

# OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

**RYEDALE  
DISTRICT  
COUNCIL**



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<b>REPORT TO:</b>	<b>COUNCIL</b>
<b>DATE:</b>	<b>1 SEPTEMBER 2016</b>
<b>REPORT OF THE:</b>	<b>FINANCE MANAGER (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>TREASURY MANAGEMENT ANNUAL REPORT 2015-16</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 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).

### **2.0 RECOMMENDATIONS**

- 2.1 That Council is recommended to:
- (i) Note the annual treasury management report for 2015/16; and
  - (ii) Approve the actual 2015/16 prudential and treasury indicators in this report.

### **3.0 REASON FOR RECOMMENDATIONS**

- 3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

### **4.0 SIGNIFICANT RISKS**

- 4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

## **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.
- 5.2 The Council uses the services of Capita Treasury Services Limited to provide treasury management information and advice.

## **REPORT**

### **6.0 REPORT DETAILS**

- 6.1 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 24 February 2015)
- A mid year (minimum) treasury update report (Council 10 December 2015)
- An annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, treasury management update reports were received by the Policy and Resources Committee.

- 6.2 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.

- 6.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council. Further Member training on treasury management was undertaken on 28th January 2016 in order to support members' scrutiny role.

- 6.4 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Summary of interest rate movement in the year;
- Detailed borrowing activity;
- Detailed investment activity.

#### **The Council's Capital Expenditure and Financing 2015/16.**

- 6.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

- 6.6 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2015/16 Actual (£)	2014/15 Actual (£)
<b>Total Capital Expenditure</b>	<b>1,076,215</b>	<b>1,330,779</b>
Resourced by:		
Capital receipts	-	-
Capital grants and contributions	301,878	318,561
Capital reserves	34,054	2,500
External Borrowing	740,283	1,009,718
Total	1,076,215	1,330,779

### The Economy and Interest rates

- 6.7 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.
- 6.8 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.
- 6.9 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.

## Overall Treasury Position as at 31 March 2016

- 6.10 At the beginning and the end of 2015/16 the Council's treasury position was as follows (excluding finance leases):

	31 March 2016 Principal	31 March 2015 Principal
Total Debt	£1.75m	£1.75m
CFR	£1.73m	£1.01m
Over/(Under) borrowing	<b>£0.02m</b>	<b>£0.74m</b>
Total Investments	£11.66m	£9.16m
Net Debt	<b>-£9.91m</b>	<b>-£7.41m</b>

## The Strategy for 2015/16

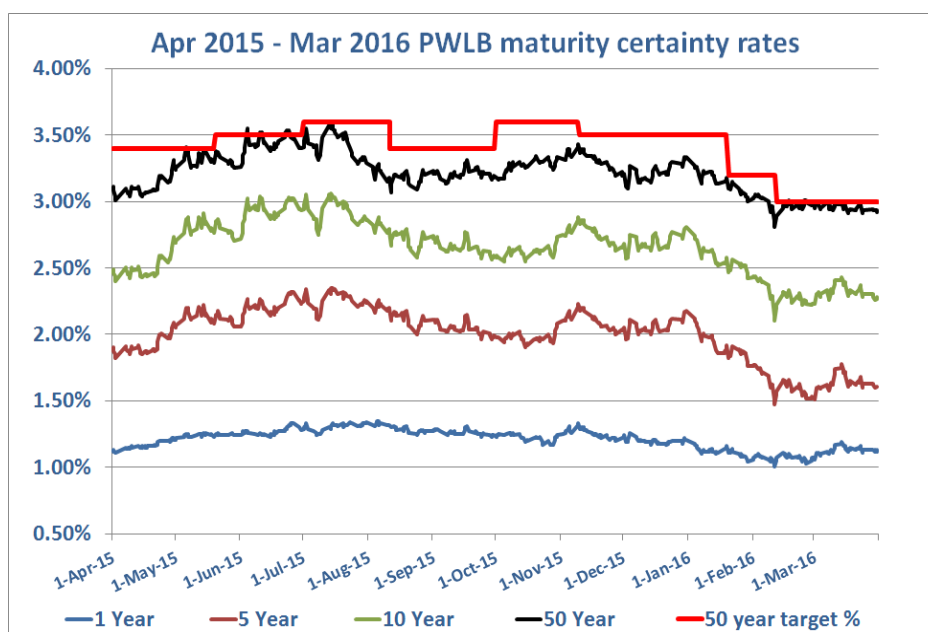
- 6.11 The Treasury Management Strategy for 2015/16 was approved by members at full Council on 24 February 2015.
- 6.12 The expectation for interest rates within the treasury management strategy for 2015/16 anticipated low but rising Bank Rate, (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. The treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk. 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.

## The Borrowing Requirement and Debt

- 6.13 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) (excluding borrowing by finance leases).

	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Total CFR	£1.010m	£2.029m	£1.730m

## Borrowing Rates in 2015/16



## Borrowing Outturn for 2015/16

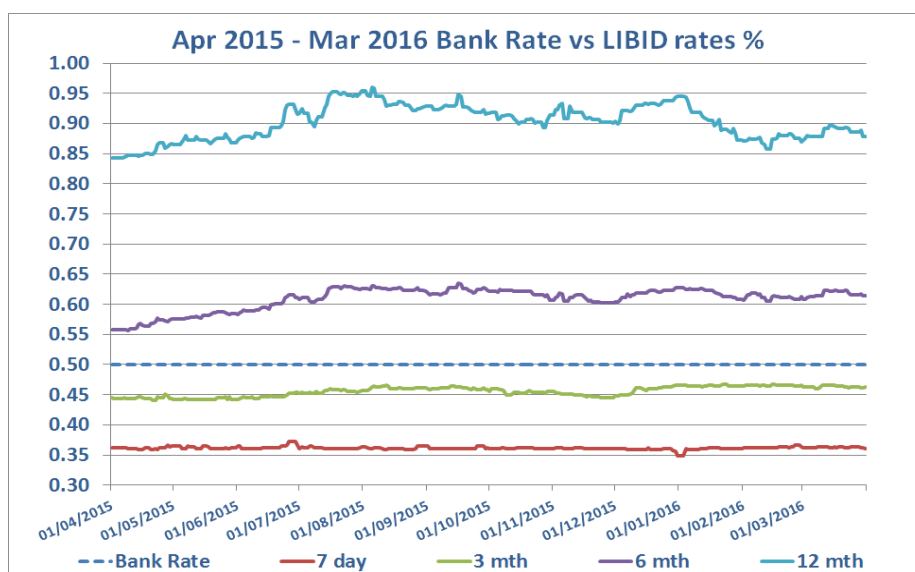
- 6.14 No new borrowing was undertaken during the year, the debt portfolio remains as follows:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£1.00m	Maturity	3.69%	50 years
PWLB	£0.75m	EIP	2.99%	19 years

This compares with a budget assumption of borrowing at an interest rate of 3.85%.

## Investment Rates in 2015/16

- 6.15 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.



### Investment Outturn for 2015/16

- 6.16 The Council's investment policy is governed by DCLG guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 24 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).
- 6.17 The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- 6.18 The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the internally managed funds against the 7-day LIBID uncompounded rate bench mark:

	Average Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
<b>Internally Managed:</b>				
Temporary & On-Call Investments	5,525,273	0.30%	n/a	n/a
Fixed Term Deposits	1,135,029	0.77%	n/a	0.36%

- 6.19 **The interest received by the Council from investments in 2015/16 totalled £98k; this compares to an original estimate of £59k.**
- 6.20 The Council's investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities and security of investments. 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 Treasury Management Practices. At the beginning and the end of 2015/16 the Council's investments position was as follows:

	31 March 2016 (£)	31 March 2015 (£)
Internally Managed Investments	11,660,000	9,160,000
Total	11,660,000	9,160,000

6.21 The maturity of the investment portfolio was as follows;

	31 March 2016 (£)	31 March 2015 (£)
On-call Investments	60,000	60,000
Fixed Term Deposits:		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	2,100,000	3,000,000
Repayable 3 months to 6 months	9,500,000	3,600,000
Repayable 6 months to 12 months	0	2,500,000
Repayable 12 months to 24 months	0	0
Total	11,660,000	9,160,000

6.22 Investments were placed with the following institutions:

Type of Institution	31 March 2016 (£)	31 March 2015 (£)
UK Clearing Banks	7,160,000	7,160,000
Foreign Banks	2,000,000	1,000,000
Building Societies	2,500,000	1,000,000
Local Authorities	0	0
Total	11,660,000	9,160,000

#### **Compliance with Treasury Limits**

6.23 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (annex B).

## **7.0 IMPLICATIONS**

7.1 The following implications have been identified:

- a) Financial  
The results of the investment strategy effect the funding of the capital programme.
- b) Legal  
There are no legal implications within this report
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)  
There are no additional implications within this report.

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**Background Papers:** None