



To: The Executive Councillor for Finance & Resources:
Councillor Richard Robertson
Report by: Head of Finance (The Council's Section 151 Officer)
Relevant scrutiny Strategy & Resources 03/07/2017
committee: Scrutiny Committee
Wards affected: All Wards

ANNUAL TREASURY MANAGEMENT (OUTTURN) REPORT 2016/17

Key Decision

1. Executive summary

- 1.1 The Council is required by regulations issued under the Local Government Act 2003, to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for each financial year.
- 1.2 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) in respect of 2016/17.
- 1.3 During 2016/17 the minimum requirements were that Council should receive:-
 - An annual strategy in advance of the year;
 - A mid-year treasury update report; and;
 - An annual review following the end of the year describing the activity compared to the strategy (this report)
- 1.4 In line with the above Code of Practice, all treasury management reports have been presented to both Strategy & Resources Scrutiny Committee and to full Council.

2. Recommendations

- 2.1 The Executive Councillor is asked to recommend this report to Council, which includes the Council's actual Prudential and Treasury Indicators for 2016/17.

3. Background

3.1 This report summarises:

- Capital expenditure and financing activity during the year;
- The impact of capital spending on the Council's 'need to borrow';
- The Council's compliance with prudential & treasury indicators;
- Treasury Management Position as at 31st March 2017 (Appendix A);
- The Council's Treasury Management advisors (Capita Treasury Solutions Ltd) view on UK Interest & Investment rates (Appendix B);
- The actual prudential and treasury indicators (Appendix C);
- Counterparty List (Appendix D); and;
- A Glossary of Terms and Abbreviations (Appendix E)

3.2 The Council's Capital Expenditure and Financing 2016/17

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, developer contributions, revenue contributions, reserves 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 other resources, the funding of capital expenditure will give rise to a borrowing need.

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 £'000 Actual	2016/17 £'000 Current Budget *	2016/17 £'000 Actual
General Fund capital expenditure	26,430	44,584	19,965
HRA capital expenditure	32,572	25,487	22,618
Total capital expenditure	59,002	70,071	42,583
Resourced by:			
• Capital receipts	-11,191	-4,032	-12,353
• Other contributions	-43,200	-43,825	-25,510
Total available resources for financing capital expenditure	-54,391	-47,857	-37,863
Un-financed capital expenditure	4,611	22,214	4,720

* Per Budget Setting Report (BSR) agreed by Council on 23rd February 2017

3.3 Loan to Cambridge Housing Company

General Fund capital expenditure for 2016/17 includes a £7,500k loan to Cambridge City Housing Company (CCHC), a wholly owned subsidiary of the Council. This loan has been provided for a fixed term of 3 years to enable CCHC to purchase 23 homes for rental at intermediate market rent.

3.4 The Council's overall borrowing need

During 2016/17, there was no requirement for external borrowing. Un-financed capital expenditure of £4,720k shown in the above table was met from internal cash borrowing. This movement is comprised of the £7,500k loan to CCHC and expenditure on the construction of Clay Farm community centre of £2,506k, less the application of a capital receipt of £5,286k to capital expenditure which was unfinanced as at the end of the previous financial year.

3.5 Current Debt as at 31st March 2017

The table below shows the Council's current outstanding debt and headroom (the amount of additional borrowing that is possible without breaching the Authorised Borrowing Limit):-

	Principal (£'000)
Authorised Borrowing Limit (A) – Agreed by Council on 20 th October 2011	250,000
HRA Debt Limit (B)	230,839
PWLB Borrowing (for HRA Self-Financing, C)	213,572
General Fund Headroom (A minus B)	19,161
HRA Headroom (B minus C)	17,267
2012/13, 2013/14, 2014/15, 2015/16 and 2016/17 External Borrowing	NIL
Total Current Headroom (A minus C)	36,428

At present the only debt held by the authority relates to the twenty loans from the PWLB for self-financing the HRA.

3.6 Treasury Position as at 31 March 2017

The Council's debt and deposit position is managed in order to ensure adequate liquidity for revenue and capital activities, security for deposits and to manage risk in relation to all treasury management activities. Procedures and controls to achieve these objectives are well established both through the application of approved Treasury Management Practices and regular reporting to Members.

All funds are internally managed.

The tables below provide a comparison of deposit activity and outturn for 2016/17 against 2015/16.

<u>Actual Returns</u>	2015/2016		2016/2017	
	Average Deposits (£m)	Average Rate of Return	Average Deposits (£m)	Average Rate of Return
Fixed Short-Term (<365 days)	70.42	0.83%	50.18	0.64%
Call/Overnight Accounts	17.96	0.70%	8.74	0.57%
Enhanced Cash Funds	-	-	7.47	0.73%
Fixed Long-Term (>365 days)	11.35	1.04%	24.67	0.93%
Money Market Funds	10.42	0.49%	15.56	0.39%
CCLA Local Authorities' Property Fund	10.00	4.75%	11.68	4.84%
<u>Overall Deposit Return</u>	120.15	1.13%	118.30	1.09%
<u>Benchmark Returns</u>	2015/2016		2016/2017	
	Offer (LIBOR)	Bid (LIBID)	Offer (LIBOR)	Bid (LIBID)
Average	0.63%	0.51%	0.47%	0.35%

Notes:

The 'Benchmark Return' figures are based upon Global Rates (national interest rate reporting web-site) average money market LIBOR and LIBID rates for periods between 1 night and 1 year as at 31st March 2017.

The Council started using Enhanced Cash Funds during 2016/17 as these offer better rates than money market funds. Enhanced Cash Funds are used for a longer term period, hence the better rates achieved.

- 3.7 Total interest and dividends of £922,000 have been earned on the Council's deposits during 2016/17 at an average rate of 1.09%. This exceeded the budget of £899,000. The rate of return compares favourably with the average benchmark rates.
- 3.8 The Council deposited an additional £5m with the CCLA Local Authorities' Property Fund on 30th November 2016 (now totalling £15m). The interest earned for 2016/17 amounted to £546,000

(included in paragraph 3.7) which equated to an annual yield of 4.84%.

3.9 A summary of deposits is shown at Appendix A.

4. Interest Rate Update

4.1 Capita Asset Services is the Council's independent treasury advisor. In support of effective forecasting the Council needs to be aware of the potential influence of market interest and investment rates. Capita's opinion is presented at Appendix B, and provides an overview as at 31st March 2017.

4.2 The Bank of England's May 2017 Inflation Report gives additional information on growth, inflation and interest rates. The Bank of England's Monetary Policy Committee (MPC) noted that the outlook for growth remains reasonably solid. No changes to interest rates (0.25%) or quantitative easing (£435bn) were made. Noticeable increases in employment were observed, but the MPC expressed concerns around the possible impact of the EU Referendum.

Growth had also moderated to around 1.5% by the second half of last year. The MPC sets monetary policy to meet the 2% inflation target, which helps to sustain growth and employment. However, CPI Inflation has risen above this target as the depreciation of sterling has begun to feed through to consumer prices.

5. Prudential and Treasury Indicators

5.1 During the financial year the Council operated within the 'authorised' and 'operational' borrowing limits contained within the Prudential Indicators set out in the Council's Treasury Management Strategy Statement. The outturn for Prudential and Treasury Indicators is shown in Appendix C.

6. Revisions to the Counterparty List

6.1 Following a review of rating agency methodology changes, Capita continues to revise its recommendations on counterparties and appropriate durations. The Council follows Capita's recommendations as reflected in the Current Counterparty List at Appendix D.

6.2 Fitch Rating Agency has amended its Volatility Rating (VR) Scales for Enhanced Cash Funds to 'S1' - 'S6' (formerly 'V1' - 'V6'). S1 being the lowest VR risk of loss through market movement. These changes have been reflected within Appendix D. The VR shows the probability of any potential loss amount due to market risk.

6.3 **Market risk** is the risk of losses in positions arising from movements in market prices.

6.4 For clarity, therefore, this Council will use the following revised ratings (and not below these) when evaluating which Enhanced Cash Fund to invest in:-

Standard & Poor's – AAAf/S1

Fitch – AAA/S1

7. **Implications**

(a) **Financial Implications**

Interest payable and receivable are reflected in the Council's existing budgets and reviewed appropriately.

(b) **Staffing Implications**

None.

(c) **Equality & Poverty Implications**

No negative impacts identified.

(d) **Environmental Implications**

None.

(e) **Procurement**

None.

(f) **Consultation and communication**

None required.

(g) **Community Safety**

No community safety implications.

8. **Background papers**

8.1 None.

9. Appendices

- 9.1 Appendix A – The Council's deposits as at 31st March 2017
- Appendix B – Capita's opinion on UK interest rates
- Appendix C – Prudential Indicators – Outturn for 2016/17
- Appendix D – Current Counterparty List
- Appendix E – Glossary of Terms and Abbreviations

10. Inspection of papers

- 10.1 To inspect the background papers or if you have a query on the report please contact:

Author's Name:
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TREASURY MANAGEMENT POSITION AS AT 31st March 2017

CURRENT DEPOSITS

The Council's deposits as at 31st March 2017 are shown in the table below:-

Counterparty	% Rate	Duration	Principal (£'000)
Fixed Term Deposits			
Bank of Scotland Plc	0.45	3 months	6,000
Bank of Scotland Plc	0.60	6 months	2,000
Bank of Scotland Plc	0.60	6 months	2,000
Bank of Scotland Plc	0.60	6 months	2,000
Bank of Scotland Plc	0.55	6 months	3,000
Bank of Scotland Plc	0.45	3 months	2,000
Bank of Scotland Plc	0.45	3 months	3,000
Liverpool City Council	0.70	2 years	5,000
Lloyds Bank Plc	0.55	6 months	2,500
Lloyds Bank Plc	0.60	6 months	7,500
Lloyds Bank Plc	0.60	6 months	5,000
Nottingham City Council	0.31	1.5 months	2,000
Newcastle-upon-Tyne City Council	0.95	2 years	2,000
Newcastle-upon-Tyne City Council	0.95	2 years	4,000
Newport City Council	1.10	28 months	3,000
Newport City Council	1.00	28 months	3,000
North Lanarkshire Council	0.95	2 years	5,000
Rugby Borough Council	0.60	2 years	5,000
Surrey Heath Borough Council	0.40	3 months	2,000
West Dunbartonshire Council	0.95	2 years	5,000
Total Fixed Term Deposits			71,000
Variable Rate Notice Accounts			
Barclays Bank Plc	0.15	Same Day Notice	435
CCLA Local Authorities' Property Fund	4.58	5 years	15,000
SLI Sterling Liquidity Fund (Class 2)	0.28463	Same Day Notice	12,200
BNP Paribas Insticash Sterling (Institutional)	0.29799	Same Day Notice	2,000
Payden Sterling Reserve Fund	0.68239	4 Day	5,000
Royal London Cash Plus Fund Y (Gross Inc)	0.59392	3 Day	5,000
Total Variable Rate Notice Accounts			39,635
TOTAL	-	-	110,635

The above deposits include any forward-deals or forward-renewals that have been agreed (i.e. where the deposit/renewal will take place at a future date).

CAPITA'S OPINION ON UK INTEREST & INVESTMENT RATES AS AT 31ST MARCH 2017

The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.50% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.20% GDP growth, the three subsequent quarters of 2016 came in at +0.60%, +0.50% and +0.70% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

Capita's Prediction for Interest Rates

The following table shows when Capita predict interest rates will rise, together with an estimate of other interest rates. Capita estimate that the Bank Rate will rise from 0.25% to 0.50% in June 2019.

	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
BANK RATE	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
3 month LIBID	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.60	0.70	0.80	0.90
6 month LIBID	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.50	0.60	0.70	0.80	0.90	1.00
12 month LIBID	0.60	0.60	0.60	0.60	0.70	0.70	0.80	0.80	0.90	1.00	1.10	1.20	1.30	1.40
5 yr PWLB	1.20	1.20	1.40	1.40	1.50	1.60	1.70	1.70	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.90	1.90	2.00	2.10	2.20	2.30	2.30	2.40	2.40	2.50	2.50	2.60	2.80	2.70
25 yr PWLB	2.60	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.30
50 yr PWLB	2.40	2.40	2.50	2.60	2.70	2.70	2.80	2.80	2.90	2.90	3.00	3.00	3.10	3.10

Capita's Issue Date:- 17th May 2017

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Actual 2015/16 £'000	Current Budget* 2016/17 £'000	Actual 2016/17 £'000
PRUDENTIAL INDICATORS			
Capital expenditure			
- General Fund	26,430	44,584	19,965
- HRA	32,572	25,487	22,618
Total	59,002	70,071	42,583
Capital Financing Requirement (CFR) as at 31 March			
- General Fund	5,976	27,899	10,697
- HRA	214,457	214,748	214,321
Total	220,433	242,647	225,018
Change in the CFR (Note 2)	4,421	22,214	4,585
Deposits at 31 March (Note 3)	96,060	95,486	110,635
External Gross Debt	213,572	213,572	213,572
Ratio of financing costs to net revenue stream			
-General Fund	-3.51%	-1.28%	-1.82%
-HRA	17.03%	16.14%	16.96%
Total	13.52%	14.86%	15.14%

*Note1: Refers to the Council's Budget Setting Report 2016/17 as agreed by Council on 23rd February 2017.

Note 2: Includes unfinanced capital expenditure of £4,720k and statutory adjustment for HRA non-dwelling revaluation losses

Note 3: As per the Council's Balance Sheet.

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Actual 2015/16 £'000	Current Budget* 2016/17 £'000	Actual 2016/17 £'000
TREASURY INDICATORS			
Authorised limit			
for borrowing	250,000	250,000	250,000
for other long term liabilities	0	0	0
Total	250,000	250,000	250,000
HRA Debt Limit	230,839	230,839	230,839
Operational boundary			
for borrowing	220,433	242,647	225,018
for other long term liabilities	0	0	0
Total	220,433	242,647	225,018
Upper limit for total principal sums deposited for over 364 days & up to 5 years	40,000	50,000	50,000
Upper limit for fixed & variable interest rate exposure			
Net interest on fixed rate borrowing/deposits	6,141	7,140	7,062
Net interest on variable rate borrowing/deposits	-29	-27	-27
Maturity structure of new fixed rate borrowing		Upper Limit	Lower Limit
10 years and above (PWLB borrowing for HRA Reform)		100%	100%

*Note1: Refers to the Council's Budget Setting Report 2016/17 as agreed by Council on 23rd February 2017.

Annual Treasury Management (Outturn) Report 2016/17

Current Counterparty List

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits. These counterparties have also been shown under Specified and Non-Specified Investments (in line with DCLG Guidance).

Name	Council's Current Deposit Period	Category	Limit (£)
Specified Investments:-			
All UK Local Authorities	N/A	Local Authority	20m
All UK Passenger Transport Authorities	N/A	Passenger Transport Authority	20m
All UK Police Authorities	N/A	Police Authority	20m
All UK Fire Authorities	N/A	Fire Authority	20m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Barclays Bank Plc	Using Capita's Credit Criteria	UK Bank	25m
HSBC Bank Plc	Using Capita's Credit Criteria	UK Bank	20m
Standard Chartered Bank	Using Capita's Credit Criteria	UK Bank	20m
Bank of Scotland Plc (BoS)	Using Capita's Credit Criteria	UK Bank	20m
Lloyds Bank Plc	Using Capita's Credit Criteria	UK Bank	20m
National Westminster Bank Plc (NWB)	Using Capita's Credit Criteria	UK Nationalised Bank	20m
Santander UK Plc	Using Capita's Credit Criteria	UK Bank	5m
The Royal Bank of Scotland Plc (RBS)	Using Capita's Credit Criteria	UK Nationalised Bank	20m
Other UK Banks	Using Capita's Credit Criteria	UK Banks	20m

Name	Council's Current Deposit Period	Category	Limit (£)
Members of a Banking Group (RBS Group includes NWB)	Using Capita's Credit Criteria	UK Banks and UK Nationalised Banks	30m
Svenska Handelsbanken	Using Capita's Credit Criteria	Non-UK Bank	5m
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/S1)	Over 3 months and up to 1 year	Financial Instrument	10m (per single counterparty)
Money Market Funds	Liquid Rolling Balance	Financial Instrument	15m (per fund)
Custodian of Funds	Requirement for Undertaking Financial Instruments	Fund Managers	Up to 15m (per single counterparty)
UK Government Treasury Bills	Up to 6 months	Financial Instrument	15m
Other Specified Investments - UK Building Societies:-			
Name	Council's Current Deposit Period	Society Asset Value (£'m) – as at 5 th May 2017	Limit (£)
Nationwide Building Society	1 month or in line with Capita's Credit Criteria, if longer	207,622	Assets greater than £100,000m - £20m
Yorkshire Building Society		45,162	
Coventry Building Society		37,632	Assets between £50,000m and £99,999m - £5m
Skipton Building Society		17,827	
Leeds Building Society		16,485	
Principality Building Society		8,124	Assets between £5,000m and £49,999m - £2m
West Bromwich Building Society		5,725	
Non-Specified Investments:-			
Name	Council's Current Deposit Period	Category	Limit (£)
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	Up to 35m (in total)
Cambridge City council Housing Working Capital Loan Facility	Up to 1 year	Loan	200,000

Name	Council's Current Deposit Period	Category	Limit (£)
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 15m
Certificates of Deposit (with UK Banking Institutions)	Liquid Rolling Balance	Financial Instrument	15m (per single counterparty)
Certificates of Deposit (with UK Building Societies)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Certificates of Deposit (with Foreign Banking Institutions)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Commercial Property Investments funded from cash balances	Over 1 year	Commercial Property	20m (in total)
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/S1)	Over 1 year and up to 5 years	Financial Instrument	10m (per single counterparty)
Municipal Bonds Agency	N/A	Pooled Financial Instrument Facility	50,000
Supranational Bonds – AAA	Using Capita's Credit Criteria	Multi-lateral Development Bank Bond	15m
UK Government Gilts	Over 1 year & up to 30 Years	Financial Instrument	15m

Note: In addition to the limits above, the total non-specified items over 1 year will not exceed £50m.

Treasury Management – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counter-parties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
DCLG	Department for Communities & Local Government
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord

Term	Definition
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
London Interbank Offered rate (LIBOR)	A benchmark rate that some of the leading banks charge each other for short-term loans
London Interbank Bid Rate (LIBID)	The average interest rate which major banks London banks borrow Eurocurrency deposits from other banks
Liquidity	A measure of how readily available a deposit is
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Minimum Revenue Provision (MRP)	Revenue charge to finance the repayment of debt
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
Quantitative Easing (QE)	A financial mechanism whereby the Central Bank creates money to buy bonds from financial institutions, which reduces interest rates, leaving businesses and individuals to borrow more. This is intended to lead to an increase in spending, creating more jobs and boosting the economy
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates
Security	A measure of the creditworthiness of a counter-party
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury

Term	Definition
Yield	Interest, or rate of return, on an investment