Report to:	Cabinet	**Date of Meeting:**	Thursday 5 October 2017
Subject:	Revenue and Capital Budget Update - Treasury Management Outturn 2016/17		
Report of:	Head of Corporate Resources	**Wards Affected:**	All Wards
Portfolio:	Regulation, Compliance and Corporate Resources		
Is this a Key Decision:	No	**Included in Forward Plan:**	No
Exempt / Confidential Report:	No		

Summary:

To inform members of performance against Prudential Indicators, and Treasury Management activities undertaken for 2016/17.

Recommendation(s):

Cabinet and Council are asked to note the Council's outturn position and its performance against its 2016/17 prudential indicators.

Reasons for the Recommendation(s):

To ensure that Cabinet and Council is fully appraised of performance against prudential indicators, and of Treasury activity undertaken in 2016/17.

Alternative Options Considered and Rejected: (including any Risk Implications)

None.

What will it cost and how will it be financed?

(A) Revenue Costs
None

(B) Capital Costs
None

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): None
Legal Implications: The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and Treasury Management Activities.
Equality Implications: There are no equality implications.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: n/a
Drivers of change and reform: n/a
Facilitate sustainable economic prosperity: n/a
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Head of Corporate Resources (FD 4856/17) is the author of the report.

The Head of Regulation and Compliance (LD 4140/17) has been consulted and has no comments on the report.

(B) External Consultations

None.

Implementation Date for the Decision

Immediately following the meeting.

Contact Officer:	Tom Walmsley
Telephone Number:	0151 934 4042
Email Address:	thomas.walmsley@sefton.gov.uk

Appendices:

None

Background Papers:

There are no background papers available for inspection.

BACKGROUND:

1. **Introduction**

1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. The Prudential Code details a number of measures/limits/parameters (Prudential Indicators) that, to comply with legislation, must be set in respect of each financial year to ensure that the Council is acting prudently and that its capital expenditure proposals are affordable. Original Prudential Indicators for 2016/17 were approved on 18th February 2016.

1.2. A requirement of the Prudential Code is the reporting to Cabinet and Full Council of the outturn position of Prudential Indicators following the end of financial year. In accordance with this requirement, this report outlines the 2016/17 outturn for the following Prudential Indicators:-

(i) Capital Expenditure (Sections 2);
(ii) Financing Costs/Net Revenue Stream (Section 3);
(iii) Capital Financing Requirement (Section 4);
(iv) Borrowing Limits (Section 5);
(v) Treasury Management Indicators (Section 6).

1.3. The Treasury Management Policy and Strategy Statements are agreed annually by the Council as part of the budget process. A requirement of the Policy Statement is the reporting to Cabinet and Full Council of the results of the Council's treasury management activities in the previous year. Treasury management in this context is defined as:

'The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

1.4. In accordance with the above this report outlines the results of treasury management activities undertaken in 2016/17 covering the following issues:

- borrowing strategy and practice
- the Council's current Debt Portfolio
- compliance with Treasury Limits
- compliance with Prudential Indicators
- investment strategy and practice.

1.5. The results of treasury management activities in 2016/17 are also reflected in the net expenditure on Capital Financing Costs included within the Council's Revenue Budget.

1.6 The Capital Programme is also agreed annually as part of the budget process. It sets out the anticipated capital expenditure to be incurred within the year.

2. Prudential Indicator 2015/16 – Capital Expenditure

2.1. Prudential indicators are an integral component of measuring how prudently a Council is acting with regard to its finances. They were introduced into all local authorities (by CIPFA) following the Local Government Act 2003. A number of measures/limits/parameters including capital financing, external debt, impact on council tax, and treasury management are set prior to the start of the year and are monitored on a monthly basis.

The original estimate for 2016/17 expenditure together with the actual capital expenditure calculated on an accruals basis for the financial year is as follows:

	£'000
Estimate	20,815
Actual	22,390

2.2 The Capital Programme for 2016/17 shows an increase in expenditure of £1.575m when compared to the original estimate of £20.815m. This movement has been caused by the approval of additional schemes throughout the year and additional identification of capitalisation.

3. Prudential Indicator 2016/17 – Financing Costs/Net Revenue Stream

3.1. This indicator measures the financing costs of capital expenditure as a proportion of the net resource expenditure of the General Fund.

3.2. The actual percentage achieved against estimate is as follows:

Estimate	4.0%
Actual	1.7%

3.3 The reduction has been caused by lower than estimated borrowing costs, as a result of a change to the Minimum Revenue Provision (MRP) for Debt Repayment Policy in 2015/16 as agreed by Council on 5th March 2016.

4. Prudential Indicator 2016/17 – Capital Financing Requirement

4.1. The Capital Financing Requirement indicator reflects the Authority's underlying need to borrow for capital purposes. The Council is currently internally borrowed which is a temporary position. This reflects the current national low interest rates for investment of cash balances and the need to find savings for the revenue budget. The decision as to when external borrowing (to finance previous years' capital expenditure) will be undertaken will be kept under review (see also Para. 5.4.3).

4.2. The Capital Financing Requirement is based on historic capital financing decisions and the borrowing requirement arising from the financing of actual capital expenditure incurred in 2016/17. The estimate and the actual Capital Financing Requirement at 31/03/17 are detailed below:

	£'000
Estimate	199,000
Actual	203,836

4.3. The actual level of Total Capital Financing Requirement as at 31st March 2017 is higher than the estimate. This is due to the reclassification of the Probation Service debt as part of the changes to the MRP policy. and due to a revision in the 2016/17 MRP charge in the last quarter of the 2016/17 financial year. A one off reduction in prior year charges caused the annual MRP charge to be reduced, which resulted in an increase in the CFR and a breach of the prudential indicator.

4.4. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key factor of prudence:

> *"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".*

In the report to Cabinet in March 2016, it was stated that the Authority would comply with this requirement in 2016/17. During the financial year, net external borrowing did not exceed the total of the Capital Financing Requirement.

5. Prudential Indicator 2016/17 – Borrowing Limits

5.1. External borrowing undertaken by the Council arises as a consequence of all the financial transactions of the authority, both capital and revenue, and not simply those arising from capital spending. During 2016/17, the Council managed its Treasury position in terms of its external borrowings and investments in accordance with its approved Treasury Management Strategy and established an Operational Boundary and Authorised Limit to manage the level of external debt. These items are described below.

5.2. The Operational Boundary 2016/17

5.2.1. The Operational Boundary sets a limit on the total amount of long term borrowing that the Council can enter into. It reflects the Authority's current commitments, existing capital expenditure plans, and is consistent with its approved Treasury Management Policy Statement and practices.

5.2.2. The estimate and actual outturn for 2016/17 are presented below:

	£'000
Estimate	155,500
Actual	114,705

5.2.3 The actual borrowing is lower that the revised estimate, reflecting the internally borrowed position of the Council, with the projected £11.5m of borrowing budgeted for 2015/16 and £3.9m budgeted for 2016/17 not being taken. The estimate also assumed that £10m of loans repaid in August 2015 and £10m repaid in August 2016 would be replaced, however they were not. It should be noted that the estimate also contains borrowing headroom of £5m which was not required during the year.

5.3. The Authorised Limit 2016/17

5.3.1. The Authorised Limit sets a limit on the amount of external borrowing (both short and long term) that the Council enters into. It uses the Operational Boundary as its base but also includes additional headroom to allow, for example, for exceptional cash movements.

5.2.3. The estimate and actual outturn for 2016/17 are presented below:

	£'000
Estimate	170,500
Actual	114,705

The variation reflects the position for the Operational Boundary and the fact that no exceptional cash movements were required.

5.4. Borrowing Strategy and Practice 2016/17

5.4.1 In 2016/17, repayments of £10m were made to The Public Works Loan Board (PWLB) for the principal element of maturity loans.

5.4.2 The Council's external debt activity in the year is summarised in the following table:

	£'000
Opening PWLB Debt 01/04/2016	110,177
Less Repayment Principal Loans	-10,000
Add New Borrowing	0
Closing PWLB Debt 31/03/2017	100,177

5.4.3 It can be noted that the policy of internally borrowing, running down the Authority's cash balances rather than taking out new borrowing or replacing maturing loans, continued in 2016/17. Under present economic conditions, it is considered prudent not to borrow for capital purposes. This provides a financially beneficial position, in revenue terms, for the Council. As the economy improves and interest rates increase, this strategy will need to be reviewed, with external borrowing re-starting as interest rates allow. Our treasury management advisors, Sector, will provide support to the Council in determining the most appropriate timing for any new borrowing.

5.5. **Current External Debt Portfolio 2016/17**

The Council's current debt portfolio, taking account of the transactions detailed in paragraph 5.4, can be summarised as follows:

DEBT PORTFOLIO:		
	2015/16	**2016/17**
Average Interest Rate Payable on PWLB Debt in Year	4.52%	4.75%
Debt Outstanding	**31-Mar-16**	**31-Mar-17**
	£'000	**£'000**
PWLB	110,177	100,177
Finance Leases	12,275	10,590
Merseyside Residuary Body	4,376	3,938

5.5.1 The movement in debt reflects the financing decisions taken in paragraph 5.4.3.

5.5.2 The level of the Council's actual external debt has also been monitored throughout the financial year and for information had remained within both of the Prudential Indicators set.

6. **Debt Maturity Profile 2016/17**

6.1 This is a profile measuring the amount of borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate.

Fixed Rate Debt Maturity	**Upper Limit**	**Lower Limit**	**Actual 31/03/2017**
Under 12 months	35%	0%	0%
12 months and within 24 months	40%	0%	0%
24 months and within 5 years	40%	0%	3%
5 years and within 10 years	40%	0%	33%
10 years and above	90%	25%	64%

6.2 As can be seen our debt profile highlights that most of our debt is due to mature in 10 years and above, reflecting the internal borrowing position of the Council, as no new borrowing has been undertaken in recent years.

7. Compliance with Treasury Limits 2016/17

7.1 The following Treasury Limits were approved by Council during the 2016/17 Budget Setting process:

Treasury Limits 2016/17	Limit	Actual
Authorised Borrowing Limit	£170.5m	£114.7m
Short Term Borrowing Limit	£15.0m	£0m
Proportion of variable interest rate External Borrowing	33%	0%

7.2 During the financial year the Council operated within these limits.

8. Interest rate exposure 2016/17

8.1. The following Prudential Indicators were approved for the 2016/17 financial year:

i) **Interest Rate Exposure Indicators**

a) an upper limit of debt outstanding less investments held at fixed interest rates of 340% and a lower limit of 120% of the value of total debt outstanding less total investments;

Actual at 31/03/2017 125% fixed

b) an upper limit of debt outstanding less investments held at variable interest rates of -20% and a lower limit of -240% of the value of total debt outstanding less total investments.

Actual at 31/03/2017 -25% variable

Hence all of the above are within the limit set.

ii) **Non Specified Investment Indicator**

An upper limit on the value of non-specified investments of 40% of total investments. Non specified investments are defined as over 2 years but less than 5 years;

Actual at	**31/03/2017**	18%	CCLA

The Investment is with the Church, Charities and Local Authorities (CCLA) Property Fund. Once again this is within the limit set.

9. <u>Investment Strategy and Practice 2016/17</u>

9.1. The Council invests all available cash balances, which includes school balances and the insurance fund, following a policy of obtaining maximum returns whilst minimising risks.

i) **Externally Managed Investments**
No externally managed funds are held.

ii) **Internally Managed Investments**
The Council's available funds averaged £59.652m and were managed internally with advice from our Treasury Consultants.

In 2016/17 an average return of 0.94% was achieved. This is more than the benchmark 7 day LIBID figure of 0.11% and is considered to be an acceptable return. The majority of the funds are invested with banks and Money Market Funds (MMF's), with £5m invested with the CCLA Property Fund. The return of 0.94% can be disaggregated into a return of 0.54% on bank and MMF investments, whilst 5.13% was returned by the CCLA investment. The key objective when investing funds is to firstly ensure security, then liquidity, and then yield.

9.2. The level of the Council's investments is summarised in the following table:

Investments	**31-Mar-16 £m**	**31-Mar-17 £m**
Total Investment of Cash Balances	43.52	28.01

This year on year reduction is due to the Council's current position of being internally borrowed. £10m of PWLB loans were repaid in 2016/17 with no new borrowing undertaken; hence cash balances available for investment were lower when compared to the previous year.