Havering
LONDON BOROUGH

CABINET **21 SEPTEMBER 2016**	
Subject Heading:	**Annual Treasury Management Report 2015/16**
Cabinet Member:	**Cllr Clarence Barrett**
CMT Lead:	**Andrew Blake-Herbert**
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Policy context:	The code of practice on treasury management 2009 requires a quarterly report to Members and a report to full Council on the treasury performance
Financial summary:	There are no direct financial implications from the report
Is this a Key Decision?	No
When should this matter be reviewed?	N/A
Reviewing OSC:	N/A

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	[ ]
People will be safe, in their homes and in the community	[ ]
Residents will be proud to live in Havering	[X]

SUMMARY

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 to full Council at least twice yearly (mid-year and at year end).

The Authority has borrowed and invested substantial 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 activity and the associated monitoring and control of risk.

RECOMMENDATIONS

That Cabinet:

1. **Notes** the final 2015/16 Treasury Position set out in this report and
2. **Notes** the prudential and treasury indicators in this report

REPORT DETAIL

Contents

1. Annual Investment Strategy

1.1 The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council in February 2015. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

1.2 The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity.

1.3 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. A breakdown of the deposits held as at 31 March 2016 compared to 31 March 2015 are shown below

Breakdown of Deposits

Institution Type	31st March 2015 Actual £	31st March 2016 Actual £
UK Banks		
Royal Bank of Scotland	£6,267,313	£544,829
Barclays	£20,560,731	£13,798,371
Santander UK	£13,000,000	£10,037,288
Lloyds	£19,500,000	£15,000,000
Standard Chartered	£5,000,000	£5,000,000
Close Brothers		£5,000,000
Goldman Sachs		£10,000,000
UK Building Societies		
Nationwide BS	£15,000,000	£18,000,000
Leeds BS	£10,000,000	£2,000,000
Coventry BS		£10,000,000
Yorkshire Building Society		£5,000,000
Local Authorities & Other Public Sector		
Blaenau Gwent County Borough Council	£1,000,000	£1,000,000
Isle of Wight council		
Halton Borough Council	£5,000,000	
Salford City Council	£5,000,000	
Wolverhampton City Council	£5,000,000	
Greater London Authority	£5,000,000	
Lancashire County Council	£5,000,000	£15,000,000
Doncaster Borough Council	£5,000,000	£5,000,000
Birmingham City Council	£5,000,000	£5,000,000
Eastleigh Borough Council	£5,000,000	£5,000,000
Fife Council	£5,000,000	
Wiltshire County Council		£5,000,000
Newcastle Upon Tyne City Council		£5,000,000
Non UK Banks		
Australia		
Australia & New Zealand Banking Group	£5,000,000	
Commonwealth Bank of Australia	£6,000,000	£5,000,000
National Australia Bank		£5,000,000
Canada		
Canadian Imperial Bank of Commerce	£5,000,000	
Toronto-Dominion Bank		£13,000,000
Netherlands		
Cooperatieve Rabobank		£8,000,000
Sweden		
Svenska Handelsbanken	£7,750,000	£13,947,452
Singapore		
Development Bank Singapore		£5,000,000
United Overseas Bank Limited		£7,000,000
Overseas-Chinese Banking Corporation		£5,000,000
Switzerland		
Credit Suisse		£5,000,000
Total	**159,078,044**	**202,327,940**

Investment performance for 2015/16

Benchmark	Benchmark Return 3 month LIBID	Budgeted Rate of Return	Actual Rate of Return	Investment Interest Earned	Investment Interest Budgeted	Investment Interest Surplus
Quarter 1	0.52%	0.60%	0.67%	£323,777	£288,954	£34,823
Quarter 2	0.54%	0.60%	0.67%	£679,255	£572,805	£106,450
Quarter 3	0.54%	0.60%	0.69%	£1,072,315	£826,620	£245,695
Quarter 4	0.54%	0.60%	0.69%	£1,446,229	£1,047,782	£398,447

1.4 The UK Bank Rate has been maintained at 0.5% since March 2009 and because of this short-term money market rates have remained at relatively low levels.

1.5 As illustrated in the table above, the Authority outperformed the benchmark by 15 bps and also outperformed the budgeted rate of return by 9bp**.** As a result of this outperformance, of the £398k of additional interest received above budget, £187k was due to the rate of return being higher than the budgeted rate of return. The remaining additional interest was as a result of higher cash balances than forecast.

2. New borrowing:

2.1 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.

2.2 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 use internal resources instead, referred to as internally borrowing.

2.3 With the exception of a £1.13m interest free loan from Salix there was no additional long term borrowing to fund capital expenditure undertaken throughout the whole of 2015/16. Future capital spending plans are regularly reviewed and additional long term borrowing will only be taken if it in the best interests of the Authority.

2.4 At 31st March 2016 the Authority held £212.1m of loans as part of its strategy for funding previous years’ capital programmes. The Council has also not borrowed in advance of need during any of 2015/16 demonstrated by the fact that the Authorities long term borrowing is below its capital financing requirement (its underlying need to borrow).

3. Debt Rescheduling

3.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates following increases in PWLB new borrowing rates in October 2010. The possibility of debt rescheduling is discussed with our treasury advisers and is a regular agenda item at the quarterly treasury meeting held between the treasury department, the S151 officer and the lead Member.

3.2 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.

4. Compliance with Treasury Limits

4.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council’s approved Treasury and Prudential Indicators (affordability limits) for 2015/16 were included and approved by full Council as part of the Treasury Management Strategy Statement (TMSS) in February 2015.

4.2 During the financial year to date the Council has operated within the treasury limits set out in the Council’s Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

4.3 Security

4.3.1 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.

4.3.2 Counterparty credit quality was assessed and monitored with reference to credit ratings (using the ratings from all 3 of the main credit 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.

4.3.3 The Authority has also made use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment as additional security for its deposits.

4.4 Liquidity

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

	Target	Actual @ 31/3/2016
Total cash available by the next working day	£5m	£25.3m
Total cash available within 3 months	£30m	£63.0m

4.5 Interest Rate Exposures

4.5.1 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 gross principal borrowed will be:

	2015/16
Upper limit on fixed interest rate exposure	100%
Actual	99%
Upper limit on variable interest rate exposure	25%
Actual	1%

4.5.2 Having larger amounts of fixed interest rate borrowing gives the Authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local authorities have taken advantage of fixing interest rates long term to reduce interest rate exposure.

4.6 Maturity Structure of Borrowing

4.6.1 This indicator is set to control the Authority's exposure to refinancing risk. The approved upper and lower limits on the maturity structure of fixed rate borrowing were:

	Upper	Lower	Actual
Under 12 months	40%	0%	3%
12 months and within 24 months	40%	0%	0%
24 months and within 5 years	60%	0%	0%
5 years and within 10 years	75%	0%	0%
10 years and above	100%	25%	97%

4.6.2 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.

4.7 Principal Sums Invested for Periods Longer than 364 days (Treasury Management Indicator)

4.7.1 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:

	31/3/2017	**31/3/2018**	**31/3/2019**
Limit on principal invested beyond year end	£75m	£50m	£25m
Actual	£15m	£15m	£5m

4.7.2 The £15m invested for greater than 364 days are either with other local authorities or secured investments.

5. Compliance with Prudential Indicators

5.1 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, 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.

5.2 Estimates of Capital Expenditure

5.2.1 The Authority's planned capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	**2015/16 Actual £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**
General Fund	39,865	87,702	63,877
HRA	19,597	48,300	48,817
Total Expenditure	**59,462**	**136,002**	**112,694**
Capital Receipts	12,614	27,110	14,497
Government Grants	24,900	40,892	29,680
Reserves	20	5,850	6,367
Revenue	21,928	25,000	25,000
Borrowing	-	37,150	37,150
Leasing and PFI	-	-	-
Total Financing	**59,462**	**136,002**	**112,694**

5.3 Estimates of Capital Expenditure

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

Capital Financing Requirement	31/03/16 Actual £'000	31/03/17 Estimate £'000	31/03/18 Estimate £'000
General Fund	60,366	78,877	97,388
HRA	174,669	191,819	208,969
Total CFR	**235,035**	**270,696**	**306,357**

5.3.2 The CFR is forecast to rise by £71m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

5.4 Gross Debt and the Capital Financing Requirement

5.4.1 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.

	31/03/16 Actual £m	31/03/17 Estimate £m	31/03/18 Estimate £m	31/03/19 Estimate £m
Long Term Debt	£212m	£212m	£212m	£212m
CFR	£235m	£270m	£306m	£325m

5.4.2 Total debt is expected to remain below the CFR during the forecast. Whilst there are no commitments to increase long term debt over the next 3 years if capital spend follows the budgeted spend there is likely to be a need to increase long term debt as internal borrowing would not be feasible for such high amounts.

5.4.3 The actual debt levels are also monitored against the Operational Boundary and Authorised Limit for External Debt, below.

5.5 Operational Boundary for External Debt

5.5.1 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**
Borrowing	£247.1m
Other long-term liabilities	£2.0m
Total	**£249.1m**
Actual Long Term Debt	**£212.0m**
Headroom	**£37.1m**

5.6 Authorised Limit for External Debt

5.6.1 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	**2014/15 £m**
Borrowing	£259.5m
Other long-term liabilities	£2.0m
Total Debt	**£261.5m**
Long Term Debt	**£212.0m**
Headroom	**£49.5m**

5.7 Ratio of Financing Costs to Net Revenue Stream

5.7.1 This ratio 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 Estimate %**	**2015/16 Actual %**
General Fund	2.46	2.54
HRA	7.63	7.28

5.8 Incremental Impact of Capital Investment Decisions

5.8.1 This ratio is an indicator of affordability that shows the impact of capital investment decisions on council tax and housing rent 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 new capital programme.

Incremental Impact of Capital Investment Decisions	2015/16 Estimate £	2015/16 Actual £
General Fund - increase in annual band D Council Tax	0	0
HRA - increase in average weekly rents	£37.15p	£36.91p

5.9 Adoption of the CIPFA Treasury Management Code

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

5.10 HRA Limit on Indebtedness

5.10.1 The Authority's HRA CFR should not exceed the limit imposed by the Department for Communities and Local Government at the time of implementation of self-financing. The Authority complied with this requirement as set out below

HRA CFR Limit:	£209,003		
	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
HRA CFR	174,669	191,819	208,969
Difference	34,334	17,184	34

6. Other Treasury related Matters

6.1 Policy on Use of Financial Derivatives

6.1.1 The Authority has not entered into any standalone financial derivatives during the financial year 2015/16.

6.2 Policy on Apportioning Interest to the HRA

6.2.1 The Authority has apportioned interest to the HRA at a rate of 0.5% (base rate). This is because all the risks associated with treasury activities (which are kept to a minimum through the Authorities Investment Strategy) lie with the General Fund rather than the HRA.

6.3 Investment Training

6.3.1 The needs of the Authority's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

6.3.2 During 2015/16 staff attended training courses, seminars and conferences provided by Arlingclose, CIPFA and other treasury organisations. In addition treasury management staff also attended the London Treasury Officers Forum, a group set up for networking and sharing best practice.

6.4 Investment Advisers

6.4.1 The Authority appointed Arlingclose Limited as treasury management advisers for 2015/16. Throughout the course of the year on a daily basis officers receive specific advice on investment, debt and capital finance issues.

REASONS AND OPTIONS

Reasons for the decision:

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 to full Council at year end.

Other options considered:

The other option would be to not report the performance of the treasury function however as this would be in breach of CIPFA's TM Code, this was not considered.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications from this report.

Legal implications and risks:

There are no apparent legal implications or risks from noting this Report.

Human Resources implications and risks:

There are no HR implications from this report

Equalities implications and risks:

There are no Equalities implications arising from this report

BACKGROUND PAPERS

None