REPORT TO	DATE OF MEETING
Governance Committee	29 June 2016

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SOUTH RIBBLE BOROUGH COUNCIL
forward with South Ribble

SUBJECT	PORTFOLIO	AUTHOR	ITEM
Treasury Management Annual Report 2015/16	Finance & Resources	M L Jackson	10

SUMMARY AND LINK TO CORPORATE PRIORITIES

The current regulatory environment concerning treasury management places a greater onus on members to scrutinise treasury policy and activity. To enable that, each year the Council is required to consider, as a minimum, three treasury reports. These consist of an annual strategy statement in advance of the year (Council 4/3/2015), a mid-year review of that strategy (Governance Committee 23/9/2015), and finally this out-turn report.

The key messages within this report are that Prudential and Treasury Indicators were complied with; and that the return on investments totalled 0.55% which exceeded the 7-day LIBID benchmark of 0.36%. To date around 98% of the investment with Icelandic bank Heritable has been recovered, following a repayment during the year.

RECOMMENDATIONS

Governance Committee is asked to note the report.

DETAILS AND REASONING

The Treasury Strategy for 2015/16 to 2017/18 was submitted to Cabinet on 11 February 2015. The overall strategy included Prudential Indicators, the Treasury Management Strategy, the Annual Investment Strategy, and the Annual Minimum Revenue Provision (MRP) Policy Statement, all of which were approved by Council on 4 March 2015.

Revised Prudential and Treasury Indicators for 2015/16 were included in the Treasury Strategy 2016/17 to 2018/19, which was approved by Council on 4 March 2015. Where relevant, comparisons with 2015/16 indicators in this report are to those approved most recently.

Prudential Indicator: Capital Expenditure and Financing 2015/16

A comprehensive report on the Capital Programme provisional outturn for 2015/16 has been submitted separately to Governance Committee on this agenda. Total capital expenditure in the year was £3.150m, and expenditure by category and the proposed source of financing is presented in the Capital Financing Requirement table. (Reconciliation to Budget Out-turn Report = £2.839m capital expenditure plus £0.311m Leisure Deferred Purchase).

Prudential Indicator The Capital Financing Requirement (CFR)

The Capital Financing Requirement (CFR) is a measure of the capital expenditure incurred by the Council which is still to be paid for. Such expenditure will currently be met by borrowing or by temporary use of internal cash balances. Ultimately, however, it has to be paid for and will be a charge to Council Tax

payers. The Minimum Revenue Provision (MRP) charged to the Council's revenue budget each year is based on the CFR. Its impact on reducing the CFR is shown in the following table:

Capital Expenditure and Financing	2015/16 £'000
Opening Capital Financing Requirement	**5,171**
Capital investment	
Property, Plant and Equipment	2,591
Investment property	23
Intangible Assets	49
Revenue Expenditure Funded from Capital under Statute	487
Total capital investment	3,150
Sources of finance	
Government Grants and Other Contributions	(1,052)
Sums set aside from revenue	
Earmarked Reserves	(471)
Revenue Financing	(53)
Minimum Revenue Provision (MRP)	(597)
Voluntary Revenue Provision (finance lease)	(246)
Closing Capital Financing Requirement	**5,902**
Explanation of movements in year	
Assets financed by prudential borrowing	1,263
Assets acquired under deferred purchase arrangement	311
Provision made for debt repayment	(843)
Increase/(Decrease) in Capital Financing Requirement	**731**

The estimated CFR as at 31 March 2016 was £6.243m, so the outturn figure of £5.902m was £0.341m lower. Financing by prudential borrowing was £0.214m less than estimated when the revised CFR estimate was prepared, and expenditure on assets financed by deferred purchase was £0.126m less than estimated.

In this context, deferred purchase refers to the capital investment in leisure facilities being financed by means of what is known as a finance lease.

Prudential Indicator: The CFR and Borrowing

In order to ensure that local authorities only borrow for capital purposes the Prudential Code requires that borrowing, net of investments, should not exceed the CFR for the preceding year plus any anticipated increase in the current and next two years. As at 31 March 2016 net borrowing is a negative figure (see Treasury Position as at 31 March 2016 below) and is thus well below the CFR.

Compliance with Borrowing Limits

The Prudential Indicators include two borrowing limits:

• The **Operational Boundary** - This is the probable, expected limit on external debt. "Debt" consists of both borrowings and other long term liabilities (finance leases, and deferred purchase liabilities incurred under the Leisure Partnership). This was set at £1.132m and the limit has not been exceeded. As at 31/3/16 the Council has no long-term external borrowing, and leasing liabilities stand at £1.033m.

• The **Authorised Limit** - This reflects a level of debt which the code defines as, "while not desired, could be afforded but may not be sustainable". The limit was set at £4.132m to accommodate any planned temporary borrowings. These were not necessary and the limit set has not been breached.

Prudential Indicator: Ratio of Financing Costs to the Revenue Stream

This indicator shows what percentage of the Council's income from Government grants and Council Tax has been used to meet interest costs and debt repayment. The indicator as per the 2015/16 Treasury Strategy forecast was 6.61%. This has fallen to an outturn of 5.57%. This is as a result of a reduction in financing costs and an increase in the net revenue stream. An increase in interest payable in respect of the leisure finance lease was more than offset by the Heritable receipt discussed below plus additional investment interest.

Prudential Indicator: Incremental impact of capital investment decisions

This indicator is concerned with capital expenditure over a period of years, and reports its cumulative impact on the revenue account. It is not possible to make meaningful comparison against this indicator, other than when it is restated each year when the Treasury Strategy is produced.

Treasury Position as at 31 March 2016

	Per Treasury Strategy 2016/17 £000	**Actual value as at 31 March 2016 £000**
Total external borrowings at period end	0	0
Cash & investments	(28,000)	(24,407)
Net External Borrowing/(Investments)	**(28,000)**	**(24,407)**

The forecast balance for cash and investments had taken account of the high average balance invested throughout the year, which was £28m for the period to 31 August 2015. Though, as indicated below, the average balance for the whole year subsequently increased to £31m, the balance as at 31 March 2016 reduced temporarily below the average.

External and Internal Borrowing

Please note that the Authority does use Prudential Borrowing as a source of funding its Capital Programme, and the CFR represents the total amount of borrowing incurred to finance some parts of the Capital Programme. The Authority then has a choice as to whether an actual loan is taken (from a source such as the Public Works Loan Board – PWLB) or whether it calls upon its internal cash balances instead.

The decision as to whether the CFR is represented by internal or external borrowing, or a combination of the two, does not affect the calculation of the Minimum Revenue Provision.

The assessment of the lowest cost source of borrowing (internal or external) is dependent on availability of cash balances, loan interest rates available, and investment interest rates that can be secured. The annual Treasury Strategy sets out the approach for the financial year, but the position is monitored throughout the year as part of the daily Treasury Management process. All investment and borrowing decisions must be in compliance with the approved Treasury Strategy.

The Council has £5.902m of Borrowing as at 31 March 2016 but 100% of this has been funded from internal cash balances (Internal Borrowing), and therefore actual loans taken out (External Borrowing) is currently zero.

The following table summarises investments activity and returns during the year:

Details	**Average Daily Investment £'000**	**Interest Earned £**	**Average Rate %**
Short Term deposits	20,423	117,637	0.57
Call accounts/Money Market Funds	8,049	33,936	0.42
Bank/Notice Accounts	1,662	16,808	1.03
Debt Management Office (DMO)	1,183	2,964	0.25
Total	**31,317**	**171,345**	**0.55**

The performance benchmark is the 7-day London Inter-Bank Bid Rate (LIBID). This averaged 0.36% over the year, therefore the benchmark has been exceeded. To achieve a return rate 10% greater than LIBID (i.e. 0.396%) is a key performance indicator for Shared Financial Services, and this has been achieved.

The average rate achieved in 2014/15 was 0.50% compared to the average LIBID for that year of 0.35%. The small increase in the average rate earned in 2015/16 compared to 2014/15 reflects the part-year effect of the changes to investment counterparties approved during the financial year. In addition, the average daily investment increased by £11.2m compared to 2014/15, which also contributed to the increase in interest earned of around £61,000.

With regard to performance against the revenue budget for Interest Earned on Investments please see the budgeted and out-turn position from 2014/5 to 2016/17:

Actual Outturn 2014/15 £000	**Original Budget 2015/16 £000**	**Estimated Out-turn 2015/16 £000**	**Actual Outturn 2015/16 £000**	**Original Budget 2016/17 £000**
110	100	120	171	165

All investments during 2015/16 complied with the Council's policy.

Had the average daily investment been deposited with the DMO at the rate of 0.25%, the interest earned in the year would have been only £78,293, less than half the value actually earned. The mid-year change to the list of approved counterparties helped to minimise use of the DMO, because additional high credit

quality counterparties offering higher returns were available as an alternative. The new counterparties used in the second half of the financial year and investments placed were as Coventry Building Society, Santander UK, Goldman Sachs, and Helaba (a large German bank authorised to accept deposits in the United Kingdom).

An analysis of the Council's investment activity during 2015/16 is presented as Appendix A. The table shows the counterparties, sums invested at the start of year and in-year, repaid during the year, and therefore the balance invested at 31 March 2016. The range of interest rates offered by the counterparties is indicated, as is the actual interest earned in the year. Some counterparties are presented by class (e.g. local authorities) rather than listing them individually. The 'sum of investments' column indicates the gross value of investment decisions made during the year, i.e. sums repaid and then reinvested are counted each time an investment is placed. The total is therefore considerably higher than the maximum value invested on any one day, but indicates the extent of Treasury Management activity carried out by the Council during the year.

The analysis is split between the existing counterparties and those new counterparties used in the second half of the financial year following Council approval of the revised counterparties list. Most investment activity was with the existing counterparties. This was because much of the Council's cash had been placed in term deposits with them before the change in policy, and therefore was not available to reinvest with new counterparties until the deposits matured. Existing counterparties will continue to be used if they are of high credit quality and offer acceptable rates of return. Use of the DMO has been minimised, and is usually required for only short-term periods to avoid balances with counterparties exceeding the approved maximum. Assessment of new counterparties will continue during 2016/17, though at present it is difficult to predict the impact of the EU referendum on UK and other EU banks' credit ratings.

Icelandic Investment (Heritable)

During the year there was a repayment of £80,236 in respect of the Heritable investment claim.

Of the original £2m investment in Heritable, £1.974m has been recovered, which is around 98%. The balance of the claim against Heritable, which includes interest, has reduced to £40,000 as demonstrated in the following table. The Council is making every effort to recover the claim in full.

Heritable Investment Claim	Amount £'000
Claim value	2,014
Received to 2014/15	(1,894)
Balance of claim as at 31/3/15	120
Received August 2015	(80)
Balance of claim	**40**

Treasury Indicator: Upper limit on exposure to variable interest rates

The authority is exposed to variable interest rates on all its invested cash. There is no real limit on such investments other than the size of the Council's cash balances. The Treasury Strategy anticipated these could peak as high as £42m. The actual peak in 2015/16 was £40.7m and therefore was below the maximum anticipated by the approved indicator. Such high balances are achieved when the Council holds council tax and business rates income prior to making payments to preceptors and central government.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	As set out in this report and its appendix

LEGAL	Compliance with various Regulations and Statutory Codes of Practice

RISK	The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.

THE IMPACT ON EQUALITY	

OTHER (see below)	

Asset Management	*Corporate Plans and Policies*	*Crime and Disorder*	*Efficiency Savings/Value for Money*
Equality, Diversity and Community Cohesion	*Freedom of Information/ Data Protection*	*Health and Safety*	*Health Inequalities*
Human Rights Act 1998	*Implementing Electronic Government*	*Staffing, Training and Development*	*Sustainability*

BACKGROUND DOCUMENTS

Treasury Strategy 2015/16 to 2017/18 (Council 4/3/15)
Treasury Strategy 2016/17 to 2018/19 (Council 2/3/16)

Appendix A

Investment Activity 2015/16

Counterparties	Invested 1 April 2015 £000	Sum of Investments £000	Sum of repayments £000	Invested 31 March 2016 £000	Interest Rate %	Interest earned £000
Existing Counterparties						
Call and Current Accounts -						
Bank of Scotland	2,000	0	(2,000)	0	0.400	3
Barclays Bank	569	0	(518)	51	0.400	8
Sub Total	2,569	0	(2,518)	51		11
Money Market Funds	5,900	0	(3,700)	2,200	0.430 - 0.440	23
Banks & Building Societies -						
Bank of Scotland	3,000	4,000	(3,000)	4,000	0.750 - 1.000	24
Nationwide BS	2,000	12,000	(11,000)	3,000	0.430 - 0.710	13
Sub Total	5,000	16,000	(14,000)	7,000		37
Local Authorities -	8,000	23,000	(28,000)	3,000	0.280 - 0.620	59
Debt Management Office -	0	43,700	(43,700)	0	0.250	3
Existing Counterparties Total	**21,469**	**82,700**	**(91,918)**	**12,251**		**133**
New Counterparties						
Coventry Building Society	0	3,000	(1,000)	2,000	0.420 - 0.600	7
Goldman Sachs International	0	3,000	0	3,000	0.715 - 0.725	6
Helaba (German bank)	0	3,000	0	3,000	0.730 - 0.950	8
Santander UK Notice Accounts	0	6,000	(2,000)	4,000	0.900 - 1.150	17
New Counterparties Total	**0**	**15,000**	**(3,000)**	**12,000**		**38**
All Counterparties	**21,469**	**97,700**	**(94,918)**	**24,251**		**171**

Average Daily Investment	**31,317**	
Interest earned if invested only with DMO at 0.25%		**78**