

## Report of Chief Officer Financial Services

### Report to Executive Board

Date: 21<sup>st</sup> June 2017

### Subject: TREASURY MANAGEMENT OUTTURN REPORT 2016/17

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

### Summary of main issues

1. This report sets out for Members' approval the Treasury Management Outturn Report for 2016/17.
2. This report shows that net external debt at 31<sup>st</sup> March 2017 was £1,809m, £68m lower than the February 2017 forecast. This movement is due to greater than anticipated revenue balances of £61m and a decrease in the capital programme of £7m. The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £4.9bn as at 31<sup>st</sup> March 2016.
3. The level of debt has remained within the authorised limit and operational boundary as approved by the Council in February 2017.
4. Net debt savings of £8,219k have been generated against the original budget. These savings are principally due to Minimum Revenue Provision (MRP) savings as a result of a review of the profile of MRP and the identification of an overprovision for MRP in previous years and by continuing to fund short term borrowing at low short term rates.
5. The average rate of interest paid on the Council's external debt was 3.48% for 2016/17 compared to 3.91% for 2015/16.

### Recommendations

6. Executive Board are asked to note the Treasury Management outturn position for 2016/17 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 2016/17.

## 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 agreed by Council.
- Policy statements are prepared for approval by the Council at least twice a year.

## 3 Main Issues

### 3.1 Review of Strategy 2016/17

- 3.1.1 Table 1, below shows that net borrowing in 2016/17 was £1,809m, £68m lower than the February 2017 forecast. This movement is due to greater than anticipated revenue balances of £61m and a decrease in the capital programme of £7m.

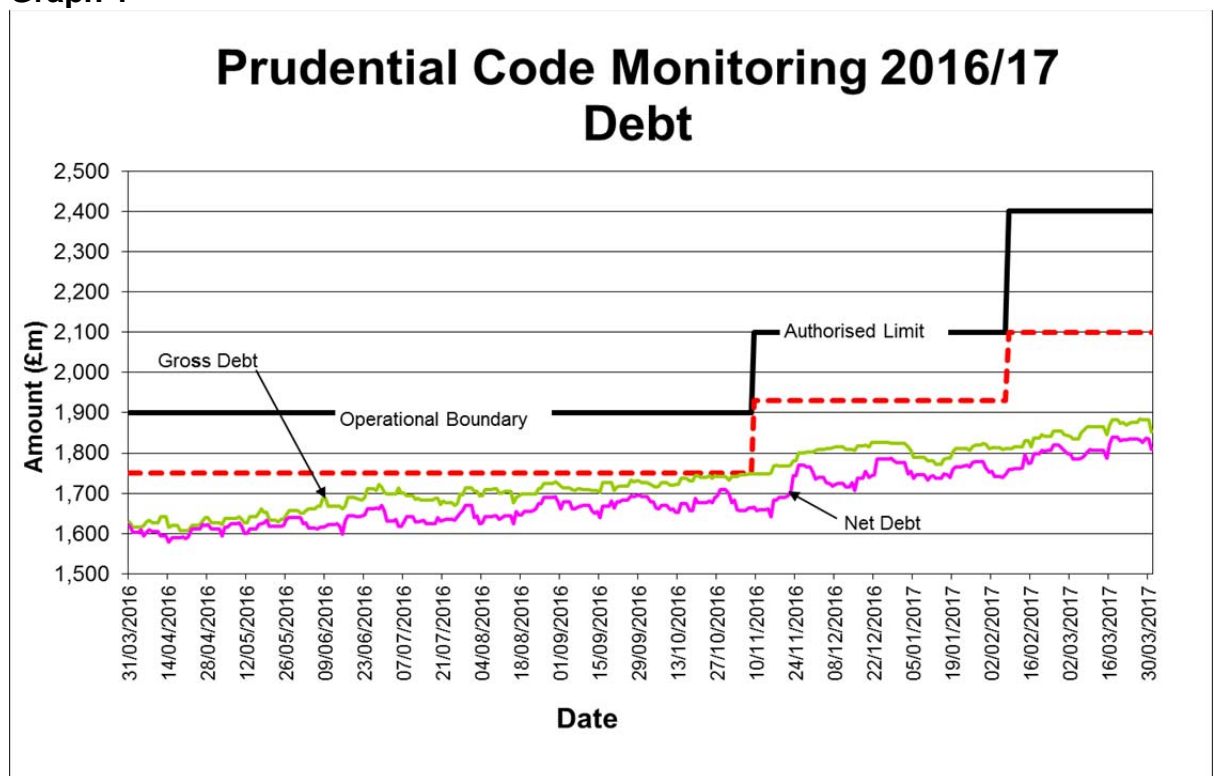
**TABLE 1**

	<b>2016/17 Nov 16 Report</b>	<b>2016/17 Feb 17 Report</b>	<b>2016/17 This Report</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>ANALYSIS OF BORROWING 2016/17</b>			
<b>Net Borrowing at 1 April</b>	1,620	1,620	<b>1,620</b>
New Borrowing for the Capital Programme – GF	174	190	<b>183</b>
New Borrowing for the Capital Programme – HRA	4	0	<b>0</b>
Debt redemption costs charged to Revenue (Incl HRA)	(38)	(18)	<b>(18)</b>
Reduced/(Increased) level of Revenue Balances	45	85	<b>24</b>
<b>Net Borrowing at 31 March</b>	<b>1,805</b>	<b>1,877</b>	<b>1,809</b>
<b>Capital Financing Requirement*</b>			<b>2,073</b>
<b>Other long term liabilities capital financing requirement</b>			<b>637</b>
Net Borrowing 31st March comprised as follows			
Long term Fixed	1,427	1,466	1,469
Variable (less than 1 Year)	40	0	0
New Borrowing	185	257	189
Short term Borrowing	181	182	193
Total External Borrowing	1,833	1,905	1,851
Less Investments	28	28	42
<b>Net External Borrowing</b>	<b>1,805</b>	<b>1,877</b>	<b>1,809</b>
% borrowing funded by short term and variable rate loans	22%	23%	21%

\* 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 The reduction in revenue balances is £24m which is less than anticipated.
- 3.1.3 The level of debt and liabilities should be viewed in the context of the Council's assets which are valued at approximately £4.9bn as at 31st March 2017. The Capital programme outturn position is reported in the June Financial Performance - Outturn Report to Executive Board elsewhere on the agenda.
- 3.1.4 Graph 1, below shows that the level of debt during 2016/17 remained within 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 2016/17. 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. Treasury management activity 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. As can be seen on the graph the limits were increased at full Council in November 16 and again in March 17 due to anticipated injections into the capital programme together with an anticipated reduction in internal resources available to fund the borrowing requirement.

**Graph 1**



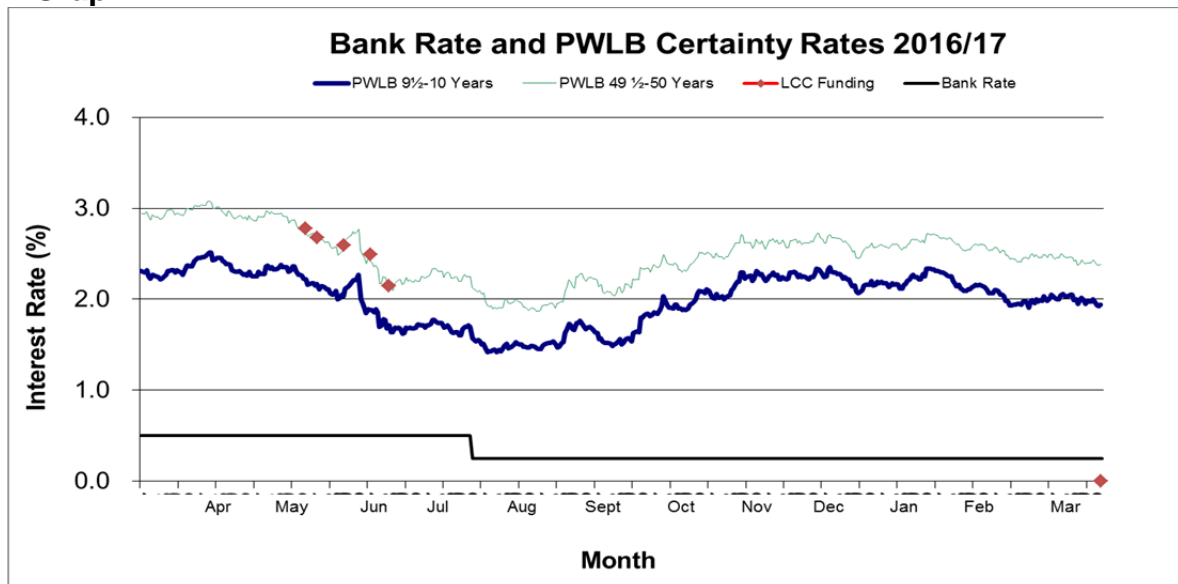
- 3.1.5 The Capital and treasury reports to Executive Board in February outlined that the Council was seeking to deliver capital investment of £881m for the 3 year period starting from 2017/18. This included committing £379m of its own funding to deliver the Council's priorities and objectives. The council's borrowing includes £164m of capital expenditure that is funded by additional income, generates revenue savings or ensures that our assets are maintained to an acceptable standard. Over the period the council is also reducing its borrowing by making debt repayments of £50m but at a lower rate than in previous years. The medium term financial strategy will consider the affordability of the capital programme in the context of increased capital expenditure, borrowing and MRP costs.

3.1.6 Since the economic update to Members in February, the economy has continued to expand however inflation continues to increase above the 2.0% target toward the MPC forecast of 3.0%. The key movements are:

- Inflation as measured by the CPI index has steadily increased over the year and although 2016 saw an increase of 0.7% overall inflation was 2.3% at the end of March and increased further in April to 2.70% on an annualised basis. Some commentators think the MPC will “look through” near term supply side driven inflation caused by sterling devaluation and not raise Bank base rate.
- Average earnings however remain a key indicator of domestic inflation and have increased with the 3 months to March showing 2.4% annualised. Further, unemployment continues to fall with the rate over the same period being 4.60% in comparison to the 5.10% a year earlier.
- The US economy continued to grow achieving 1.60% in 2016 however this was in a volatile manner. The US was the first western economy to begin the process of rate normalisation with the Fed increasing rates in December 2016 and March 2017 after the first increase in December 2015. This was driven by strongly rising inflation in the US.
- Overall in the EU economic growth was 1.7% in 2016 with Germany achieving the best return in the G7 of 1.90%
- Oil prices have during the year been largely range bound between \$45 and \$55 per Barrel. Brent crude ended the year just above this range.
- The prediction for the first UK base rate increase has been steadily pushed back and as we continue with exceptionally low bank base rates. Rates were cut from 0.5% to 0.25% In August 2016 and remain at this level. The Councils treasury management advisors, Capita, are currently forecasting Q2 2019 for the first rise to 0.5%. This will of course be dependent on economic performance both here and abroad over the near to medium term and is being kept under review.

3.1.7 Graph 2 below shows the movement in PWLB interest rates over the year. 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 both ended the year at lower levels than the start but not at the low point which occurred in July and August. Uncertainty still surrounds the timing of the first rise in bank base rate which has been exacerbated by the Brexit result in summer 2016. The graph below also shows the long term funding activity undertaken as detailed in table 2 below.

**Graph 2**



3.1.8 Net debt savings of £8,219k have been generated against the original budget. These savings are principally due to MRP savings as a result of a review of the profile of MRP and the identification of an overprovision for MRP in previous years and by continuing to fund sort term borrowing at low short term rates.

3.1.9 Table 2 shows £103.1m of longer term funding was secured during the year. Of particular note is the £3.1m received from the WYCA at 0%. The WYCA funding was acquired after the preparation of the strategy report in February. The table also shows that no market loans options were exercised during the entire year, although 2 loans reached maturity and were duly repaid. One PWLB loan also reached maturity and was repaid in May 2017. The bulk of market loans are termed Lenders Option Borrowers Option (LOBO) and contain clauses which allows 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. During the Year £215m out of a total of £445m of these loans were switched to long term fixed loans. The lender notified the Council via a formal legal deed poll that it had voluntarily waived its rights to exercise its options in perpetuity.

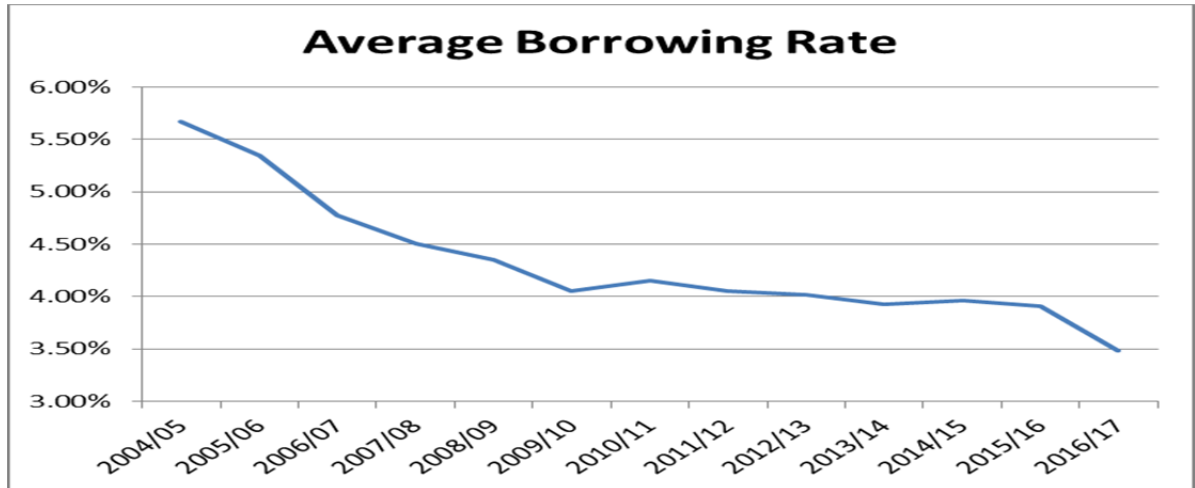
**Table 2**

Loan repayments and borrowing 2016/2017							
Loan Repayments				New Borrowing			
Date	Amount	Original Rate	Discount Rate	Date	Amount	Term	Interest Rate
	(£m)	(%)			(£m)	(Years)	(%)
PWLB Loans				PWLB			
17/05/2016	8.812	2.02	n/a	03/06/2016	20.000	50	2.78
				08/06/2016	20.000	47	2.68
				17/06/2016	20.000	47½	2.55
				28/06/2016	20.000	49	2.49
				05/07/2016	20.000	46½	2.15
<b>Sub Total</b>	<b>8.812</b>				<b>100.000</b>		
Non PWLB Loans				Non PWLB Loans			
(Call date)				WYCA			
26/07/2016	5.000	0.98		31/03/2017	2.000	10	0.00
01/02/2017	10.000	1.43		31/03/2017	1.100	10	0.00
<b>Sub Total</b>	<b>15.000</b>				<b>3.100</b>		
<b>Total</b>	<b>23.812</b>			<b>Total</b>	<b>103.100</b>		

### 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 3.48% (down from 3.91%) as shown in Graph 3. This fall is due to the increasing level of the Council debt, both long and short term, which is being funded at historically cheap levels.

**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 30.7 years. The average length of all loans to the next option date including temporary loans is 24.6 years. This provides a large degree of funding certainty within the overall debt portfolio. Appendix B analyses debt as at 31<sup>st</sup> March 2017 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 Net debt savings of £8,219k 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 2016/17 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 2016/17 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 overall savings to the revenue budget as detailed in 3.1.7.

### **6 Recommendations**

6.1 Executive Board are asked to note the Treasury Management outturn position for 2016/17 and that treasury activity has remained within the treasury management strategy and policy framework.

### **7 Background documents <sup>1</sup>**

None

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<sup>1</sup> 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 2016/17

No.	PRUDENTIAL INDICATOR	Feb 16 Report	Feb 17 Report	Outturn (This Report)
<b>(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS</b>				
1	<b>Ratio of Financing Costs to Net Revenue Stream</b> General Fund - Excluding DSG	14.10%	10.37%	10.20%
2	HRA	10.49%	10.48%	10.18%
3	<b>Impact of Unsupported Borrowing on Council Tax &amp; Housing Rents</b> increase in council tax B7 (band D, per annum) (Note 1)	£ . P 49.82	£ . P 13.60	£ . P 13.08
4	increase in housing rent per week	0.09	-	-
5	<b>Net Borrowing and the capital financing requirement (Note 2)</b> The Net borrowing Requirement should not exceed the CFR	OK	OK	OK
6	<b>Estimate of total capital expenditure (including PFI)</b> General Fund	£'000 229,785	£'000 304,426	£'000 300,313
7	HRA TOTAL	143,715 373,500	113,356 417,782	108,618 408,931
8	<b>Capital Financing Requirement (as at 31 March)</b> General Fund	£'000 1,853,042	£'000 1,882,790	£'000 1,888,529
9	HRA TOTAL	833,222 2,686,264	821,327 2,704,117	820,575 2,709,104
9a	<b>Limit on HRA Indebtedness as implemented under self financing</b>	725,327	721,327	721,327

No.	PRUDENTIAL INDICATOR	Feb 16 Report	Feb 17 Report	Outturn (This Report)
<b>(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>				
10	<b>Authorised limit for external debt - (Note 3)</b> borrowing other long term liabilities TOTAL	£'000 1,900,000 760,000 2,660,000	£'000 2,400,000 760,000 3,160,000	£'000 2,400,000 760,000 3,160,000
11	<b>Operational boundary - (Note 3)</b> borrowing other long term liabilities TOTAL	1,750,000 740,000 2,490,000	2,100,000 740,000 2,840,000	2,100,000 7,400,000 9,500,000
14	<b>Upper limit for fixed interest rate exposure</b> expressed as either:- Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%
15	<b>Upper limit for variable rate exposure</b> expressed as either:- Net principal re variable rate borrowing / investments OR:-	40%	40%	40%
17	<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	£'000 150,000	£'000 150,000	£'000 150,000
18	<b>Net Debt as a Percentage of gross Debt</b>	99.38%	98.53%	97.71%

16	Maturity structure of fixed rate borrowing 2016/17	Lower Limit	Upper Limit	Actual 31/03/17	
	under 12 months	0%	15%	0%	
	12 months and within 24 months	0%	20%	7%	
	24 months and within 5 years	0%	35%	12%	
	5 years and within 10 years	0%	40%	9%	
	10 years and within 20 years			2%	
	20 years and within 30 years			0%	
	30 years and within 40 years	25%	90%	35%	72%
	40 years and within 50 years			27%	
	More Than 50 Years			9%	
				100.0%	

## Notes.

- The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.
- 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.
- Limits are the same as the Feb 15 report.
- Prudential indicator 12 relates to actual external debt at 31st March, which is reported in the main body of this report.
- 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 2017					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
<b>Fixed Rate Loans - LOBO to First Option</b>						
2018	-	-	-	35,000	-	35,000
2019	10,000	5,000	41,436	50,000	-	106,436
2020	-	-	46,436	35,000	-	81,436
2021	-	-	13,812	20,000	-	33,812
2022	-	-	41,436	15,000	-	56,436
2023	-	20,000	27,624	-	-	47,624
2024	-	-	15,000	26,436	-	41,436
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	5,675	-	28,812	-	-	34,487
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	-	-	5,000	75,782	-	80,782
2056	-	-	10,000	72,173	-	82,173
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	-	20,000	-	-	-	20,000
2064	-	40,000	10,000	-	-	50,000
2065	-	20,000	-	-	-	20,000
2066	-	40,000	10,000	35,000	-	85,000
2067	-	20,000	30,000	5,000	-	55,000
2077	-	-	20,000	-	-	20,000
2078	-	-	-	85,000	-	85,000
2079	-	-	-	20,000	-	20,000
<b>Sub Total</b>	<b>15,675</b>	<b>165,000</b>	<b>342,178</b>	<b>933,137</b>	<b>14,099</b>	<b>1,470,090</b>
<b>Temporary Loans</b>						
2017	381,000	-	-	-	-	381,000
<b>Sub Total</b>	<b>381,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>381,000</b>
<b>CABP</b>	<b>396,675</b>	<b>165,000</b>	<b>342,178</b>	<b>933,137</b>	<b>14,099</b>	<b>1,851,090</b>
<b>Memo : LOBO Variable Rate Loans to Maturity</b>						
2055	-	-	-	15,000	-	15,000
2056	-	-	-	45,000	-	45,000
2066	-	-	10,000	10,000	-	20,000
2067	-	-	25,000	15,000	-	40,000
2077	-	-	40,000	15,000	-	55,000
2078	-	-	-	55,000	-	55,000
<b>Sub Total</b>	<b>-</b>	<b>-</b>	<b>75,000</b>	<b>155,000</b>	<b>-</b>	<b>230,000</b>
LOBO's Shown at Maturity in Bottom Memo Section.						
LOBO's included in main section at next option date. (Highlighted)						