2.30	3.06	3.17	3.05	3.01
	Average	1.41	2.20	2.85	3.46	3.54	3.45	3.42
	High	1.55	2.55	3.26	3.79	3.87	3.80	3.78

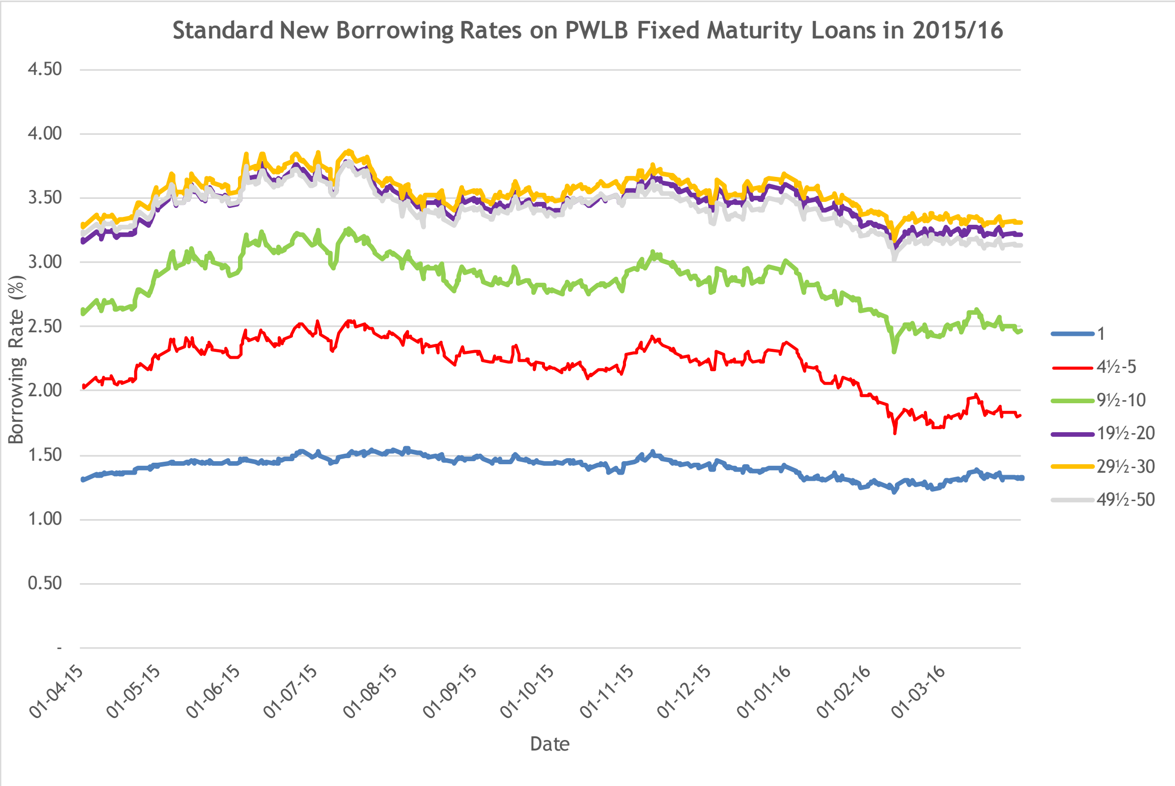


Table 3: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.66	2.14	2.71	3.03	3.24	3.35
30/04/2015	166/15	1.79	2.31	2.92	3.24	3.45	3.54
31/05/2015	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2015	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2015	294/15	1.96	2.50	3.09	3.39	3.57	3.63
31/08/2015	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2015	379/15	1.76	2.23	2.82	3.19	3.43	3.51
31/10/2015	423/15	1.81	2.32	2.96	3.33	3.57	3.66
30/11/2015	465/15	1.79	2.27	2.87	3.25	3.49	3.56
31/12/2015	505/15	1.89	2.42	3.03	3.39	3.62	3.70
31/01/2016	040/15	1.54	2.00	2.65	3.04	3.29	3.38
29/02/2016	082/16	1.42	1.77	2.46	2.95	3.24	3.36
31/03/2016	124/16	1.50	1.85	2.51	2.96	3.22	3.31
	Low	1.36	1.70	2.33	2.78	3.07	3.18
	Average	1.76	2.25	2.88	3.24	3.47	3.55
	High	1.99	2.60	3.28	3.61	3.79	3.87

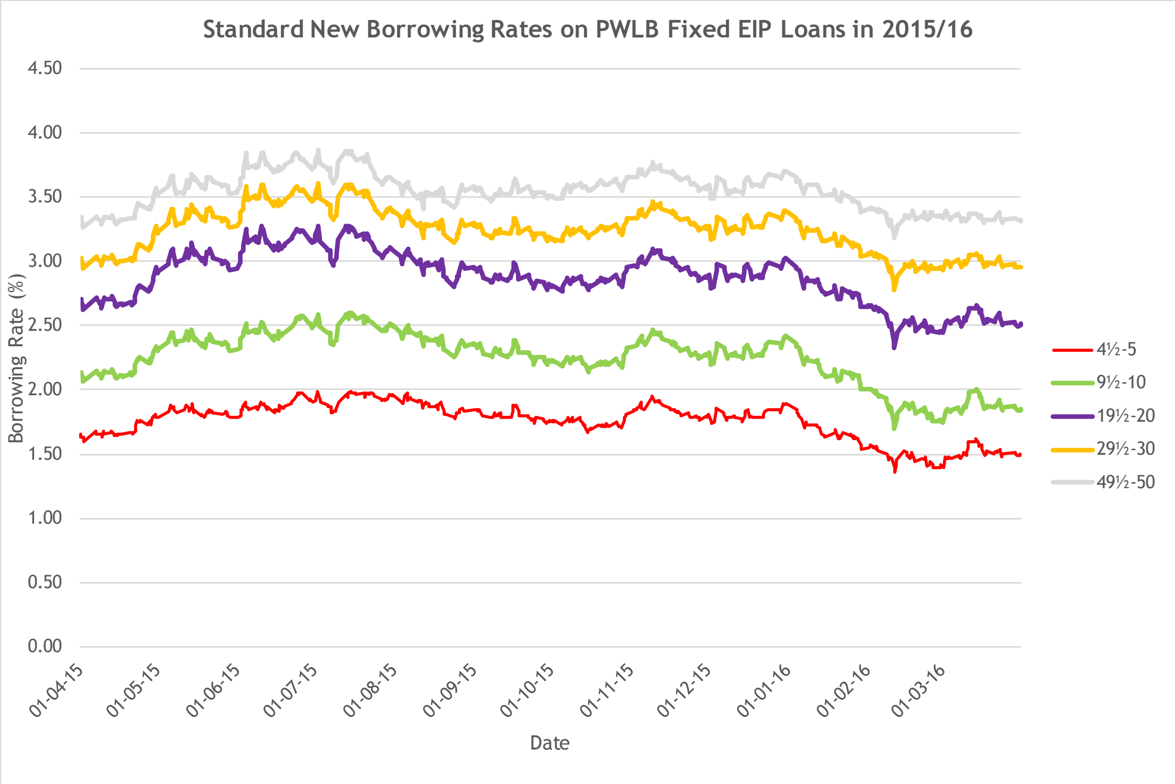


Table 4: PWLB Variable Rates

	I-M Rate	3-M Rate	6-M Rate	I-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
31/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
31/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
31/10/2015	0.66	0.67	0.76	1.46	1.56	1.57
30/11/2015	0.64	0.67	0.72	1.54	1.57	1.62
31/12/2015	0.63	0.65	0.72	1.53	1.55	1.62
31/01/2016	0.64	0.66	0.69	1.54	1.56	1.59
29/02/2016	0.63	0.65	0.68	1.53	1.55	1.58
31/03/2016	0.61	0.65	0.67	1.51	1.55	1.57
Low	0.61	0.61	0.66	1.51	1.51	1.56
Average	0.63	0.66	0.71	1.53	1.56	1.61
High	0.67	0.69	0.78	1.57	1.59	1.68