Annual Treasury Management Review
2015/16

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1. Introduction

This 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).

During 2015/16 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 26/02/2015)
- a mid-year (minimum) treasury update report (Council 14/10/2015)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Standards & Audit Committee before they were reported to the full Council.

2. The Economy and Interest Rates

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

3. Overall Treasury Position as at 31 March 2016

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2015/16 the Council's treasury position was as follows:

TABLE 1	31 March 2015 Principal £000	Rate/ Return %	Average Life years	31 March 2016 Principal £000	Rate/ Return %	Average Life years
General Fund:						
Long term debt	**4,097**	**6.13**	**9.5**	**3,752**	**6.07**	**9.3**
CFR	**13,627**			**14,450**		
Over / (under) borrowing	**(9,530)**			**(10,698)**		
Short term debt	**2,000**	**0.35**		**2,500**	**0.50**	
HRA:						
Long term debt	**133,949**	**3.89**	**23.1**	**131,407**	**3.85**	**22.5**
CFR	**138,482**			**136,405**		
Over / (under) borrowing	**(4,533)**			**(4,998)**		
Total investments	**24,162**	**0.96**		**25,141**	**0.77**	
Net debt	**115,884**			**112,518**		

4. The Strategy for 2015/16

The Council's overall core borrowing strategy is as follows:-

- To reduce the revenue costs of debt
- To manage the Council's debt maturity profile, leaving no one future year with a high level of repayments that might cause problems in re-borrowing
- To secure funding at the cheapest cost commensurate with future risk
- To reschedule debt in order to take advantage of potential savings as interest rates change. Any reschedule exercise will be considered in terms of the premiums and discounts on the General Fund and HRA.
- To manage the day to day cash flow of the Authority in order to, where possible, negate the need for short term borrowing.

The Chief Finance Officer will take the most appropriate form of borrowing depending on prevailing interest rates at the time. It is likely that short term fixed rates may provide lower cost opportunities in the short/medium term.

The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and offset the expected fall in investment returns.

5. The Borrowing Requirement and Debt

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2014/15 and prior years' net or unfinanced capital expenditure that has not yet been charged to revenue or other resources.

Part of the Council's treasury activities is to address the funding requirement for this borrowing need. 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.

The General Fund element of the CFR is reduced each year by a statutory revenue charge.

The total CFR can also be reduced by:

- The application of additional capital financing resources (such as capital receipts); or
- Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP)

CFR: General Fund	31 March 2015 Actual £000	31 March 2016 Revised £000	31 March 2016 Actual £000
Opening balance	10,660	13,627	13,627
Add unfinanced capital expenditure	3,351	1,498	1,152
Less MRP/VRP	(384)	(329)	(329)
Closing balance	13,627	14,796	14,450

CFR: HRA	31 March 2015 Actual £000	31 March 2016 Revised £000	31 March 2016 Actual £000
Opening balance	140,540	138,482	138,482
Add unfinanced capital expenditure	50	-	-
Less MRP/VRP	(2,108)	(2,077)	(2,077)
Closing balance	138,482	136,405	136,405

6. Borrowing Outturn in 2015/16

Borrowing – There was no new long term borrowing during the year.

Rescheduling - No rescheduling was undertaken during the year.

Repayments – Repayments of £2m were made in the year.

Interest payable on borrowing	2014/15 Actual £000	2015/16 Revised £000	2015/16 Actual £000
General Fund	522	507	497
HRA	5,152	5,107	5,050

7. Investment Outturn for 2015/16

Investment Policy – the Council's investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by the Council on 26/02/15. 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 investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Investments held by the Council - the Council maintained an average balance of £12.9m of internally managed funds. The internally managed funds earned an average rate of return of 1.18%. This compares with a budget assumption of £12.2m investment balances earning an average rate of 0.8%.

Investments held by fund managers – the Council used Investec Asset Management as external fund managers to invest part of its cash balances. The company announced that it was leaving the local authority market in the first quarter of 2015/16 and all balances were returned to the Council in July 2015.

Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	**2014/15**	**2015/16**	**2015/16**
Extract from budget and rent setting report	**actual**	**revised**	**actual**
	£'000	**£'000**	**£'000**
Capital Expenditure			
General Fund	8,002	8,869	8,355
HRA	15,423	22,000	18,125
TOTAL	23,425	30,869	26,480
Ratio of financing costs to net revenue stream			
General Fund	4.50%	4.69%	4.52%
HRA	13.80%	13.12%	13.21%
Gross borrowing requirement General Fund			
brought forward 1 April	9,358	6,097	6,097
carried forward 31 March	6,097	7,910	6,252
in year borrowing requirement	(3,261)	1,813	155
Gross borrowing requirement HRA			
brought forward 1 April	135,609	133,949	133,949
carried forward 31 March	133,949	131,407	131,407
in year borrowing requirement	(1,660)	(2,542)	(2,542)
Gross debt	140,046	139,317	137,659
CFR			
General Fund	13,627	14,796	14,450
HRA	138,482	136,405	136,405
TOTAL	152,109	151,201	150,855
Annual change in Cap. Financing Requirement			
General Fund	2,967	1,169	823
HRA	(2,058)	(2,077)	(2,077)
TOTAL	909	(908)	(1,254)

2. TREASURY MANAGEMENT INDICATORS	2014/15	2015/16	2015/16
	actual	**revised**	**actual**
	£'000	**£'000**	**£'000**
Authorised Limit for external debt -			
borrowing	156,000	151,000	151,000
other long term liabilities	-	-	-
TOTAL	156,000	151,000	151,000
Operational Boundary for external debt -			
borrowing	145,000	140,050	140,050
other long term liabilities	-	-	-
TOTAL	145,000	140,050	140,050
Actual external debt	140,046	139,317	137,659
Maximum HRA debt limit	155,612	155,612	155,612
Upper limit for fixed interest rate exposure	50-100%	50-100%	50-100%
Upper limit for variable rate exposure	0-50%	0-50%	0-50%
Upper limit for total principal sums invested for over 364 days	25%	25%	25%
(per maturity date)			

Maturity structure of fixed rate borrowing during 2015/16	upper limit	lower limit
under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	45%	0%
5 years and within 10 years	75%	5%
10 years and above	75%	25%