

**TYNE AND WEAR FIRE AND RESCUE AUTHORITY**

**Item 7**

**GOVERNANCE COMMITTEE MEETING: 27<sup>TH</sup> JUNE 2016**

---

**TREASURY MANAGEMENT – REVIEW OF PERFORMANCE 2015/2016**

**REPORT OF THE FINANCE OFFICER**

---

**1. Purpose of the Report**

- 1.1 To report on the Treasury Management performance of the Authority for 2015/2016 in line with best practice as prescribed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011).

**2. Description of Decision (Recommendation)**

- 2.1 The Committee is requested to note the Treasury Management performance of the Authority for 2015/2016.

**3. Introduction**

- 3.1 Sunderland City Council, as lead authority, performs the treasury management function on behalf of the Authority.
- 3.2 This report sets out the annual borrowing and investment performance for the financial year 2015/2016 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by the Authority on 23<sup>rd</sup> March 2015. The Treasury Management Strategy comprises a Borrowing and Investment Strategy which set out the Authority's strategy for borrowing and its policies for managing its investments (which gave priority to the security and liquidity of those investments).
- 3.3 The TM Policy Statement and Strategy complies with best practice, including the Department of Communities and Local Government Investment Guidance which came into effect from 1<sup>st</sup> April 2010 and it incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The Code of Practice was revised in November 2011 mainly to accommodate the changes to local authority housing finance regulations.

**4. Review of Performance 2015/2016 - Summary**

**4.1 Cost of Borrowing**

The performance of the Authority's Treasury Management function continues to contribute significant financial savings that are used to provide funding to support future years' capital programmes and help support the Authority's revenue

budget. The average rate of the lead authority's borrowing at 3.52% is one of the lowest in the country and is in the top quartile when benchmarked against other authorities. This has helped to keep the revenue cost of the Authority's borrowing low in comparison to other Authorities. Section 5 sets out more details of the Authority's Borrowing Strategy, for the information of members.

#### **4.2 Rate of Return on Investments**

The Authority has benefited from additional investment income during the year of over £13,500 in cash terms based on a higher rate of return in 2015/2016 of 0.41% as compared to the benchmarked rate of 0.36%. The investment policy continues to reflect the priority to 'protect' the funds of the Authority first and foremost. More details are set out in Section 7 below on the Authority's Investment Strategy and Policy.

#### **4.3 Treasury Management Prudential Indicators**

In summary the Authority has not exceeded any of its Treasury Management Prudential Indicators during 2015/2016. These indicators help to control the day to day Treasury Management activity which is closely monitored to ensure limits set each year by the Authority are not exceeded and which means capital expenditure can be appropriately financed and is affordable within the constraints of the revenue budget.

It is also very important that the Authorised Borrowing Limit for External Debt for the Authority which is a statutory limit which must be set each year under section 3(1) of the Local Government Act 2003 is not exceeded. This limit was set at £54.905m for 2015/2016 and the highest level reached by the Authority of £36.813m during the year was well below this limit. More details of all of the Prudential Indicators are set out in Section 6.

### **5. Borrowing Strategy and Performance – 2015/2016**

#### **5.1 The basis of the agreed Borrowing Strategy was to:**

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Authority's future borrowing requirement when market conditions were favourable;
- use a benchmark financing rate of 4.25% for long-term borrowing (i.e. all borrowing for a period of one year or more);
- take advantage of debt rescheduling opportunities as appropriate.

#### **5.2 The Borrowing Strategy has been regularly reviewed by this Committee throughout the year and was updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2015/2016 was based upon the views of the Finance Officer, supplemented with market data, market information and leading economic forecasts provided by the Authority's treasury management adviser, Capita Asset Services.**

- 5.3 The view in February 2015, at the time the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until September 2015 before steadily rising to 2.00% by March 2018 and that PWLB borrowing rates would increase during 2015/2016 across all periods. Overall the interest rate outlook remains uncertain in both the UK and US with economic data not supportive of the Bank of England raising rates this year. Further uncertainty over the outcome of the EU referendum would delay any rise, even if the data was better, although there is a debate amongst analysts over whether financial markets have pushed the timing of any rate increase out too far, with many now saying the next rate increase will occur in late 2017/early 2018.

Sunderland City Council successfully applied to access PWLB loans at a discount of 0.20%. This certainty rate is available for those authorities that provide “improved information and transparency on their locally determined long-term borrowing and associated capital spending plans”. The discount came into effect on 1<sup>st</sup> November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until 31<sup>st</sup> October 2016, which the Authority benefit from.

- 5.4 The table below shows the average borrowing rates in 2015/2016.

<b>2015/2016</b>	<b>Qtr 1 (Apr - June) %</b>	<b>Qtr 2 (July – Sept) %</b>	<b>Qtr 3 (Oct – Dec) %</b>	<b>Qtr 4 (Jan – Mar) %</b>
7 days notice	0.36	0.36	0.36	0.36
1 year	1.23*	1.29*	1.23*	1.11*
5 year	2.09*	2.15*	2.05*	1.73*
10 year	2.75*	2.78*	2.69*	2.39*
25 year	3.37*	3.40*	3.41*	3.20*
50 year	3.29*	3.28*	3.27*	3.02*

\* Rates take account of the 0.2% discount to PWLB rates available to eligible authorities from 1<sup>st</sup> November 2012.

The strategy for 2015/2016 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 4.25% for long-term borrowing was set for 2015/2016 in light of the views prevalent at the time the Treasury Management policy was set in March 2015.

Volatility in the financial markets continued throughout 2015/2016 with particular concerns around low levels of inflation, weak growth in China and the Eurozone and the continuing need to stimulate growth in the UK. PWLB Certainty borrowing rates have reflected this market volatility with 50 year maturity loans reaching a high of 3.58% in July 2015 and a low of 2.81% in February 2016.

- 5.5 The Treasury Management Strategy for 2015/2016 included provision for debt rescheduling but also stated that because of the proactive approach taken by the Authority in recent years, and because of the very low underlying rate of the Council's long-term debt it would be difficult to refinance long-term loans at interest rates lower than those already in place.
- 5.6 The lead authority's borrowing portfolio position (of which the Authority forms a part) at 31<sup>st</sup> March 2016 is set out below:

		<b>Principa (£m)</b>	<b>Total (£m)</b>	<b>Average Rate (%)</b>
<b>Borrowing</b>				
Fixed Rate Funding	PWLB	177.8		
	Market	39.5		
	Other	0.3	217.6	3.91
Variable Rate Funding	Temporary / Other		27.6	0.41
<b>Total Borrowing</b>			<b>245.2</b>	<b>3.52</b>
<b>Total Investments</b>	All Council managed		<b>227.9</b>	
<b>Net Position</b>			<b>(17.3)</b>	

## 6. Prudential Indicators – 2015/2016

- 6.1 All external borrowing and investments undertaken in 2015/2016 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Authority's performance for all of the other Prudential Indicators as follows:

The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was set by the Authority for 2015/2016 in total as £54.905m which is detailed as follows:

	<b>£m</b>
Borrowing	31.584
Other Long Term Liabilities	23.321
<b>Total</b>	<b><u>54.905</u></b>

The Operational Boundary for External Debt for 2015/2016 was set at £49.905m as follows:

	<b>£m</b>
Borrowing	26.584
Other Long Term Liabilities	23.321
<b>Total</b>	<b><u>49.905</u></b>

Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Authority's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

The Authority's maximum external debt in 2015/2016 was £36.813 million and is well within the borrowing limits set by both of these indicators.

- 6.2 The table below shows that all other Treasury Management Prudential Indicators for the lead authority have been complied with during 2015/2016.

Prudential Indicators		2015/2016	
		Limit £'000	Actual £'000
<b>P10 Upper limit for fixed interest rate exposure</b> Net principal re fixed rate borrowing / investments		245,000	57,582
<b>P11 Upper limit for variable rate exposure</b> Net principal re variable rate borrowing / investments		60,000	21,495
<b>P12 Maturity Pattern</b> Under 12 months		Upper Limit 50%	11.74%
12 months and within 24 months		60%	0.04%
24 months and within 5 years		80%	5.76%
5 years plus		100%	82.79%
A lower limit of 0% for all periods			
<b>P13 Upper limit for total principal sums invested for over 364 days</b>		75,000	0

The Lead Authority is currently within the limits set for all of its TM Prudential Indicators.

## 7. Investment Strategy and Performance – 2015/2016

- 7.1 The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities in order of importance are:
- 1) The **security** of capital;
  - 2) The **liquidity** of its investments and then;
  - 3) The Authority aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

The Annual Investment Strategy has been fully complied with in 2015/2016.

- 7.2 At 31<sup>st</sup> March 2016 the Authority had outstanding investments of £27.514 million. The table below shows the return made on the Authority's total investments for



2015/2016 compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Authority uses to assess its performance.

	<b>2015/2016 Return %</b>	<b>2015/2016 Benchmark %</b>
<b>Council Managed Funds</b>	<b>0.41</b>	<b>0.36</b>

- 7.3 All investments placed in 2015/2016 have been made in accordance with the approved Investment Strategy and comply with the Criteria and the Approved Lending List set by the Authority on 23<sup>rd</sup> March 2015 and also taking into account subsequent revisions reported and approved during the year.

The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Authority. The rate of return on investments, as reported during the year, has remained at very low levels compared to previous years

Investment rates available in the market have continued at historically low levels and due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management adviser is to continue to limit investments to all financial institutions to shorter term periods.

- 7.4 As Members will be aware, the regular updating of the Authority's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. The Finance Officer has the delegated authority to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported to Authority and the Governance Committee retrospectively, in accordance with normal Treasury Management reporting procedures. All changes made during 2015/2016 have already been reported to Members previously.

## **8. Reasons for Decision**

- 8.1 To note the Treasury Management performance for 2015/2016.

## **9. Alternative Options**

- 9.1 No alternatives are submitted for Members consideration.