

## TRAFFORD BOROUGH COUNCIL

**Report to:** Executive 20 June 2016  
Accounts & Audit Committee 28 June 2016  
Council Meeting 27 July 2016

**Report for:** Information

**Report of:** The Executive Member for Finance and the Chief  
Finance Officer

### Treasury Management Annual Performance 2015/16 Report

#### **Summary**

In accordance with the CIPFA Code of Practice, as adopted by the Council this report outlines the treasury management activities undertaken in 2015/16 and during which:

- there was full compliance with all legislative and regulatory requirements, including all treasury management prudential indicators;
- the average level of external debt and interest rate payable for 2015/16 was £95.3m and 6.02% respectively, this compares to 2014/15 when the respective figures were £96.1m & 6.07%. Interest payable for 2015/16 was in line with budget;
- the average level of investments for 2015/16 was £106.6m with a rate of return of 0.84%, for 2014/15 this was £79.3m and 0.70% respectively. Interest received in 2015/16 was £(0.3)m above budget.

#### **Recommendations**

That the Accounts & Audit Committee and Executive advise the Council:

1. of the Treasury Management activities undertaken in 2015/16;
2. that no prudential limits were breached during 2015/16;
3. that there was full compliance with both the CIPFA Code of Practice on Treasury Management and CIPFA Prudential Code for Capital Finance.

Contact person for background papers:  
Graham Perkins – Technical Accountant - Extension: 4017

Background papers: None

Relationship to Policy Framework/Corporate Priorities	Value for Money
Financial	In 2015/16 the Council paid loan interest of £5.7m which was in line with that budgeted for and received £(0.9)m from money market investments, which was £(0.3)m above budget.
Legal Implications:	All actions undertaken during the year were in accordance with legislation, CLG Guidance, CIPFA Prudential Code and CIPFA Treasury Management Code of Practice.
Equality/Diversity Implications	Not applicable
Sustainability Implications	Not applicable
Resources Implications e.g. Staffing/ICT/Assets	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities. The Council's in-house treasury management team continually monitor to ensure that the main risks associated with this function of adverse or unforeseen fluctuations in interest rates are avoided and security of capital sums are maintained at all times.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

## **1. INTRODUCTION AND BACKGROUND**

- 1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the 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 the Accounts & Audit Committee together with the Executive and Full Council should receive the following reports:
- annual treasury strategy for the year ahead (issued February 2015);
  - mid-year update report (issued November 2015);
  - annual outturn report describing the activity undertaken (June 2016 i.e. this report).
- 1.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.
- 1.4 The figures in this report are based on the actual amounts borrowed and invested and as such will differ from those stated in the final accounts which are shown in compliance with International Financial Reporting Standards.
- 1.5 The report comprises of the following sections:
- Major Economic Headlines 2015/16 (Section 2);
  - Treasury Position (Section 3);
  - Borrowing Position (Section 4);
  - Minimum Revenue Provision (Section 5);
  - Investment Position (Section 6);
  - Related Treasury Issues (Section 7);
  - Prudential and Performance indicators (Section 8);
  - Appendices.

## **2. MAJOR ECONOMIC HEADLINES 2015/16**

- 2.1 A brief summary of the main events which occurred during the year and into 2016/17 are highlighted below for reference;

### **General: -**

- Worldwide money market investment rates continued at low levels;
- Concerns that the UK would enter a period of deflation have subsided;
- China's slowing economy continues to give cause for concern;
- Oil prices fell to their lowest levels for 13 years;
- Continuing uncertainty with Eurozone growth remain;
- Despite Greece implementing a programme of austerity cuts to meet EU demands, concerns still remain that a Greek exit from the Euro will occur;
- US economy continues to grow healthily in response to consumer demand and in December 2015, the Central bank implemented the first increase in the central rate since December 2008 of 0.25% to 0.50%;

- Japan continues to suffer disappointing growth with an annual average of 0.5% despite a huge programme of quantitative easing;
- Russia and Brazil are both in recession.

**UK: -**

- Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but by the end of the year this had moved back to quarter 4 2016.
- Gross Domestic Product Annual Growth Rate continued to register positive growth at an average of 2.2%;
- No additional quantitative easing was undertaken by the Bank of England;
- Bank Rate ended the year unchanged for the seventh successive year at 0.5%,
- Consumer Price Index inflation grew from -0.1% in April 2015 to 0.5% by March 2016;
- Unemployment rate continued to fall from the April 2015 opening position of 5.6% to close in March 2016 at 5.1% with the position for Trafford moving from 5.4% in April 2015 to 4.0% in March 2016;
- A majority Conservative Government was elected in May 2015 and as a result of this, a referendum on the UK remaining as part of the EU is set to take place on 23 June 2016.

2.2 The actual movement in interest rates when compared to the expectations in the strategy are shown below and a more detailed analysis detailing how investment rates moved during the course of the year is provided at Appendix A;

	<b>2015/16</b>	<b>1 April 2015</b>	<b>31 March 2016</b>	<b>2015/16</b>
	<b>Forecast Average</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual Average</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
UK Bank Rate	0.63	0.50	0.50	0.50
Investment Rates				
3 month	0.70	0.44	0.46	0.46
1 Year	1.20	0.84	0.88	0.90
Loan Rates				
5 Year	2.40	1.90	1.60	2.00
25 Year	3.75	3.15	3.11	3.35

### 3. TREASURY POSITION

- 3.1 The Council's debt and investment position is controlled by the Council's Treasury Management team to ensure that security of funds, adequate liquidity for revenue and capital activities are maintained at all times and risks connected with these activities are managed effectively.
- 3.2 Procedures and controls to achieve these objectives are well established both through Member reporting and officer activity and this was highlighted in November 2015 when the Council's Audit & Assurance Service issued its annual report on treasury management with a High Level of Assurance for the 10<sup>th</sup> consecutive year.

- 3.3 At the beginning and end of 2015/16 the Council's treasury position was as follows:

	31 March 2016			31 March 2015		
	Principal	Total	Interest Rate	Principal	Total	Interest Rate
<b>DEBT</b>						
<b>Fixed rate:</b>						
-PWLB	£47.2m			£39.0m		
-Market	£6.0m	£53.2m	5.84%	£5.0m	£44.0m	6.67%
<b>Variable rate:</b>						
-PWLB	£0m			£0m		
-Market	£51.0m	£51.0m	5.73%	£51.0m	£51.0m	5.50%
<b>Total debt</b>		<b>£104.2m</b>	<b>5.79%</b>		<b>£95.0m</b>	<b>6.05%</b>
<b>Capital Financing Requirement (to finance past capital expenditure)</b>		<b>£134.8m</b>			<b>£138.2m</b>	
<b>Over/ (under) borrowing</b>		<b>(£30.6m)</b>			<b>(£43.2m)</b>	
<b>INVESTMENTS</b>						
- Fixed rate	£39.3m			£39.9m		
- Variable rate	£42.5m			£37.7m		
<b>Total investments</b>		<b>£81.8m</b>	<b>0.98%</b>		<b>£77.6m</b>	<b>0.71%</b>

Note - The above interest rates reflect the actual position as at 31 March.

- 3.4 Whilst the above table details the position as at the beginning and end of 2015/16, the average position for 2015/16 & 2014/15 was as follows:

	2015/16		2014/15	
	Principal	Interest Rate	Principal	Interest Rate
<b>Average Debt</b>	£95.3m	6.02%	£96.1m	6.07%
<b>Average Investment</b>	£106.6m	0.84%	£79.3m	0.70%

#### 4. BORROWING POSITION

- 4.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR) and is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2015/16 and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 4.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need and this may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.
- 4.3 From the table at paragraph 3.3 it can be seen that the level of external debt increased during 2015/16 from the opening position of £95.0m to close at £104.2m as a result of the following transactions;

<b>Lender</b>	<b>Principal – (Repayment) / New</b>	<b>Average Interest rate</b>	<b>Reason</b>
PWLB	£(1,769,025)	6.825%	Natural maturity
PWLB	£10,000,000	2.94%	Funds taken at low levels of interest to protect the Council's reserves & provisions and to reduce but not eradicate the under borrowing position. All associated costs were contained within the MTFP.
SALIX Finance	£1,000,000	0%	First tranche of a £3.8m loan agreement to be used on the Council's Street Lighting Replacement Programme

- 4.4 Of the debt outstanding of £104.2m, £0.9m is administered on behalf of Greater Manchester Probation Service which leaves £103.3m in respect of the Council's own long term requirement.
- 4.5 A maturity profile of the Council's debt can be found at Appendix B & C for reference.
- 4.6 No rescheduling of the Council's existing debt was undertaken during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made this unviable due to the high breakage costs (premium) payable.

## **5. MINIMUM REVENUE PROVISION**

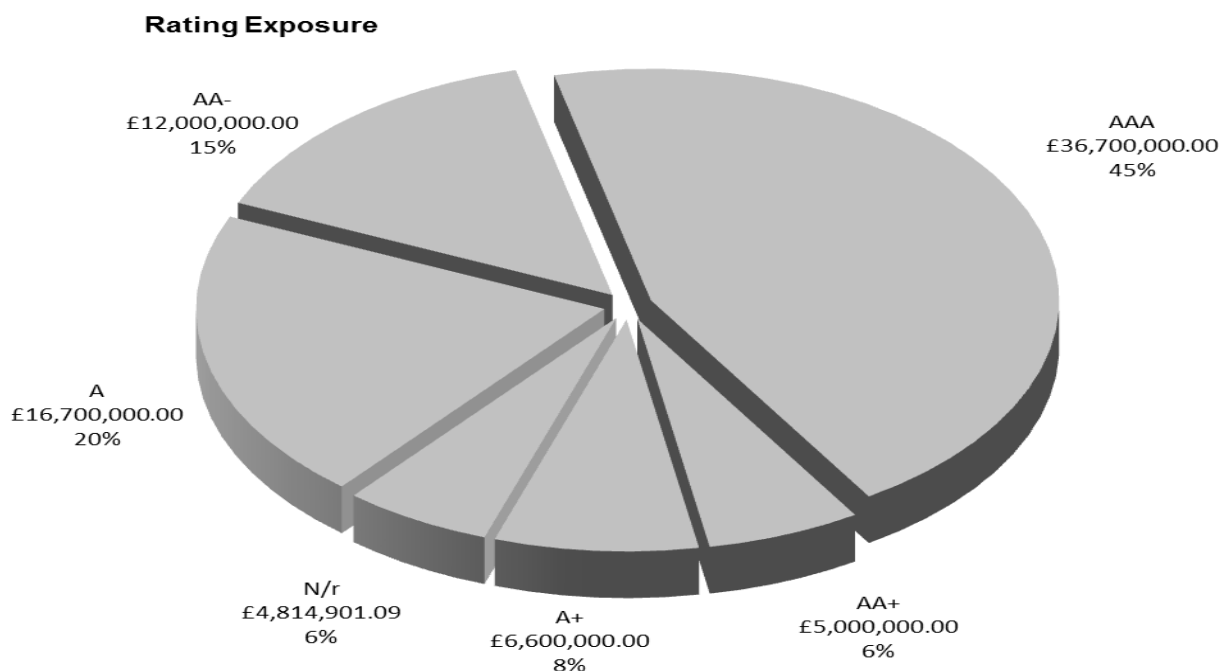
- 5.1 The Minimum Revenue Provision (MRP) is an annual charge to the revenue account for the repayment of debt incurred in respect of capital expenditure financed by borrowing.
- 5.2 During 2015/16 a review was undertaken on that element of the Council's debt incurred prior to 2008 (known as Supported Borrowing) which was charged at a rate of 4% of the Capital Financing Requirement (CFR) and therefore was never completely extinguished. Debt incurred after 2008 is charged on an equal instalment basis based on the life of the asset and was not subject to this review.
- 5.3 The basis of the review was to establish a process seeking a fairer and simpler approach for current and future council tax payers together with generating revenue savings and a report was presented and agreed by Members at the November 2015 Council meeting revising the methodology to be adopted for calculating this charge as shown below;

<b>Previous method</b>	<b>New method</b>
Capital expenditure incurred prior to 2008 was charged at a rate of 4% of the Capital Financing Requirement (CFR) and therefore was never completely extinguished.	Capital expenditure incurred prior to 2008 held within the CFR is to be written down over a period of 50yrs (this being the average life of the Council's assets over which they are depreciated).

5.4 The amendments to this policy remain fully compliant with Department for Communities & Local Government (DCLG) regulations on this issue, which permits costs to be calculated evenly over the useful life of an asset and maintains a stable and prudent charge to the revenue budget.

## 6. INVESTMENT POSITION

6.1 The Council's investment policy is governed by DCLG guidance issued in March 2010 and which was implemented in the annual investment strategy approved by Council on 18 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, bank share prices etc.). The graph below provides a breakdown of the Council's investments placed as at 31 March 2016 by long term credit rating and further information detailing the make-up of this can be found at Appendix C & D;



6.2 The in-house treasury management team manages the investments using the institutions listed in the Council's approved lending list and funds can be invested for a range of periods from overnight to 3 years dependant on cash flow requirements, duration and counterparty limits set out in the approved investment strategy, its interest rate view and the interest rates on offer. Investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

6.3 The in-house team also continually monitors the markets and during the year there was very little movement in both credit ratings and interest rates highlighting the continuing movement by financial institutions to realign their balance sheets following the economic downturn.

6.4 The Council's main bank account with Barclays, is non-interest bearing and consequently if no investments were undertaken by the Council's in house treasury management team, the Council would miss the opportunity to generate a substantial amount of income.

- 6.5 Bank Rate remained throughout the year at its historic low level since March 2008, of 0.5% with market expectations as to when the first increase in rates will now occur being set for quarter 4 2016 at the earliest.
- 6.6 The Council maintained an average balance of £106.6m during 2015/16 with an investment rate of return of 0.84% being achieved through proactive investment management, generating £(0.9m) of interest.
- 6.7 Whilst the level of return achieved in 2015/16 of 0.84% was slightly below that originally budgeted for of 0.85%, it was 0.51% or £(0.5m) above the comparable performance indicator of the average 7-day London Interbank BID (LIBID) rate, of 0.36% and £(0.3)m above budget.
- 6.8 The amount of interest earned was above that originally budgeted due to the level of balances invested being higher than originally forecasted as a result of external grants & contributions being received ahead of spend requirement and re-phasing of projects within the capital programme.
- 6.9 A maturity profile of the Council's temporary investments can be found at Appendix C together with a further breakdown at Appendix D which details the historic risk of default.
- 6.10 The ability to generate a satisfactory level of return without exposing the Council to high levels of risk during the continuing climate of low interest rates remains challenging and new ways of being able to do this are constantly being sought.
- 6.11 At the July 2015 Council meeting, Members approved a report for the inclusion onto the list of approved Investment institutions and instruments to be used of The Local Authority Property Investment fund, which is managed by the Church Commissioners Local Authority.
- 6.12 This fund is only available to Local Authorities and the objective of it is to generate long-term growth in the original amount invested whilst generating returns in the form of annual dividends by investing in commercial property throughout the UK.
- 6.13 On 29 September 2015, £5m was placed into this fund for an expected minimum period of 5 years and after entry costs had been deducted of £0.3m, it enabled 1,643,872 units in the fund to be purchased which at 31 March 2016 were worth £4.8m. The annualised return this investment generated for the Council in 2015/16 was 4.85% and based on the current forecasted property growth rates, it is expected that the value of the Council's units will reach the level originally invested of £5m in 2018/19.

## **7. RELATED TREASURY ISSUES**

- 7.1 Local Authority Mortgage Scheme – the Council participated in the national Local Authority Mortgage Scheme using the cash backed option with Lloyds bank by advancing £2m in 2012/13 at an interest rate of 4.41% and due to the success of this scheme, a further £1m was also advanced in 2013/14 at an interest rate of 2.7%, both for periods of 5 years. These are classified as being service investments, rather than a treasury management investment, and are therefore outside of the specified / non specified investment categories.

## **8. PRUDENTIAL AND PERFORMANCE INDICATORS**

- 8.1 Within the Treasury Management Strategy for 2015/16, approval was given to the treasury management prudential & performance indicators for the period 2015/16 – 2018/19. All indicators and benchmarks set for 2015/16 were complied with and details of these are shown in Appendix E.



## **Other Options**

This report has been produced in order to comply with Finance Procedure Rules and relevant legislation and provides an overview of the treasury management transactions undertaken during 2015/16.

## **Consultation**

Advice has been obtained from Capita, the Council's external advisors.

## **Reasons for Recommendation**

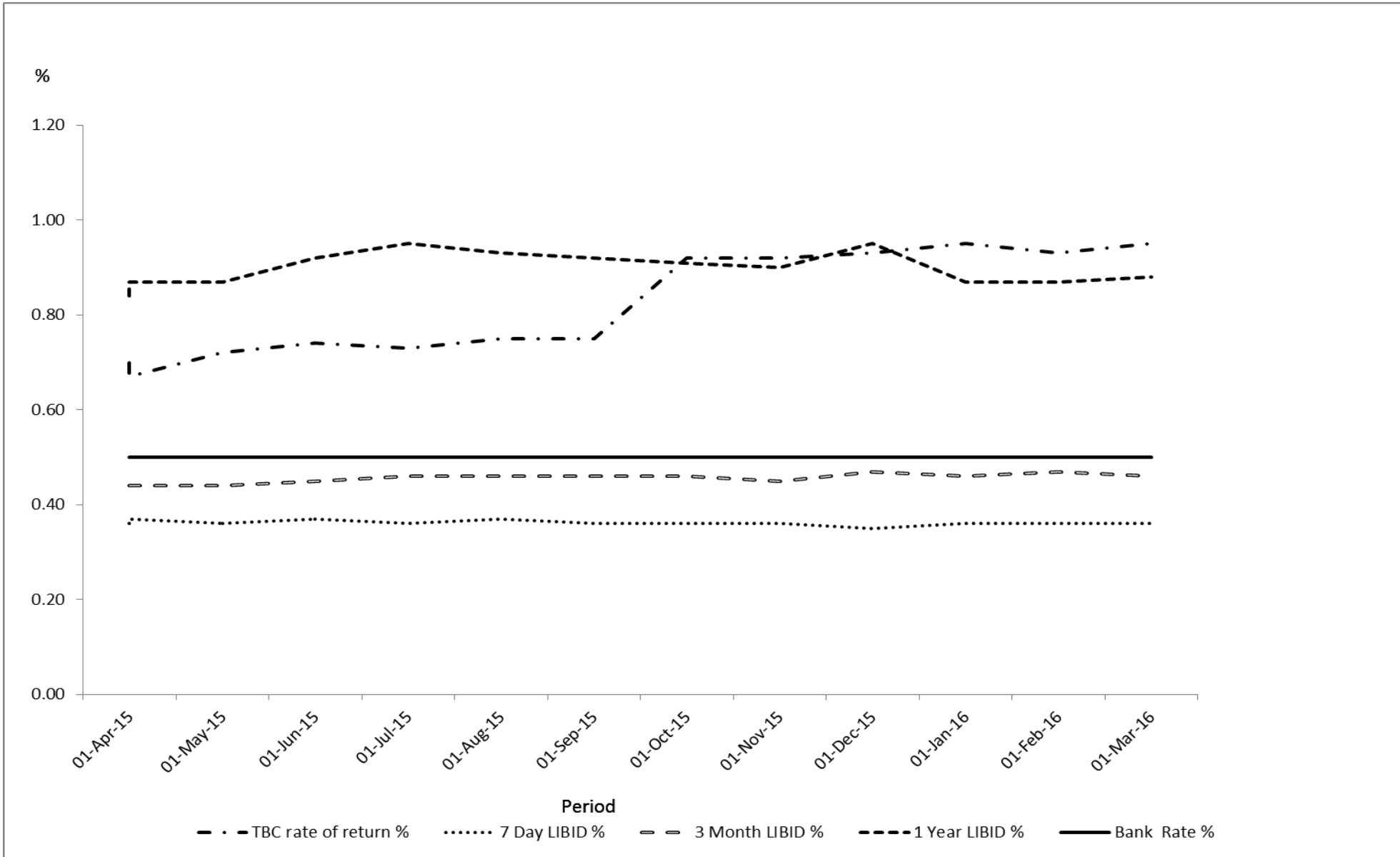
The report has been produced in order to meet the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code and the CIPFA Treasury Management Code.

**Finance Officer Clearance**     ... GB...

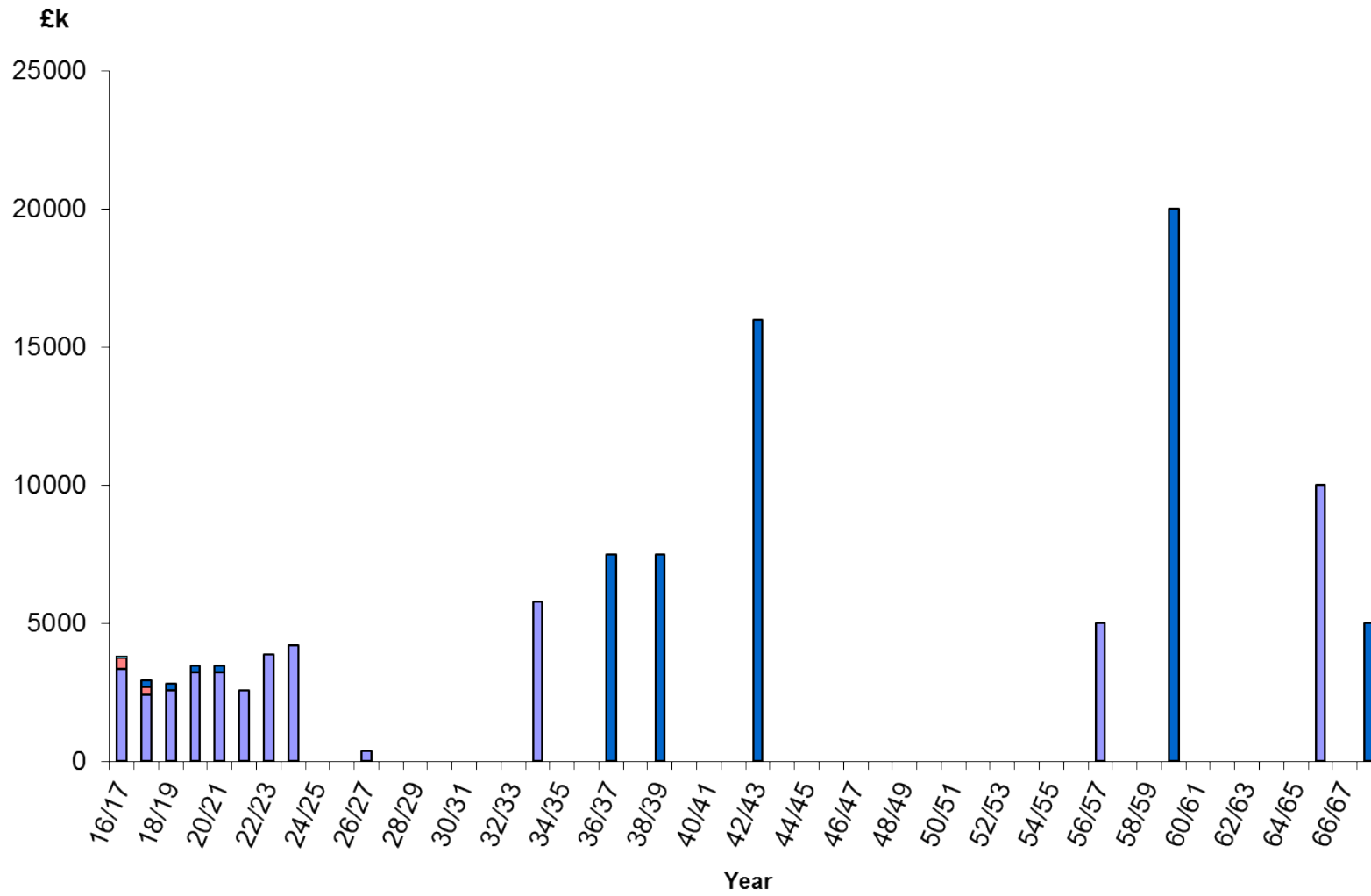
**Legal Officer Clearance**     .....MRJ.....

**DIRECTOR'S SIGNATURE**     ..... 

### Investment Interest rate movements in 2015-16



### Profile of debt outstanding as at 31.03.2016



### Maturity Profile

#### Debt portfolio:

	31 March 2016 Actual	31 March 2015 Actual
Under 12 months	£3.7m	£1.8m
12 months and within 24 months	£2.9m	£3.7m
24 months and within 5 years	£9.8m	£8.5m
5 years and within 10 years	£10.6m	£13.9m
10 years and above	£77.2m	£67.1m
<b>Total</b>	<b>£104.2m</b>	<b>£95.0m</b>

#### Investment portfolio:

	31 March 2016 Actual	31 March 2015 Actual
Instant Access	£37.7m	£37.7m
Up to 3 Months	£5.5m	£4.0m
3 to 6 Months	£16.7m	£9.5m
6 to 9 Months	£9.5m	£0.0m
9 to 12 months	£7.6m	£21.4m
Over 1 year	£4.8m	£5.0m
<b>Total</b>	<b>£81.8m</b>	<b>£77.6m</b>

## Breakdown of Investments as at 31 March 2016

Counterparty	Amount £	Interest rate	Lowest Long Term Credit Rating*
Church Commissioners Local Authority	4,814,901	4.77%	Not rated
Close Brothers Bank	2,500,000	0.90%	A
Close Brothers Bank	2,500,000	1.05%	A
Federated Investors – Money Market Fund	19,410,000	0.54%	AAA
Goldman Sachs Bank	2,500,000	0.94%	A
Goldman Sachs Bank	2,000,000	0.77%	A
Greater Manchester Waste Disposal Authority	5,000,000	1.60%	AA+
Legal & General – Money Market Fund	2,290,000	0.49%	AAA
Lloyds Bank	1,500,000	1.00%	A+
Lloyds Bank	2,100,000	1.05%	A+
Lloyds Bank	3,000,000	1.05%	A+
Nationwide BS	2,200,000	0.82%	A
Santander UK Bank	3,000,000	0.69%	A
Santander UK Bank	2,000,000	1.00%	A
Standard Life – Money Market fund	15,000,000	0.50%	AAA
<b>Total UK</b>	<b>69,814,901</b>	<b>1.03%</b>	
Development Bank of Singapore	3,000,000	0.61%	AA-
National Bank of Abu Dhabi	2,000,000	1.00%	AA-
National Bank of Abu Dhabi	1,000,000	0.91%	AA-
National Bank of Abu Dhabi	2,000,000	0.80%	AA-
National Bank of Abu Dhabi	3,000,000	0.74%	AA-
Svenska Handelbanken – call account	1,000,000	0.45%	AA-
<b>Total Non UK</b>	<b>12,000,000</b>	<b>0.75%</b>	
<b>Grand Total</b>	<b>81,814,901</b>	<b>0.98%</b>	

## Prudential Indicators for 2015/16

Figures are for the financial year	2015/16 Indicator set by Council	2015/16 Actual
<p><b>Authorised Borrowing Limit</b> Maximum level of external debt, including other long term liabilities (PFI &amp; leases) undertaken by the authority including any temporary borrowing - this is a statutory limit under Section 3(1) of the Local Government Act 2003.</p>	£146m	£110m
<p><b>Operational Boundary</b> Calculated on a similar basis as the authorised limit but represents the expected level of external debt &amp; other long term liabilities (PFI &amp; leases) excluding any temporary borrowing – this is not a limit.</p>	£131m	£110m
<p><b>Upper limits on fixed interest rates</b> (Maximum limit of net fixed interest rate exposure - debt less investment)</p>	£2.7m	£2.4m
<p><b>Upper limits on variable interest rates</b> (Maximum limit of net variable interest rate exposure – debt less investment)</p>	£3.2m	£2.8m
<p><b>Gross debt and Capital Financing Requirement</b> (This highlights all gross external borrowing, including PFI &amp; leases) is prudent, for capital purposes and does not exceed the capital financing requirement. Figures reflect amount capital financing requirement which exceeds gross external borrowing).</p>	£4.4m	£24.8m
<p><b>Maturity structure of fixed rate borrowing</b> (These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing – these are required for upper, as shown and lower limits which were set at 0%).</p>		
Under 1 year (this includes the next call date for Market loans)	70%	53%
1 year to 2 years	25%	3%
2 years to 5 years	25%	9%
5 years to 10 years	25%	10%
10 years to 20 years	25%	6%
20 years to 30 years	25%	0%
30 years to 40 years	25%	0%
40 years and above	25%	19%
<p><b>Maximum principal funds invested exceeding 364 days (including Manchester International Airport shares)</b> - (These limits are set to reduce the need for early sale of an investment)</p>	£70m	£44.6m

### Performance Indicators for 2015/16

<b>Indicator</b>	<b>Target</b>	<b>Actual</b>
<b>Security</b> – potential default rate of the Council's investment portfolio based on default rates from the 3 main credit rating agencies – inclusion is recommended by CIPFA.	Max 0.09%	Max 0.01%
<b>Liquidity</b> – investments available within 1 week notice	£15m min.	Achieved
<b>Liquidity</b> – Weighted Average Life of investments	6 months	6 months at 31 March 2016
<b>Yield</b> – Investment interest return to exceed 7 day London Interbank <b>BID</b> rate	0.36% (Avg. 7 day LIBID)	0.84%
<b>Origin of investments placed</b> - maximum investments to be directly placed with non-UK counterparties.	UK institutions 100% Non UK institutions 40%	Min 69% Max 31%