Chorley Council

Report of	Meeting	Date
Chief Finance Officer	Governance Committee	23 June 2016

TREASURY MANAGEMENT ANNUAL REPORT 2015/16

PURPOSE OF REPORT

1. To report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2016.

RECOMMENDATION(S)

2. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

3. This report advises on compliance with Prudential and Treasury Indicators in 2015/16. The return on investments for the year was 0.44%, which exceeded the benchmark of 0.396%. Details of borrowing and investments as at 31 March 2016 are presented.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

4. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	√

BACKGROUND

5. 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 3 March 2015), a mid-year review of that strategy (Governance Committee 23/9/2015), and finally this out-turn report.

6. Revised Prudential and Treasury Indicators for 2015/16 were included in the report "Treasury Strategies and Prudential Indicators 2016/17 to 2018/19", presented to Special Council of 1 March 2016. Where relevant, comparisons with 2015/16 indicators in this report are to those approved most recently.

PRUDENTIAL INDICATORS

7. Prudential Indicator: Capital Expenditure and Financing 2015/16

The Council's 2015/16 Capital Programme has been reported to Executive Cabinet and Council at intervals during the year. An analysis of capital expenditure in the year and variances from budgets, including rephasing of expenditure to 2016/17, is given in the report "Provisional Revenue and Capital Outturn 2015/16", being presented to the Executive Cabinet meeting of 30 June 2016.

In summary, capital expenditure for 2015/16 (including Revenue Expenditure Funded from Capital Under Statute) was £4.019m, compared to the estimate of £5.208m when the prudential indicator for the year was revised. Financing of capital expenditure in 2015/16, and the impact on the Capital Financing Requirement, is shown in the table below.

8. Prudential Indicator: Capital Financing Requirement 2015/16

The Capital Financing Requirement is a measure of the capital expenditure incurred by the Council which still has to be paid for. Financing of such expenditure is by a combination of external borrowing, generally loans from the Public Works Loan Board (PWLB), or temporary use of internal cash balances. Ultimately the expenditure 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.

The revised CFR estimated for 2015/16 was £34.885m; therefore the actual CFR is £0.388m less than estimated.

Capital Expenditure and Financing	**2015/16 £'000**
Opening Capital Financing Requirement	33,200
Capital investment	
Property, Plant and Equipment (Note 12)	2,232
Heritage Assets (Note 13)	99
Revenue Expenditure Funded from Capital under Statute (Note 7)	1,688
Sources of finance	
Capital Receipts (Note 23b)	(185)
Government Grants and Other Contributions (Note 23b)	(1,125)
Sums set aside from revenue	
Revenue Financing (Note 23b)	(874)
Minimum Revenue Provision – statutory (Note 23b)	(490)
Capital receipts applied to reduce Capital Financing Requirement	(48)
Closing Capital Financing Requirement	**34,497**
Explanation of movements in year	
Increase in prudential borrowing	1,835
Provision made for debt repayment	(538)
Increase/(Decrease) in Capital Financing Requirement	**1,297**

Prudential Indicator: The CFR and Borrowing

In order to ensure that local authorities borrow only 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 the next two years.

Total borrowing at 31 March 2016 was £14.300m (excluding accrued interest), £12.800m of which was from PWLB, and £1.500m was a temporary loan from another local authority. Cash balances (net of bank overdraft) invested at year-end were £0.822m, which meant that borrowing net of investments was £13.478m. This was lower than the estimated net figure of £15.022m because additional PWLB loans to finance new capital investment or to replace internal borrowing were not taken. The net borrowing figure is £20.019m less than the Capital Financing Requirement quoted above, this figure representing the use of the Council's own cash to finance capital expenditure rather than taking additional external loans.

When the treasury strategy for 2015/16 was approved, it was anticipated that the interest rate for a 25-year PWLB loan would rise to 3.90% by the March quarter of 2016, and that the rate would continue to rise to 4.70% by the March quarter of 2018. Based on the expected interest rate rise, estimated borrowing for the year assumed that new external loans would be taken to replace use of internal cash before rates were increased. This would have a 'carrying cost' in the short-term, because interest payable would exceed interest earned on the additional cash balance available to invest, but it would have achieved savings in the longer term by borrowing before rates increased. In practice, the likelihood of an immediate increase in rates diminished during 2015/16, and use of internal cash balances rather than new external loans continued. On 31 March 2016 the 25-year PWLB rate was 3.11% and there was no immediate prospect of a sharp increase. Rates will continue to be monitored, and bearing in mind the Council's capital investment plans it is likely that additional external borrowing will be required during 2016/17 as reflected in the current Treasury Strategy.

9. Compliance with Borrowing Limits (Operational Boundary & Authorised Limit)

The Prudential Indicators include two borrowing limits: the Operational Boundary, which reflects the expected borrowing position; and the Authorised Limit, which provided headroom to cater for unanticipated cash movements.

The revised Operational Boundary for 2015/16 was set at £20.037m, which included £20.022m external borrowing plus £0.015m other long-term liabilities. The actual total for the year was £14.315m (excluding accrued interest, but including other long-term liabilities), and the reason for the reduction was the continuing use of internal cash balances rather than external borrowing to finance capital expenditure. The prudential borrowing for the year of £1.835m was financed from internal balances. Use of internal cash balances in this way reduces the net cost of financing capital investment for the time being, though in the longer run additional external borrowing will be required.

The revised Authorised Limit was set at £23.037m, to allow a margin for temporary borrowing if required for cash management purposes. Actual borrowing and other long-term liabilities were £14.315m and therefore were below the limit.

10. Prudential Indicator: Ratio of Financing Costs to the Revenue Stream

This indicator identifies the percentage of the Council's income from Government grants and Council Tax that has been used to meet interest costs and debt repayment (MRP). The estimate reported in the Treasury Strategy 2015/16 was 7.33%. The actual ratio was 5.90%. In calculating the actual ratio, a number of income and expenditure items have been excluded. One-off Government grants such as those relating to the December 2015 floods have been excluded, because they were not anticipated in the original estimate and therefore would have distorted the comparison. Similarly interest received other than interest earned on cash balances invested has been excluded because it was not in the estimated ratio. By excluding these non-recurring items, it is easier to focus on the reasons for the reduction in the ratio.

The revenue stream increased but mainly as a result of a reduction in the business rates levy payable to the Government. This was because growth in business rates income was less than estimated. Financing costs were lower than estimated because the carrying cost of taking new loans to replace internal borrowing was avoided. Interest receivable was less than estimated, but interest payable was reduced by a larger value.

11. Prudential Indicator: Incremental Impact of Capital Investment Decisions

This indicator is concerned with the cumulative impact on the revenue budget of capital expenditure over a number of years. It is not possible to give a meaningful comparison against this indicator, other than when it is restated each year in the Treasury Strategy.

Treasury Position as at 31 March 2016

	As last reported (in 2016/17 Treasury Strategy) **£'000**	**Actual value as at 31 March 2016** **£'000**
Borrowing at period start (excluding temporary borrowing for cash flow management)	19,042	19,042
Borrowing repaid in year	(6,242)	(6,242)
Borrowing in year	7,222	1,500
Total borrowing at period end **	**20,022**	**14,300**
** Excluding accrued interest		
Cash & investments	**(5,000)**	**(822)**
Net Borrowing	**15,022**	**13,478**

Note: £1.5m borrowing was short-term for cash management purposes

12. Treasury Indicator: Upper Limit on Fixed Interest Rate Exposure

The Council is exposed to fixed interest rates on its borrowings. The upper limit on fixed interest rate exposure for 2015/16 was set at 100%, and is equivalent to the Operational Boundary. The limit was not breached.

13. Treasury Indicator: Upper Limit on Variable Interest Rate Exposure

The Council is exposed to variable interest rates on cash invested temporarily in money market funds and call accounts. The table below shows that on average £5.756m was invested each day in such funds. The upper limit on variable rate exposure for 2015/16 was set at £17m. This upper limit took account of the potential need for external borrowing to finance capital investment to replace use of internal cash balances. The effect would have been to increase cash available for investment, though at a much lower rate of interest than would have been paid on the new loans. As a consequence, no new loans were taken in 2015/16 and cash invested peaked at £12m.

14. Investments and Average Rate Achieved

The following table summarises investment activity and returns during 2015/16:

Details	Average Daily Investment £'000	Interest Earned £	Average Rate %
Money Market Funds	830	3,650	0.44
Call accounts	3,923	14,908	0.39
Sub Total – MMF/Call accounts	**4,753**	**18,558**	
Short Term deposits	1,003	7,019	0.70
Debt Management Office (DMO)	0	0	n/a
Total	**5,756**	**25,577**	**0.44**

The average interest earned of 0.44% exceeded the performance benchmark of 0.396%, being the 7-day London Inter-Bank Bid Rate (LIBID). The use of the DMO was avoided, because the rate of interest earned is only 0.25%, it was not possible to place cash balances regularly in term deposits, which pay higher interest rates that call accounts and money market funds.

The average rate achieved in 2015/16 has reduced compared to 2014/15, when 0.59% was achieved and the 7-day LIBID was 0.35%. The likelihood is that the average rate achieved in 2016/17 will remain low, which tends to support the strategy of using internal cash balances where possible in order to minimise additional borrowing required to finance capital investment.

IMPLICATIONS OF REPORT

15. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	√	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

16. This report meets statutory reporting requirements. Its statistical content is consistent with the Council's draft financial accounts for the financial year 2015/16.

COMMENTS OF THE MONITORING OFFICER

17. The Monitoring Officer has no comments.

GARY HALL
CHIEF EXECUTIVE & STATUTORY FINANCE OFFICER

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Treasury Strategy 2015/16 Treasury Strategy 2016/17	03/3/15 01/3/16		Town Hall

Report Author	Ext	Date	Doc ID
Michael Jackson	5490	10 June 2016	Treasury Management Annual Report 2015-16.docx