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Report of Deputy Chief Executive

Report to Executive Board

Date: 22nd June 2016

Subject: TREASURY MANAGEMENT OUTTURN REPORT 2015/16

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☑ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☑ No
Is the decision eligible for Call-In?	☑ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☑ No

Summary of main issues

1. This report sets out for Members' approval the Treasury Management Outturn Report for 2015/16.

2. This report shows that net external debt at 31st March 2016 was £1,620m, £94m higher than the February 2016 forecast. This movement is due to greater than anticipated reduction in revenue balances of £92m and an increase in the capital programme of £2m. The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £3.96bn as at 31st March 2015.

3. The level of debt has remained within the Authorised limit as approved by the Council in February 2015 although the gross debt has breached the operational boundary from 18th March to the year-end due to the above unanticipated reduction in revenue balances. Treasury Management operated within normal tolerance levels of its prudential indicators and resulted in no other breach of its prudential indicators throughout 2015/16.

4. Debt savings of £335k have been generated against the original budget. These savings have been generated through continuing to fund the borrowing requirement at low short term rates, despite a significant reduction in revenue balances.

5. The average rate of interest paid on the Council's external debt has decreased slightly to 3.91% for 2015/16 compared to 3.96% for 2014/15.

Recommendations

6. Executive Board are asked to note the Treasury Management outturn position for 2015/16 and that treasury activity has remained within the treasury management strategy and policy framework.

1 Purpose of this report

1.1 This report provides members with a final update on Treasury Management Strategy and operations in 2015/16.

2 Background information

2.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003, whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities (amended 2009 and 2011) in particular:

- The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of prudential indicators.
- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least twice a year.

3 Main Issues

3.1 Review of Strategy 2015/16

3.1.1 Table 1, below shows that net borrowing in 2015/16 was £1,620m, £94m above the February 2016 position which itself reflected an anticipated fall of £50m in revenue balances. This movement is due to a greater than anticipated reduction in revenue balances of £92m and an increase in the capital programme borrowing requirement of £2m.

TABLE 1

ANALYSIS OF BORROWING 2014/15	2015/16 Nov 15 Report £m	2015/16 Feb 16 Report £m	2015/16 This Report £m
Net Borrowing at 1 April	1,406	**1,406**	**1,406**
New Borrowing for the Capital Programme – GF	131	**120**	**122**
New Borrowing for the Capital Programme – HRA	0	**0**	**0**
Debt redemption costs charged to Revenue (Incl HRA)	(48)	**(36)**	**(36)**
Reduced/(Increased) level of Revenue Balances	(14)	**36**	**128**
Net Borrowing at 31 March*	1,475	1,526	**1,620**
Capital Financing Requirement**			**1,894**
Other long term liabilities capital financing requirement			**679**
* Comprised as follows			
Long term Fixed**	1,358	1,358	1,391
Variable (less than 1 Year)	0	0	0
New Borrowing	69	120	0
Short term Borrowing	54	60	237
Total External Borrowing	1,481	1,538	1,628
Less Investments	6	12	8
Net External Borrowing	**1,475**	**1,526**	**1,620**
% borrowing funded by short term and variable rate loans	8%	12%	15%

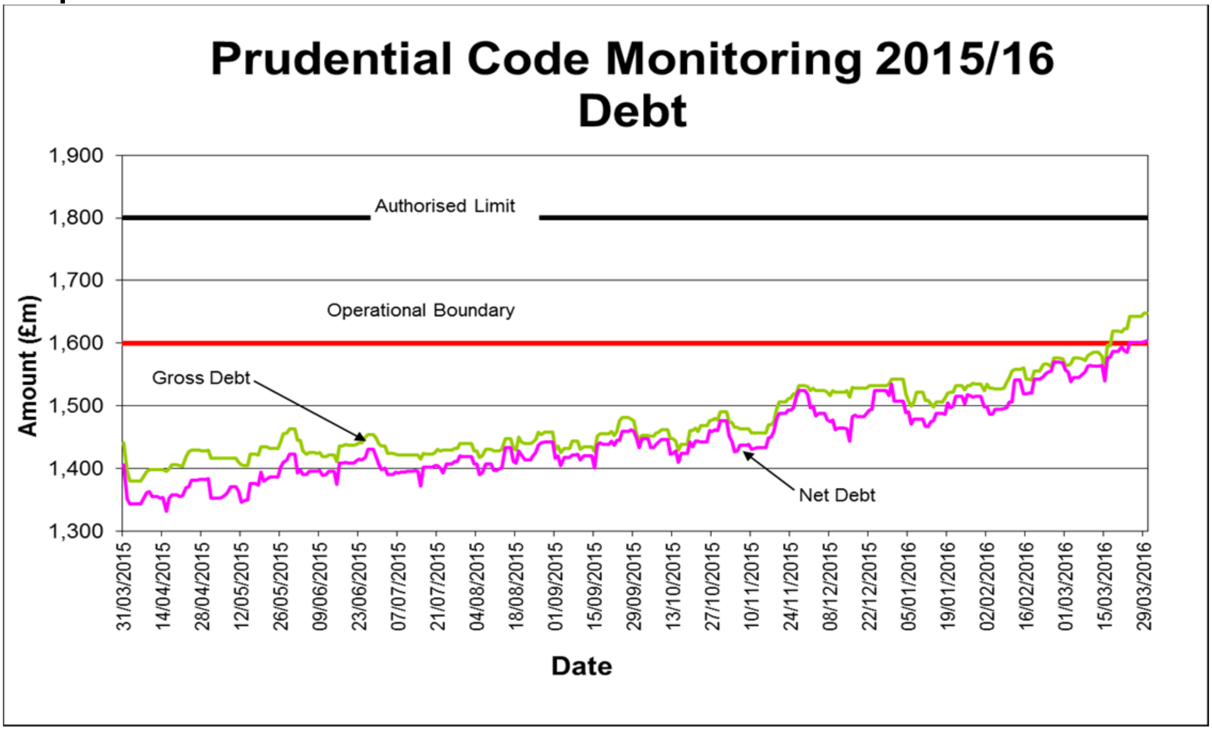
****Note:** The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

3.1.2 At this time the final balances sheet is not available but major known movements are a fall of £50.5m at outturn in reserves (including HRA) and £18.5m of Growing Places Fund resources which were paid over to WYCA or invested out during the year. Other movements are in capital receipts reserve, other provisions, capital grants unapplied and working capital. Item 3.3.3 in the February Strategy report detailed the expectation that the Council would continue to use internal revenue balances of approximately £366m to defray external borrowing. The actual use of available internal balances to fund net debt at 31/03/2016 was £274m a reduction of £92m. This reduction in balance sheet strength has resulted in a higher level of temporary borrowing at the year end.

3.1.3 The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £3.96bn as at 31st March 2015 the figure for 31/03/2016 is similarly not available at this time. The Capital programme outturn position is reported in section 6 of the June Financial Performance - Outturn Report to Executive Board.

3.1.4 Graph 1, below shows the level of debt during 2015/16 remained within prudential authorised limits during the year. The Authorised Limit is the maximum permitted amount of borrowing the Council can have outstanding at any given time and has not been breached during 2015/16. The operational boundary is a key management tool and can be breached temporarily depending on cash flow. This limit acts as a warning mechanism to prevent the authorised limit from being breached. From 18th March the Operational Boundary was breached and this was entirely due to the unanticipated reduction in revenue balances. Treasury management strategy has resulted in no other breach of its prudential indicators which are detailed in Appendix A. All of these other prudential indicators are within normal tolerance levels of treasury management.

Graph 1

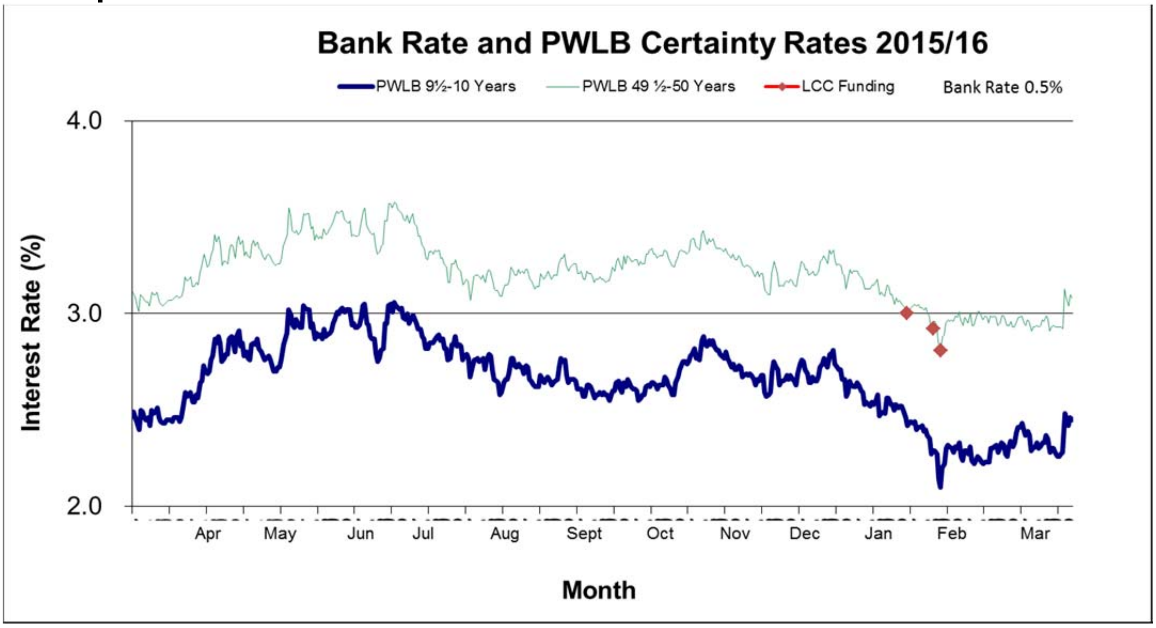


3.1.5 Since the economic update to Members in February, in the Treasury Management Strategy 2016/17, the economy has continued to expand but the pace has decreased during the year falling from 2.90% in quarter 1 to 2.1% in quarter 4. Some of the major economic themes in 2015/16 are detailed below:

- Indicators suggested that the economic recovery is continuing with growth in UK GDP of 0.5% in the 4th Quarter of 2015;
- Average earning have eased over the year with the 3 months to February print showing 1.9% annualised
- Inflation fell to its lowest level in many decades and stood at 0.5% at the year-end after spending most of 2015 at effectively zero. Inflation is expected to move back toward target over the 2 year time horizon;
- Unemployment continues to fall with the unemployment rate standing at 5.51% in the 3 months to February;
- The US economy continued to grow strongly on the back of resilient consumer demand which led to their first rate increase in December 2015. No further increases have been made as the FOMC is wary of concerns over the health of the world economy.
- Oil prices have continued to fall and at one stage fell below $30 per barrel although they have subsequently rebounded to $45 per barrel.
- Bond yields have been volatile during the year but the trend was broadly downwards.
- Another major theme during the year was the move by several central banks to introduce negative interest rates as a measure to stimulate credit and growth. The results of this will be watched by markets intently.
- Europe continued its QE programme of €1.1trn which began in January 2015 with €60bn of purchases. This has been expanded in December 2015 to €80bn from March 2016 to March 2017.
- Greece elected an anti-austerity government in January 2015 and over the summer of 2015 agreed a programme of cuts to meet its creditor's demands. Concerns remain that a Greek exit of the euro has merely been delayed.
- The referendum on UK remaining a member of the EU is adding to uncertainty in financial markets.
- Concerns over the Chinese economy began to rise mainly over its exposure to a bursting of the property bubble and exposure of its banking system to bad debts.
- Other world concerns centre on Middle East tensions and the Ukraine whilst Russia and Brazil has slipped into recession.
- The prediction for the first UK base rate increase has been steadily pushed back and as we enter the 8th year with base rate at 0.5% this trend continues. The Councils treasury management advisors, Capita, are currently forecasting Q1 2017 for the first rise however, this may be delayed further and is dependent on the successful resolution of many of the concerns outlined above.

3.1.6 Graph 2 below shows the movement in PWLB interest rates over the year. Due to global issues identified previously in this report gilt yields have largely remained range bound and PWLB rates have mirrored this trend. Both longer term (49½-50 year) and shorter term rates (9½-10 year) have varied during the year but have ended the year at rates very close to those at the start. This reflects the uncertainty around when the bank rate, which has remained anchored at 0.50%, will start to rise as well as responding to wider macro-economic effects such as oil etc. This graph also shows the long term funding activity undertaken as detailed in table 2 below.

Graph 2



3.1.7 Debt savings of £335k were reported in the Revenue Outturn report to Executive Board on 22nd June 2016. These savings have been generated through continuing to fund the borrowing requirement at low short term rates despite a greater need to borrow to offset the fall in internal borrowing due to the reduction in revenue balances.

3.1.8 Table 2 shows £32.575m of longer term funding was secured during the year. Of particular note is the £2.575m received from the WYCA at 0%. This funding was acquired after the preparation of the strategy report in February. The table also shows that no market loans were called during the entire year. These market loans are termed Lenders Option Borrowers Option (LOBO) and contain clauses which allow the lender, at pre-determined dates, to vary the interest rate on the loan. If one of these options is exercised and the new rate is not accepted, the borrower then has the option to repay the loan without penalty. One PWLB loan reached maturity and was repaid in March.

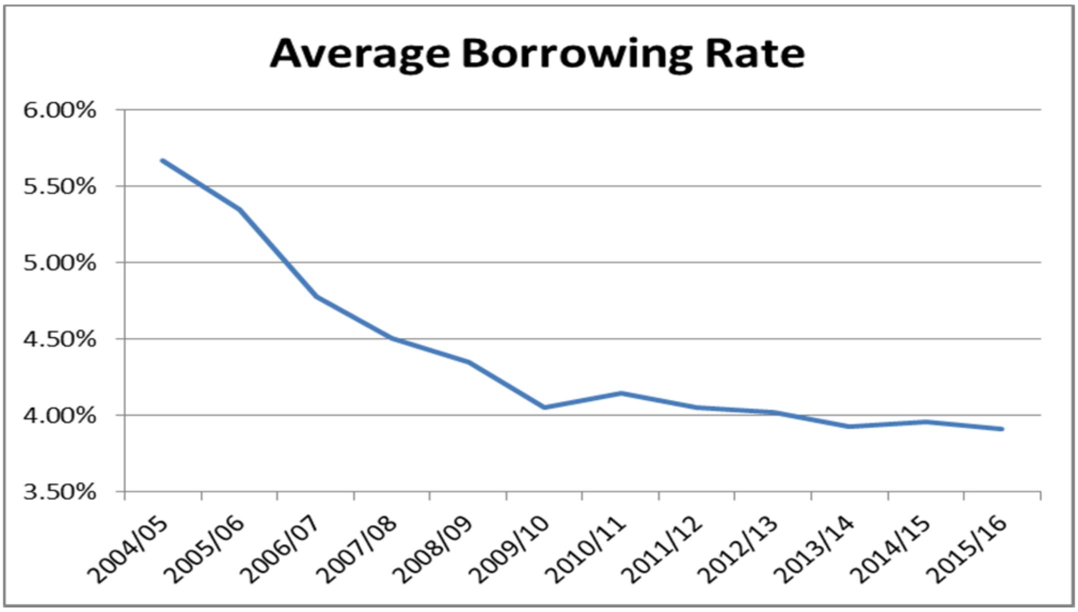
Table 2

Loan repayments and borrowing 2015/2016							
Loan Repayments				New Borrowing			
Date	Amount (£m)	Original Rate (%)	Discount Rate	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB Loans				PWLB			
04/03/2016	8.812	2.18	n/a	02/02/2016	10.000	50	3.00
				11/02/2016	10.000	50	2.92
				15/02/2016	10.000	50	2.81
Sub Total	**8.812**				**30.000**		
Non PWLB Loans				Non PWLB Loans			
(Call date)				WYCA			
				08/03/2016	2.000	11	0.00
				14/03/2016	0.575	11	0.00
Sub Total	**0**				**2.575**		
Total	**8.812**			**Total**	**32.575**		

3.2 Interest Rate Performance and Average Maturity Profile

3.2.1 The average rate of interest paid on the Council's external debt was 3.91% (down from 3.96%) as shown in Graph 3.

Graph 3



3.2.2 Whilst the average borrowing rate remains low it is important to note the average maturity profile of the Council's debt. The average length of all loans to final maturity including temporary loans is 32.5 years. The average length of all loans to the next option date including temporary loans is 21.8 years. This provides a large degree of funding certainty within the overall debt portfolio. Appendix B analyses debt as at 31st March 2016 by interest rate band and the year of maturity or first option date for LOBO loans. The final maturity of LOBO loans is shown as a memo item in the table at the bottom of Appendix B.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report is an update on strategy as presented to Executive Board in February, as such no consultation has taken place. However, consultation with the Council's treasury advisors takes place regularly throughout the year.

4.1.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the February capital programme report.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 Equality, diversity, cohesion and integration requirements are addressed as part of individual capital scheme and programme approvals. The borrowing to deliver these capital schemes is executed through treasury strategy and as such there are no further equality, diversity, cohesion and integration issues.

4.3 Council Policies and Best Council Plan

4.3.1 Treasury Management strategy secures funding for the council's capital programme that supports the authority's policies and priorities as set out in the Best Council Plan. These include our Best Council ambition to be an efficient and enterprising organisation.

4.4 Resources and Value for Money

4.4.1 This update on the treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the General Fund and HRA.

4.4.2 Debt savings of £335k against the budget have been delivered.

4.5 Legal Implications, Access to Information and Call In

4.5.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury management Policy Statement are approved by Council. Monitoring reports are considered by Executive Board and are subject to call in. There are no further legal, access to information or call in issues.

4.6 Risk Management

4.6.1 This report sets out performance against the 2015/16 treasury strategy. The execution of strategy and associated risks are kept under regular review through:

- Monthly monitoring of debt costs and reporting forms part of the monthly update on the Council's Revenue position to Executive Board.
- Quarterly strategy meetings with the Director of Resources and the Council's treasury advisors.
- Regular market, economic and financial instrument updates and access to real time market information.

5 Conclusions

5.1 This Treasury Management Outturn Report for 2015/16 provides a final update on loans undertaken to fund the capital programme requirements for both General Fund and HRA. Treasury activity during the year was conducted within the approved borrowing limits for the year and resulted in significant savings to the revenue budget. It should be noted that the Operational Boundary has been breached at the latter part of the year due to the unanticipated fall in revenue balances. This limit is a warning tool and the limit for 16/17 was set higher to reflect 2016/17 activity so this breach has remedied naturally although it will be reviewed and updated as necessary during 2016/17.

6 Recommendations

6.1 Executive Board are asked to note the Treasury Management outturn position for 2015/16 and that treasury activity has remained within the treasury management strategy and policy framework.

7 Background documents [1]

None

[1] The background documents listed in this section are available for download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Leeds City Council - Prudential Indicators 2015/16

No.	PRUDENTIAL INDICATOR	Feb 15 Report	Feb 16 Report	Outturn (This Report)
	(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS			
	Ratio of Financing Costs to Net Revenue Stream			
1	General Fund - Excluding DSG	14.29%	12.03%	11.97%
2	HRA	11.83%	11.85%	11.86%
	Impact of Unsupported Borrowing on Council Tax & Housing Rents	**£ . P**	**£ . P**	£ . P
3	increase in council tax B7(band D, per annum) (Note 1)	51.36	12.64	12.84
4	increase in housing rent per week	-	-	-
5	**Net Borrowing and the capital financing requirement (Note 2)** The Net borrowing Requirement should not exceed the CFR	OK	OK	OK
	Estimate of total capital expenditure	**£'000**	**£'000**	**£'000**
6	General Fund	387,543	386,368	384,990
7	HRA	178,081	157,076	158,001
	TOTAL	565,624	543,444	542,991
	Capital Financing Requirement (as at 31 March)	**£'000**	**£'000**	**£'000**
8	General Fund	1,760,255	1,784,510	1,754,090
9	HRA	818,466	818,761	819,053
	TOTAL	2,578,721	2,603,271	2,573,143
9a	**Limit on HRA Indebtedness as implementated under self financing**	721,327	725,327	725,327

No.	PRUDENTIAL INDICATOR	Feb 15 Report	Feb 16 Report	Outturn (This Report)
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**
10	**Authorised limit for external debt - (Note 3)**			
	borrowing	1,800,000	1,800,000	1,800,000
	other long term liabilities	780,000	780,000	780,000
	TOTAL	2,580,000	2,580,000	2,580,000
11	**Operational boundary - (Note 3)**			
	borrowing	1,600,000	1,600,000	1,600,000
	other long term liabilities	760,000	760,000	760,000
	TOTAL	2,360,000	2,360,000	2,360,000
14	**Upper limit for fixed interest rate exposure**			
	expressed as either:-			
	Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%
15	**Upper limit for variable rate exposure**			
	expressed as either:-			
	Net principal re variable rate borrowing / investments OR:-	40%	40%	40%
		£'000	£'000	£'000
17	**Upper limit for total principal sums invested for over 364 days** (per maturity date)	150,000	150,000	150,000
18	**Net Debt as a Percentage of gross Debt**	99.34%	99.22%	99.51%

16	Maturity structure of fixed rate borrowing 2015/16	Lower Limit	Upper Limit	Actual 31/03/16	
	under 12 months	0%	15%	2%	
	12 months and within 24 months	0%	20%	4%	
	24 months and within 5 years	0%	35%	27%	
	5 years and within 10 years	0%	40%	10%	
	10 years and within 20 years	25%	90%	4%	57%
	20 years and within 30 years			0%	
	30 years and within 40 years			28%	
	40 years and within 50 years			25%	
				100.0%	

Notes.

1 **The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.**

2 **In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.**

3 **Limits are the same as the Feb 15 report.**

4 **Prudential indicator 12 relates to actual external debt at 31st March, which is reported in the main body of this report.**

5 **Prudential indicator 13 relates to the adoption of the CIPFA Code of Practice on Treasury Management. The Council formally adopted this Code of Practice in March 2003, as revised in 2009 and 2011.**

Debt as at 31st March 2016 — Appendix B

Table below shows a breakdown of the maturity structure of the authority giving totals

Year Ending 31st March	to 2%	2% to 2.99%	3% to 3.99%	4% to 4.99%	Greater Than 5%	Principal
Fixed Rate Loans - LOBO to First Option						
2017	15,000	8,812	25,000	55,000	-	103,812
2018	-	-	10,000	45,000	-	55,000
2019	10,000	5,000	61,436	115,000	-	191,436
2020	-	-	61,436	30,000	-	91,436
2021	-	-	18,812	55,000		73,812
2022	-	-	51,436	5,000	-	56,436
2023	-	20,000	17,624	-	-	37,624
2024	-	-	15,000	26,436	-	41,436
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	2,575	-	18,812	-	-	21,387
2028	-	-	-	-	-	-
2029	-	-	20,000	-	-	20,000
2034	-	-	-	-	-	-
2035	-	-	5,000	-	-	5,000
2052	-	-	-	28,727	-	28,727
2053	-	-	-	145,396	-	145,396
2054	-	-	-	49,347	-	49,347
2055	-	-	-	75,782	-	75,782
2056	-	-	-	67,173	-	67,173
2057	-	-	-	115,436	-	115,436
2058	-	-	-	102,218	14,099	116,317
2059	-	-	-	-	-	-
2060	-	-	-	-	-	-
2061	-	-	-	17,624	-	17,624
2062	-	-	17,624	-	-	17,624
2063	-	-	-	-	-	-
2064	-	-	10,000	-	-	10,000
2065	-	20,000	-	-	-	20,000
Sub Total	**27,575**	**53,812**	**332,178**	**933,137**	**14,099**	**1,360,802**
Temporary Loans						
2017	237,670	-	-	-	-	237,670
Sub Total	**237,670**	**-**	**-**	**-**	**-**	**237,670**
CABP	**265,245**	**53,812**	**332,178**	**933,137**	**14,099**	**1,598,472**
Memo : LOBO Variable Rate Loans to Maturity						
2047	-	-	10,000	-	-	10,000
2055	-	-	5,000	15,000	-	20,000
2056	-	-	10,000	50,000	-	60,000
2066	-	-	10,000	45,000	-	55,000
2067	-	-	55,000	20,000	-	75,000
2077	-	-	50,000	15,000	-	65,000
2078	-	-	-	140,000	-	140,000
2079	-	-	-	20,000	-	20,000
Sub Total	**-**	**-**	**140,000**	**305,000**	**-**	**445,000**

LOBO's Shown at Maturity in Bottom Memo Section.
LOBO's included in main section at next option date. (Highlighted)