



<b>Report for:</b>	<b>CABINET</b>
<b>Date of meeting:</b>	<b>20 September 2016</b>
<b>PART:</b>	<b>I</b>
If Part II, reason:	

<b>Title of report:</b>	<b>TREASURY MANAGEMENT OUTTURN AND PERFORMANCE INDICATORS 2015/16</b>
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources James Deane, Corporate Director (Finance and Operations) Richard Baker, Group Manager (Financial Services)
Purpose of report:	To report upon the performance outturn for treasury management in 2015/16.
Recommendations	That Cabinet recommends to Council acceptance of the report on Treasury Management performance in 2015/16 and the Prudential Indicators for 2015/16 actuals.
Corporate objectives:	Dacorum Delivers - Optimising investment income for General Fund and Housing Revenue budgets whilst managing investment risk is fundamental to achieving the corporate objectives.
Financial Implications:	In accordance with Central Government Guidance on Local Government Investments, and the CIPFA Treasury Management Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector.
Risk Implications:	Good corporate governance encompasses risk management and making sure that the Council makes decisions with the full knowledge of the associated risks and opportunities. The risk of not reviewing and updating our corporate governance arrangements have been addressed by this report.

Equalities Implications:	None
Health And Safety Implications:	None
Monitoring Officer / S151 Officer Comments:	<b>Monitoring Officer-</b> No comments to add to the report. <b>Deputy Section 151 officer-</b> This is a S151 Officer report
Consultees:	Capita Treasury Services
Background papers:	Cabinet 10 February 2015 – Treasury Management Strategy (Appendix K to Budget 2015/16 Report)

## 1. Regulatory 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 Full Council should receive the following reports:
- an annual treasury strategy in advance of the year;
  - a mid-year treasury update report;
  - an annual review following the end of the year describing the activity compared to the strategy (this report).
- 1.3 This report provides the outturn position for the Council's treasury activities and highlights compliance with policies previously approved by Members.

## 2. The Economy and Interest Rates

- 2.1 The original expectation at the start of 2015/16 was for the first increase in Bank Rate to occur in the third quarter 2015. However, by the end of the year, market expectations for an increase had moved back radically to quarter 2 2018. Investment interest rates continued to remain at very low levels during 2015/16.
- 2.2 Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in the UK surged strongly during both 2013/14 and 2014/15 to make the UK the top performing advanced economy in 2014. However, 2015 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.
- 2.3 The UK elected a majority Conservative Government in May 2015, removing one potential area of uncertainty 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 2015 and 31 March 2016

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

	31 March 2015 Principal	Rate/ Return	Average Life years	31 March 2016 Principal	Rate/ Return	Average Life years
<b>General Fund</b>						
Total external debt	-			£19.8m	2.98%	19
Total internal debt	(£4.7m)			(£3.2m)		
Other (finance leases & negative CFR)	£0.2m			£0.2m		
Capital Financing Requirement	(£4.5m)			£3.2m		
Over / (under) borrowing	-			£13.4m		
<b>Housing Revenue Account</b>						
Total external debt	£346.7m	3.35%	15	£346.7m	3.35%	14
Total internal debt	£4.69m			£3.2m		
Other (finance leases & negative CFR)	-			-		
Capital Financing Requirement	£351.2m			£349.9m		
Over / (under) borrowing	-			-		
Total investments	£59.2m	0.51%	0.24	£67.2m	0.62%	0.44
Net external debt	£287.5m			£299.4m		

#### Borrowing

3.2 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The Council's CFR was £353.1m at the end of the year. This includes the borrowing from the Public Works Loan Board following the introduction of Self Financing, and the borrowing taken up in the current year for general fund capital expenditure requirements. The General Fund borrowing was undertaken in advance of need to take advantage of historically low interest rates available. No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

#### General Fund

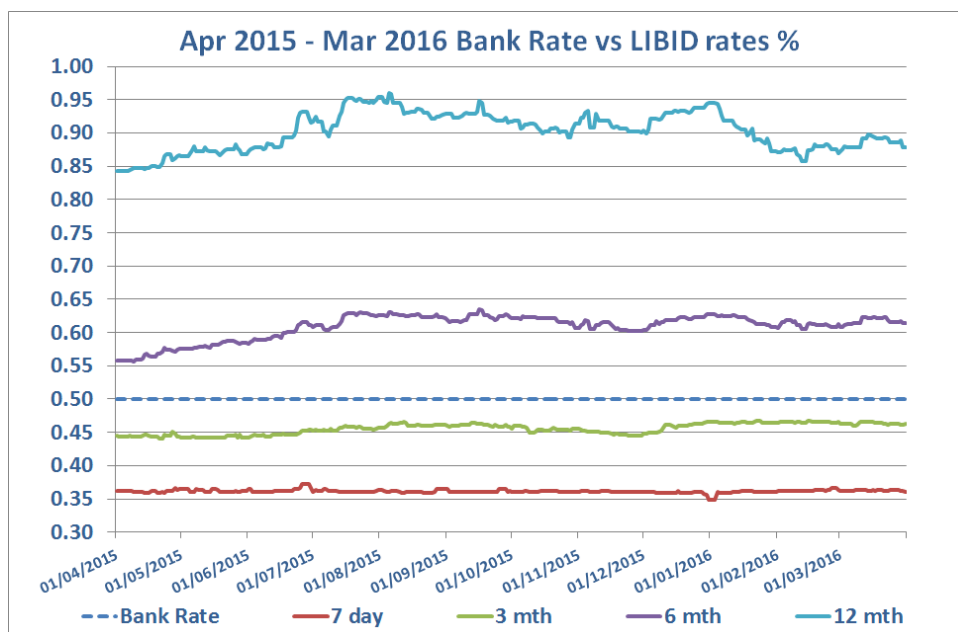
3.3 The positive Capital Financing Requirement (CFR) indicates that the Council had a need to borrow. The General Fund reduction of £7.7m 2015-16, from (£4.5m) to £3.2m, relates to the financing of in-year expenditure on the Capital Programme.

#### Housing Revenue Account

3.4 HRA funds available for the future financing of the Capital Programme are held outside of the CFR in the Major Repairs Reserve and Earmarked Reserves, totalling £25.7m.

#### 4. Investment Rates and Outturn in 2015/16

4.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. The following table shows bank and LIBID rates during the year.



4.2 The Council's investment policy, approved by Council in February 2015, sets out the approach for choosing investment counterparties. It is based on a system of credit ratings provided by the three main credit rating agencies, and supplemented by additional market data (such as rating outlooks, credit default swaps and bank share prices) provided by Capita, the Council's treasury advisors.

4.3 The Council maintained an average balance of £74.4m of internally managed funds throughout 2015/16, earning an average rate of return of 0.62%, compared with the budget assumption of average investment balances of £51.08 at 0.40% investment return.

4.4 The weighted average maturity (WAM) for investments held by the Council at 31 March 2016 was 146 days. This compares to a weighted average maturity at 31 March 2015 of 89 days.

4.5 Investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

#### 5. Prudential and Treasury Indicators

5.1 During 2015/16, the Council complied with its legislative and regulatory requirements set out in the Treasury Management Strategy. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2014/15 Actual £000	2015/16 Original Budget Estimate £000	2015/16 Actual £000
Capital expenditure			
• General Fund	16,335	26,826	17,993
• HRA	25,468	27,282	31,523
• <b>Total</b>	<b>41,803</b>	<b>54,108</b>	<b>49,516</b>
Capital Financing Requirement:			
• General Fund	(4,537)	14,900	3,200
• HRA due to housing finance reform	351,265	349,950	349,950
• <b>Total</b>	<b>346,728</b>	<b>364,850</b>	<b>353,150</b>
External debt	346,739	361,639	366,707
Investments			
• Longer than 1 year			
• Under 1 year	59,242	37,270	67,210
• <b>Total</b>			

5.2 In order to ensure that borrowing levels are prudent over the medium term, Local Authority external borrowing can only be for capital purposes, i.e. it cannot be used to support revenue expenditure. Net borrowing should not, therefore, exceed the Capital Financing Requirement (CFR), i.e. the Council's need to borrow. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The advance borrowing shown above by external debt exceeding the CFR is due to the General Fund borrowing in advance of need to take advantage of historically low interest rates.

5.3 The **Authorised Limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. During 2015/16 the Council has maintained gross borrowing within its authorised limit.

5.4 The **Operational Boundary** – the operational boundary reflects the current borrowing position with an allowance for additional borrowing for cash flow purposes during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

2015/16	
Authorised limit	£375.000m
Operational boundary	£361.965m

5.5 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Ratio of financing costs to net revenue stream	31 March 2015 Actual	2015/16 Original Limits	31 March 2016 Actual

Non - HRA	(0.37%)	0.80 %	0.42%
HRA	20.34%	19.98%	19.73%

5.6 The reduction on the General Fund ratio since the original estimate reflects the reduced financing costs due to slippage on the capital programme. The slight reduction in the ratio on the HRA reflects slightly higher income received against original estimate.

5.7 The following table shows the **incremental impact on Council Tax and Housing Rents** on capital decisions.

Incremental impact of capital investment decisions	31 March 2015 Actual	2015/16 Original Limits	31 March 2016 Actual
Increase in council tax (band D) per annum	£33.60	£10.24	£3.08
Increase in average housing rent per week	(£331.32)	£297.92	(£620.93)

5.8 The reduced impact on the General Fund against original limits reflects the additional interest income received on balances held arising from slippage and higher interest rates than budgeted. The reduced impact on Housing Rents reflects an increase in Right to Buy receipts available against original budget which are utilised before making revenue contributions to capital.

5.9 The following table shows the **net debt position** for the Council. There has been no material change in net debt between years.

	31 March 2015 Principal	Rate/ Return	Average Life years	31 March 2016 Principal	Rate/ Return	Average Life years
Fixed rate funding:						
-PWLB	£346.7m	3.35%		£366.7m	3.15%	
<b>Total external debt</b>	<b>£346.7m</b>	<b>3.35%</b>	<b>15</b>	<b>£366.7m</b>	<b>3.15%</b>	<b>14</b>
<b>CFR</b>	<b>£346.7m</b>			<b>£353.1m</b>		
<b>Over/ (under) borrowing</b>	<b>£0m</b>			<b>£13.4m</b>		
<b>Total investments</b>	<b>£59.2m</b>	<b>0.51%</b>	<b>0.24</b>	<b>£67.2m</b>	<b>0.62%</b>	<b>0.44</b>
<b>Net debt</b>	<b>£287.5m</b>			<b>£299.4m</b>		

5.10 The following table shows the **maturity structure of the debt portfolio**:

	31 March 2015 actual	31 March 2016 actual
Under 12 months	-	0.38m
12 months and within 24 months	-	1.32m
24 months and within 5 years	£6.2m	£11.32m
5 years and within 10 years	£15.1m	£16.60m
10 years and above	£325.4m	£336.90m

5.11 The following table shows the **maturity structure of the investment portfolio**:

	<b>2014/15 Actual £</b>	<b>2015/16 Actual £</b>
Investments		
Longer than 1 year	-	-
Under 1 year	59.2m	67.2m
Total	59.2m	67.2m

5.12 The following table shows the **exposure to fixed and variable rates on investments** at year end:

	<b>31 March 2015 Actual</b>	<b>2015/16 Original Limits</b>	<b>31 March 2016 Actual</b>
Fixed rate (principal or interest)	71%	100%	70%
Variable rate (principal or interest)	29%	40%	30%

Appendix A – HRA External Borrowing

<b>Lender</b>	<b>Principal</b>	<b>Type</b>	<b>Interest Rate</b>	<b>Maturity</b>
PWLB	£567,166	Fixed interest rate	1.50%	2 Years
PWLB	£2,068,572	Fixed interest rate	1.76%	3 Years
PWLB	£3,585,697	Fixed interest rate	1.99%	4 Years
PWLB	£4,590,217	Fixed interest rate	2.21%	5 Years
PWLB	£3,480,273	Fixed interest rate	2.40%	6 Years
PWLB	£1,370,129	Fixed interest rate	2.56%	7 Years
PWLB	£2,309,505	Fixed interest rate	2.70%	8 Years
PWLB	£3,334,576	Fixed interest rate	2.82%	9 Years
PWLB	£4,442,038	Fixed interest rate	2.92%	10 Years
PWLB	£5,637,006	Fixed interest rate	3.01%	11 Years
PWLB	£5,110,074	Fixed interest rate	3.08%	12 Years
PWLB	£6,339,797	Fixed interest rate	3.15%	13 Years
PWLB	£7,664,605	Fixed interest rate	3.21%	14 Years
PWLB	£9,089,448	Fixed interest rate	3.26%	15 Years
PWLB	£10,620,253	Fixed interest rate	3.30%	16 Years
PWLB	£12,546,288	Fixed interest rate	3.34%	17 Years
PWLB	£14,313,519	Fixed interest rate	3.37%	18 Years
PWLB	£16,205,585	Fixed interest rate	3.40%	19 Years
PWLB	£18,230,083	Fixed interest rate	3.42%	20 Years
PWLB	£20,394,596	Fixed interest rate	3.44%	21 Years
PWLB	£32,380,217	Fixed interest rate	3.46%	22 Years
PWLB	£35,524,201	Fixed interest rate	3.47%	23 Years
PWLB	£38,864,428	Fixed interest rate	3.48%	24 Years
PWLB	£42,416,950	Fixed interest rate	3.49%	25 Years
PWLB	£45,654,253	Fixed interest rate	3.50%	26 Years

*General Fund External borrowing*



<b>Lender</b>	<b>Principal</b>	<b>Type</b>	<b>Interest Rate</b>	<b>Maturity</b>
PWLB	£237,280	Fixed interest rate	1.05%	0.1 Years
PWLB	£149,000	Fixed interest rate	1.25%	0.1 Years
PWLB	£378,554	Fixed interest rate	1.28%	1 Year
PWLB	£370,984	Fixed interest rate	1.53%	2 Years
PWLB	£363,563	Fixed interest rate	1.78%	3 Years
PWLB	£356,292	Fixed interest rate	2.00%	4 Years
PWLB	£349,166	Fixed interest rate	2.19%	5 Years
PWLB	£342,183	Fixed interest rate	2.35%	6 Years
PWLB	£335,340	Fixed interest rate	2.48%	7 Years
PWLB	£328,633	Fixed interest rate	2.59%	8 Years
PWLB	£326,082	Fixed interest rate	2.68%	9 Years
PWLB	£334,821	Fixed interest rate	2.76%	10 Years
PWLB	£344,062	Fixed interest rate	2.83%	11 Years
PWLB	£353,799	Fixed interest rate	2.90%	12 Years
PWLB	£364,059	Fixed interest rate	2.95%	13 Years
PWLB	£374,799	Fixed interest rate	3.00%	14 Years
PWLB	£386,043	Fixed interest rate	3.05%	15 Years
PWLB	£397,817	Fixed interest rate	3.09%	16 Years
PWLB	£410,110	Fixed interest rate	3.12%	17 Years
PWLB	£422,905	Fixed interest rate	3.16%	18 Years
PWLB	£436,269	Fixed interest rate	3.18%	19 Years
PWLB	£450,142	Fixed interest rate	3.21%	20 Years
PWLB	£464,592	Fixed interest rate	3.23%	21 Years
PWLB	£479,598	Fixed interest rate	3.24%	22 Years
PWLB	£495,137	Fixed interest rate	3.26%	23 Years
PWLB	£511,279	Fixed interest rate	3.27%	24 Years
PWLB	£527,997	Fixed interest rate	3.27%	25 Years
PWLB	£545,263	Fixed interest rate	3.28%	26 Years
PWLB	£563,148	Fixed interest rate	3.28%	27 Years
PWLB	£581,619	Fixed interest rate	3.28%	28 Years
PWLB	£600,696	Fixed interest rate	3.28%	29 Years
PWLB	£620,399	Fixed interest rate	3.27%	30 Years

<b>Lender</b>	<b>Principal</b>	<b>Type</b>	<b>Interest Rate</b>	<b>Maturity</b>
PWLB	£640,686	Fixed interest rate	3.27%	31 Years
PWLB	£661,636	Fixed interest rate	3.27%	32 Years
PWLB	£683,272	Fixed interest rate	3.26%	33 Years
PWLB	£705,546	Fixed interest rate	3.25%	34 Years
PWLB	£728,477	Fixed interest rate	3.25%	35 Years
PWLB	£752,152	Fixed interest rate	3.24%	36 Years
PWLB	£776,552	Fixed interest rate	3.23%	37 Years
PWLB	£801,603	Fixed interest rate	3.23%	38 Years
PWLB	£728,478	Fixed interest rate	3.22%	39 Years