7 September 2016	ITEM: 12 Decision 01104382
Cabinet	
Treasury Management Outturn 2015/2016	
Wards and communities affected: None	**Key Decision:** Yes
Report of: Councillor Shane Hebb, Cabinet Member for Finance and Central Services	
Accountable Head of Service: Sean Clark, Director of Finance & IT	
Accountable Director: Sean Clark, Director of Finance & IT	
This report is Public	

Executive Summary

The Revised CIPFA Prudential Code requires that a Treasury Management Outturn report is produced after the financial year end.

In accordance with the Revised CIPFA Prudential Code, this report

(a) reviews borrowing and investment activity for 2015/16; and

(b) reports the treasury outturn position for 2015/16.

It is noted the Council has made net savings against the General Fund budget of £3.8m and net savings against the HRA budget of £1.1m which has supported the delivery of a balanced budget in 2015/16.

1. Recommendation(s)

1.1 In line with the Treasury Management Policy Statement approved by Council on 12 February 2015 and the CIPFA Code of Practice, the Cabinet is asked to comment on the borrowing and investment performance for 2015/16.

2. Introduction and Background

2.1 The Treasury Management Outturn 2015/16 report is prepared under the terms of the CIPFA Prudential Code.

2.2 The report presents details of borrowing and investment transactions that took place in 2015/16 and also reports the revenue outturn position on Treasury Management transactions for 2015/16

3. Issues, Options and Analysis of Options

3.1 The Council's borrowing activity during 2015/16 is summarised in table 1 below:

Table 1 **Source of loan**	**Outstanding Debt 1April 2015** **£000's**	**New loans Raised** **£000's**	**Loans Repaid** **£000's**	**Outstanding Debt 31March 2016** **£000's**
Public Works Loan Board (PWLB)	160,889	0	0	160,889
Market Loans	29,753	650	200	30,203
LT Debt	190,642	650	200	191,092
Temporary Market Loans	119,750	314,350	269,500	164,600
Total Debt	**310,392**	**315,000**	**269,700**	**355,692**

3.2 There is a net increase in Long Term Loans of £0.65m. This is made up of 2 elements. The Council was granted a loan from the South East Local Enterprise Partnership (SELEP) in the prior year and this increased by £0.65m of additional borrowing. A further £0.2m was paid off on the original amount received in the prior year of £0.75m.

3.3 There is a net increase in temporary market loans of £44.85m. The Council continues to take advantage of lower interest rates available by borrowing on a short term temporary basis. The additional funds have been taken to provide the repayable funding to Gloriana Thurrock Ltd, fund capital schemes on both a short term basis and also to ensure the funding is in place as major capital schemes come forward. This also supports the short term cashflow position of the Council. Finally this also includes an additional balance of £0.75m which was loaned to the Council by High House Production Park to invest on their behalf.

3.4 The Council has an underlying need to borrow known as the Capital Financing Requirement (CFR). The calculated CFR for the Council for

2015/16 was £339.2m. This is compared to the Council's actual debt plus General Fund reserves (totalling £323.1m) to calculate the Council's Borrowing Requirement of £16.1m for 2015/16. This represents the maximum amount the Council is able to increase long term borrowing in the financial year. Generally the Council's overall long term borrowing should not exceed the CFR.

3.5 The Borrowing Requirement for 2015/16 relates to long term borrowing. In consultation with the Council's treasury advisors, Arlingclose, it was decided not to borrow any further long term debt before the end of the financial year and to either fund the requirement through use of internal balances or short term temporary borrowing. Hence the Borrowing Requirement was not further reduced in 2015/16. (Note the additional long term balance in Table 1 of £1.2m (net) is repayable finance with no interest charged to the Council and does not support the long term capital objectives of the Council and is hence excluded from this calculation.)

3.6 As noted above the Council provides funding to Gloriana Thurrock Ltd as required to support the projects undertaken by the wholly owned company. At the end of 2015/16 Gloriana Thurrock Ltd had spent a total of £10.5m funded in this way. This amount is split between debt (86%) and equity (14%) The Council has borrowed a total of £8m on a short term basis with the remainder being met from internal balances. The Council will continue to fund the company as required.

3.7 Table 2 below illustrates the maturity profile of the Council's debt portfolio. The £165.80m maturing in 1-25 years is made up of £163.85m temporary debt taken to cover cash flow requirements, finance the PWLB restructuring and fund Gloriana Thurrock Ltd that all mature in 2016/17. This also includes the £1.2 million SELEP loan and £0.75m held on behalf of High House Production Park. All of the Council's remaining long term debt matures between 26 and 50 years. The HRA Financing Settlement loans mature from 2056/57 onwards. This maturity profile occurs as a result of the continuing historical low in interest rates and the decision taken to borrow longer at the lowest rates available.

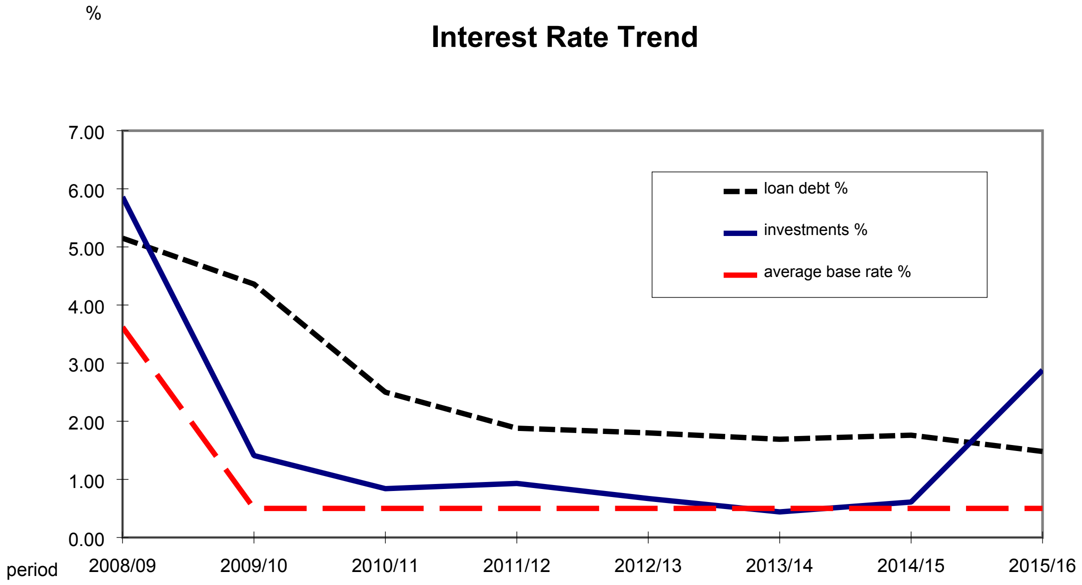
Table 2

Period	**PWLB £000's**	**Market £000's**	**Average Rate %**
1 – 25 years	0	165,803	0.52
26 – 35 years	0	18,000	6.90
36 – 40 years	0	11,000	5.18
41 – 45 years	125,000		3.50
46 – 50 years	35,889		3.48
Total	**160,889**	**194,803**	

3.8 During 2010/11 the Council undertook a rescheduling exercise whereby the entire PWLB portfolio was repaid. This rescheduling has continued to contribute positively to the outturn of the General Fund as shown in paragraph 7.1 Table 6. Officers continue to monitor the economic projections relating to interest rates and will take action to fix rates as necessary.

3.9 The average interest rate paid on the Council's general fund external borrowings in 2015/16 was 1.48% (1.77% in 2014/15) while the corresponding figure for interest earned on investments was 2.88% (0.61% in 2014/15).

Table 3



The trend in interest rate movements is set out in the Table 3 above and this illustrates:

- the Council's average borrowing rate has fallen from 5.15% in 2008/09 to 1.48% in 2015/16.
- that investment returns have increased following the investment in the Church Charities and Local Authorities (CCLA) Property Fund in 2014/15.

3.10 During the year the Council operated within the specified limits set out in the Council's Treasury Policy Statement.

2015/16 Investment Transactions

3.11 The movements in the Council's investments are as follows:

Table 4		Fund Managers £'000s	In-House £'000s	Total £'000s
1	Total at 1 April 2015	20,000	38,000	58,000
2	New Investments	30,000	2,458,450	2,488,450
3	Investments Redeemed	0	2,481,650	2,481,650
4	**Total at 31 March 2016**	**50,000**	**14,800**	**64,800**

3.12 During 2015/16 the Council invested a further £30m in the CCLA Property Fund to benefit from the returns available.

3.13 The balances in the In-House column largely relate to investments held on an overnight basis. The continuing effect of the financial crisis has led to the Council reducing its investment counterparty list and it has often been difficult to find counterparties to invest with for longer periods. This has therefore led to more funds being placed on an overnight basis increasing the turnover of the In-House investments in lines 2 and 3 in the above table. The overall net increase in these investments is £14.8m.

3.14 At 31 March 2016 the money was invested with the following types of institutions:

Table 5	£ 000's
Banks	1,000
Building Societies	11,000
CCLA Property Fund	50,000
UK Local Authority	2,800
Total	**64,800**

3.15 All investments made in 2015/16 have been with organisations listed in the Borrowing and Investment Annual Strategy, which was presented to Council on 12 February 2015, and the total sums invested with individual institutions have been contained within the limits specified therein.

Investment Returns

3.16 The net dividend (after the deduction of fees) achieved by the CCLA property fund in the year was 4.91% and totalled £1.676m.

3.17 The average rate achieved on the Council's directly managed investments in 2015/16 was 0.52% despite the need to finance day to day cash requirements, with the consequent variations in amounts available for investment. However no allowance is made for internal costs associated with Investments.

4. Reasons for Recommendation

4.1 There is a legal requirement for a Treasury Management Outturn Report to be submitted to Cabinet after the end of the financial year. This report and appendices have been written in line with best practice.

5. Consultation (including Overview and Scrutiny, if applicable)

5.1 The Council's Treasury Advisors, Arlingclose, have been consulted

6. Impact on corporate policies, priorities, performance and community impact

6.1 Treasury Management plays a significant support role in the delivery of services to the community. Since the debt restructure in August 2010, the function has contributed savings in the region of £18m.

7. Implications

7.1 Financial

Implications verified by: **Chris Buckley**
Senior Financial Accountant

The financial implications of the above treasury management activities on the Council's revenue budget are illustrated in the table below. The outturn position is compared against both the original and revised forecast.

Table 6		2015/16 Revised Budget £000's	2015/16 Actual outturn £000's	2015/16 Variance £000's
	Interest payable on external debt			
1	Net Interest charged to GF	2,980.0	2,497.0	-483.0
	Investment Income			
2	Interest on Investments	-1,055.0	-2,182.7	-1,127.7
3	Net Interest charged to GF	1,925.0	314.3	-1,610.7
4	MRP	5,800.0	3,654.0	-2,146.0
5	**Overall total**	**7,725.0**	**3,968.3**	**-3,756.7**

The savings in the above table result from a review of the calculation of the Council's MRP and the returns received from the CCLA Property Fund following increased investment in the fund.

The interest costs for the HRA in 2015/16 were £5.7m against a budget of £6.8m.

7.2 **Legal**

Implications verified by: **David Lawson**

Deputy Head of Law and Governance

In determining its affordable borrowing limits under section 3 of the Local Government Act 2003, the Council must have regard to the ''Prudential Code for Capital Finance in Local Authorities'' (revised Edition 2007) published by CIPFA. In carrying out its functions under Chapter 1, Part 1 of the Local Government Act 2003, the Council must have regard to the code of practice contained in the document ''Treasury Management in the Public Sector : Code of Practice and Cross-Sectoral Guidance Notes'' (Revised Edition 2009) published by CIPFA

7.3 **Diversity and Equality**

Implications verified by: **Natalie Warren**

Community Development & Equalities Manager

There are no specific implications from this report

7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

None

8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Revised CIPFA Prudential Code
- CLG Guidance on Local Government Investments
- Revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes
- Treasury Management Policy Statement
- 2015/16 Annual Investment Strategy
- Arlingclose's Investment Review.

9. Appendices to the report

- None

Report Author:

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