Appendix A

Treasury Management Annual Report 2015/16 – Supporting Information

1. Introduction

1.1. The CIPFA Code of Practice for Treasury Management in the Public Services, revised in April 2009, requires the Section 151 Officer to report to the Executive before the start of the financial year on the treasury strategy for the coming year and, after the end of the financial year on Treasury Management activity and performance for the previous year.

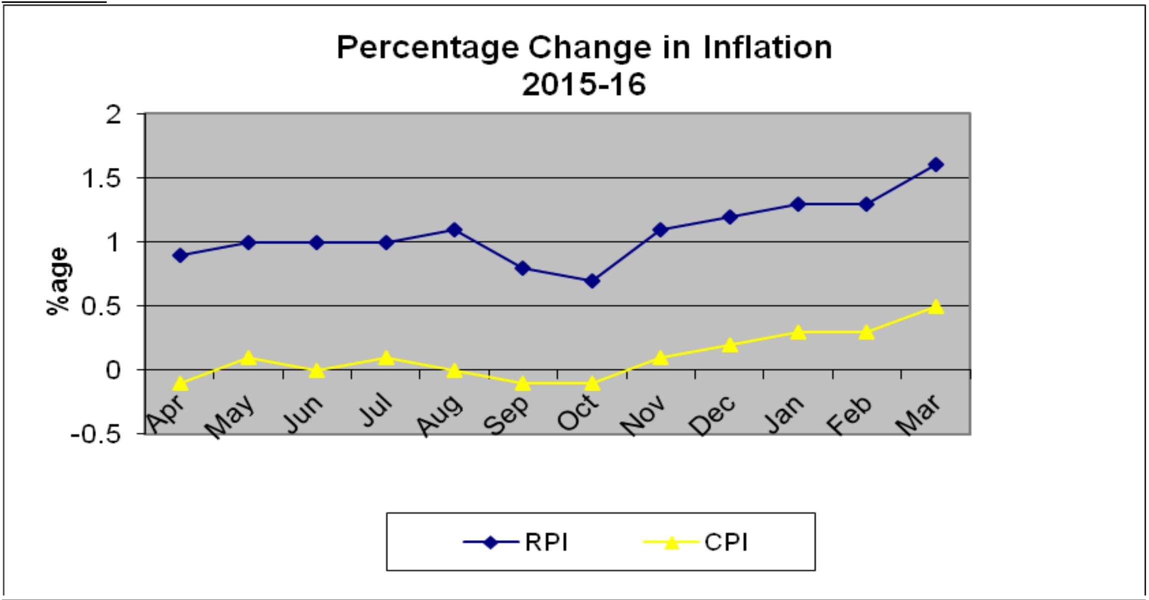
1.2. The aim of the latest investment strategy, which was approved by the Council in March 2016, is to manage the Council's cash flow to ensure sufficient funds are available on a day to day basis for the Council's operations. Any surplus funds are invested to generate the most beneficial interest receipts, while minimising the exposure of investments to risk.

1.3. The cross party Treasury Management Group met during the course of 2015/16 to scrutinise and review performance and determine the detail of policy. This group consists of the Head of Finance, the Chief Accountant, the Finance Manager for Capital, VAT and Treasury, the Treasury Accountant, the Portfolio Member and Shadow Portfolio Member for Finance.

2. Economic conditions

2.1 The government's main measure of inflation, which the Bank of England Monetary Policy Committee (MPC) uses to inform its interest rate decisions, is the Consumer Price Index (CPI). Annual CPI remained significantly below the Bank of England 2% target during 2015/16 (Chart 1) although it rose from 0% at the beginning of the year to 0.5% in March 2016. This mainly reflects the effects of past falls in energy and food prices and subdued domestic growth although the small increase shows that these past external factors are beginning to fade. Further ahead, domestic cost pressures are expected to pick up gradually. Inflation expectations are judged to remain broadly consistent with the MPC's 2% target.

Chart 1



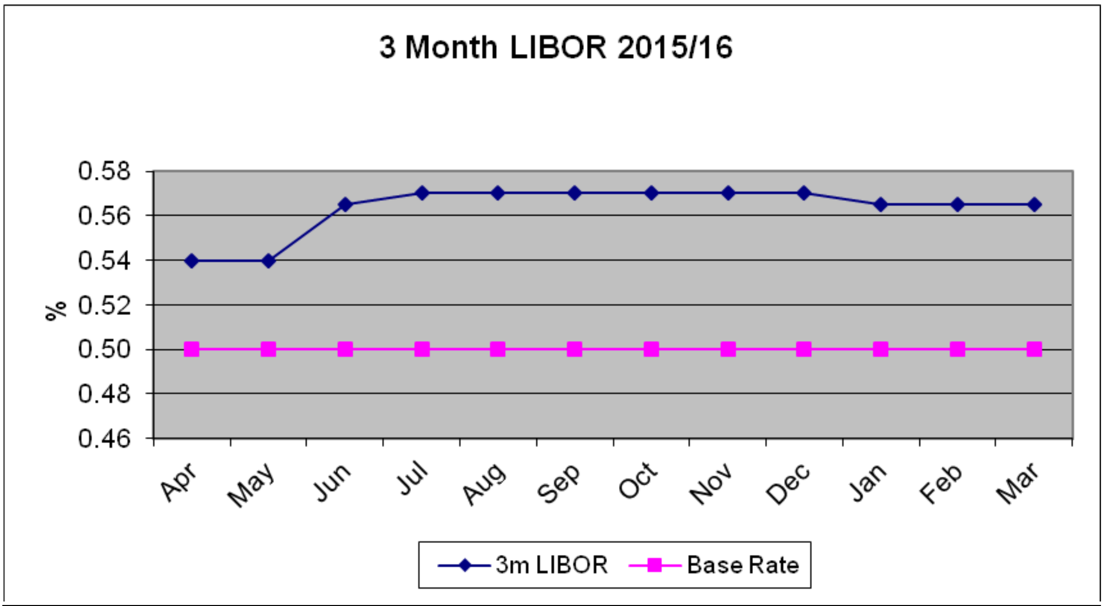
2.2 The latest Bank of England inflation report (May 2016) states that GDP having been broadly stable during 2015 at around its historical average rate, quarterly GDP growth then slowed a little in 2016 Q1. While some of the slowdown may have been related to slow global growth there were are some signs that the result of UK referendum on EU membership began to weigh on activity. Growth is projected to slow somewhat further in Q2 for the same reasons.

2.3 The MPC's best collective judgement in May, conditioned on the path for Bank rate currently implied by market interest rates, was that growth is likely to recover next year, such that spare capacity is eroded and, as the drag from external factors fades, rising domestic cost growth returns inflation to the 2% target by the middle of 2018.

2.4 Official interest rates in the United Kingdom remained at historically low levels with the Bank of England base rate at 0.5% for the seventh consecutive year. A number of easing measures by the ECB (European Central Bank) have had little impact on short term interest rates.

2.5 The rates available to the Council reflect the three month sterling London Inter-Bank Offer Rate or LIBOR (this is the rate at which the banks are prepared to lend to each other). LIBOR (see Chart 2) has risen only slightly through 2015/16 starting year at 0.54% to stay at 0.57% from June onwards to 0.56% from Jan. The overall level is a slight improvement on 2014/15.

Chart2



2.7 Interest rates offered by banks and building societies continue to be low for Local Authorities

2.8 Despite these pressures, there was a slight improvement in the interest earned by the Council over the course of 2015/16 with reasonable returns on investments made for 3 months or more.

3 Overview of Cash Flow and Treasury Management Strategy

3.1 Guidance on Local Government Investments in England gives priority to security and liquidity. The Council's Treasury Management Strategy therefore aims to maximise the return on its investments without compromising these principles. The Council manages all its investments and borrowing in house.

3.2 The amount of cash held by the Council fluctuates throughout the year and within each month, depending on the dates on which major government grants are received and when large payments are made - in particular, weekly creditors payments and monthly salaries. In general terms, funds are high on the first working day of the month when a large proportion of Council tax and government grant is received and low on the last working day of the month when the majority of staff salaries are paid. The Council's overall funds are normally lower at the end of the financial year, because most Council Tax is paid over ten months from April to January. Also, the payment in advance of the council's pension contributions is made in April to secure the discount of 3.1%.

3.3 It should be borne in mind that the amount of cash held by the Council does not equate to the total usable reserves shown on the Council's balance sheet. This is because we have chosen to minimise the amount borrowed to fund capital expenditure, by offsetting our borrowing needs against our reserves. This is in order to minimise the revenue cost of borrowing and to avoid the risks associated with investing large balances.

4 Short Term Investments and Borrowing in 2015/16

4.1 In order to ensure that the Council's day to day cash flow requirements can be met, a sum of between approximately £1 million and £20 million is held in instant access accounts. Table 1 shows the institutions and interest rates for these accounts:

Table 1

Institution:	Interest Rate:	Changes:
Bank of Scotland	0.40%	No change
NatWest	0.25%	A reduction in the overall rate, as prior to May 2015 balances > £500k earned 0.40%
Santander UK	0.40%	A reduction from 0.8% in July 2015
Goldman Sachs Money Market Fund	Variable averaging 0.44%	0.46% in July 2016

4.2 In accordance with the Council's Treasury Management Strategy, the deposit accounts are held with banks rated P1 and P2 by Moodys Credit Ratings Agency, while the money market fund is rated AAA (these ratings indicate a very low risk of default on investments). The maximum held in each account at any one time was £5 million (P1) and £3.5 million (P2), reviewed annually.

4.3 At various points in the year the Council had surplus funds which it placed in fixed term, fixed rate investments until they were needed to cover outgoings. The longer the term of the investment, the higher the rate of interest earned. During the year, 7 fixed term investments were made for periods of between 91 and 365 days. All but one of these investments were placed with the top 20 British Building Societies and one with Thatcham Town Council (£500K). The maximum invested with any one institution was £5 million, with lower limits on the amounts invested with the smaller building societies. The average length of investment was 173 days and the average interest earned on these investments was 0.80%.

4.4 The majority of the Council's investments are arranged through one of five firms of financial brokers, which have ready access to the most competitive interest rates on the market each day. The investment with Thatcham TC was arranged directly between the two Councils using market rates.

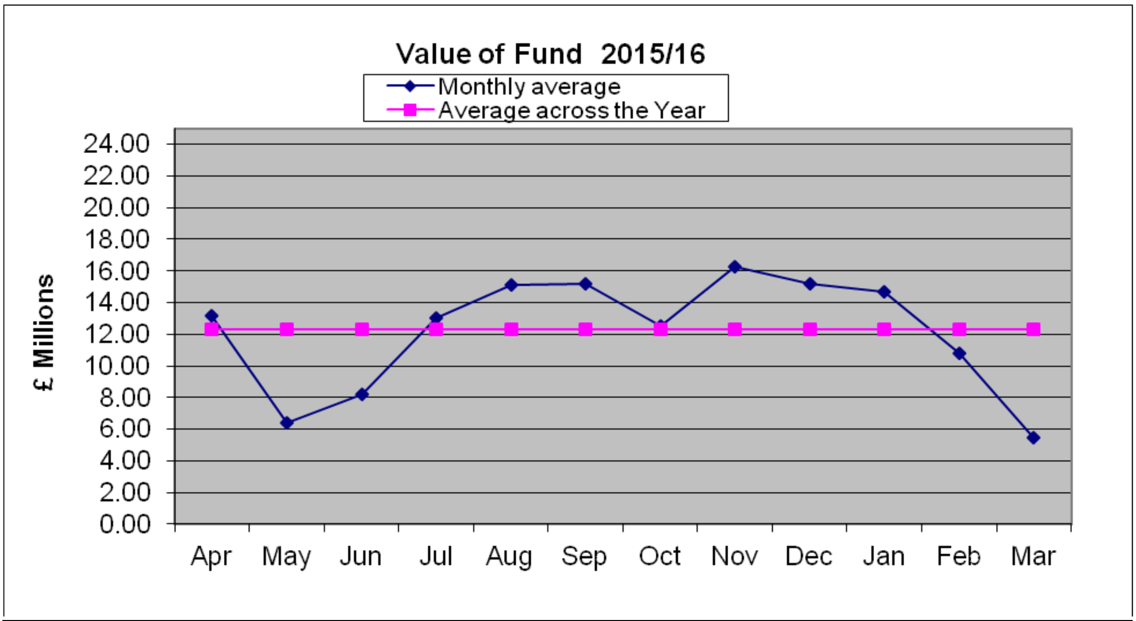
4.5 It was also necessary from time to time for the Council to take out short term loans to cover its cash flow requirements. 18 short term loans were taken out during the financial year, all from other local authorities, for periods of between 1 day and 168 days, at rates of interest between 0.28% and 0.60%. Ten of these loans were for 15 days or less. The average length of loan was 26 days and the average interest paid on these loans was 0.45%.

4.6 In addition, some short term borrowing was undertaken to finance capital expenditure on an interim basis, in order to take advantage of cheap short term borrowing rates. The Council had a loan of £2million from Oxford City Council for this purpose between December 2014 to September 2015 at a rate of 0.62%. This was refinanced through a longer term annuity loan from the Public Works Loans Board (PWLB) October 2015 at a rate of 3.41%.

5 Overall Performance of the Treasury Fund

5.1 The average value of the fund during the year (i.e. the total of temporary investments less temporary borrowing) was £12.3 million (see Chart 3). The net value of the fund at 31st March 2015 was -£7.6 million because of the need to borrow to cover payroll and other payments at the end of the financial year.

Chart 3



5.2 The net amount of interest earned from the Council's investment and short term borrowing activities in 201/16 was £114,900 compared with £93,000 in 2014/15. This represents a net rate of return of 0.93% as compared with the average bank base rate for the year of 0.50%.

5.3 In addition, the Royal Borough of Windsor and Maidenhead, who manage the Berkshire pension fund, offered West Berkshire a discount of 3.1% on its total pension contributions due for the year in exchange for paying the contributions in advance in April 2015 instead of in monthly instalments. In this way, the Council achieved a saving of £293,000, by, in effect, making a temporary investment of £11 million with the Berkshire Pension Fund at a rate of return of 3.1%. This was achieved because the Pension Fund is much bigger than the West Berkshire treasury fund and is able to invest over longer periods and therefore to earn a higher rate of return. Taking into account this saving, therefore, the total net investment income earned was £407,900. This compares favourably with the 2015/16 budget for interest on investments of £378,000.

5.4 If the average fund balance is adjusted to include the average level prepaid pension contributions (approximately £5.1million across the year), and if the saving achieved through this arrangement is included in our return on investments, the overall rate of return would equate to 2.3%.

5.5 Table 2 (below) shows that investment and borrowing activities in 2015/16 were largely in line with the Treasury Management Strategy approved by Council in March and with the more detailed Treasury Management Policies, which underpin the Strategy. There were a few exceptional circumstances when unexpected payments were received into or paid out of the Council's main bank account. In these cases the account was returned to its approved limit on the next working day.

Table 2

Policy	**Target**	**Actual**	**Explanation**
Credit limit with counterparties not exceeded	100%	99.0%	Late clearing of receipts into the Council's main bank account meant that on 1 out of 252 working days the £5 million counterparty limit with Natwest was exceeded. This was corrected the next working day.
All counterparties on approved lending list	100%	100%	
All investments are approved investments	100%	100%	
Segregation of duties complied with	100%	100%	
Current account daily balance within +/- £100k of estimate	100%	99.9%	Natwest SIBA automatically ensures a credit £10K balance unless we overdraw. The normal maximum overdraft of £100,000 was exceeded on one day when a transfer from the Goldman Sachs Money Market fund to the Council's main account was delayed due to an administrative error within the Council. The error was corrected later on the same afternoon. Additional interest of approximately £120 was charged as a result of this error.
Target for short term debt of £15m not exceeded	100%	100%	There were no occasions where this target was breached

6 Long Term Borrowing in 2015/16

6.1 With the exception of debt embedded in the PFI contract, all the Council's long term debt is with the Public Works Loans Board (PWLB). The level of long term borrowing in 2015/16 was in line with the prudential borrowing limits set out in the Annual Investment Strategy 2015/16 and the Capital Strategy 2015-2020, which were both approved by the Council in March 2015 Borrowing needs were also reviewed during the year by the Treasury Management Group.

6.2 At 1 April 2015 the Council had long term PWLB loans of £115.7 million (including £20.6 million remaining from the loans inherited from the former Berkshire County Council). During 2015/16 new PWLB loans of £14.53 million were taken out as follows:

Table 3

New PWLB Loans 2016/17	**Amount**	**Type**	**Rate**	**Start Date**	**Finish Date**	**Total Amount to be repaid**
To fund capital expenditure prior to 2010 not yet funded from borrowing	£2,000,000	Annuity	3.41%	Oct 15	Oct 55	£3,679,500
Capital spend in 2015/16 on assets with 5 year life (including most ICT)	£976,000	Annuity	1.26%	Feb 16	Feb 21	£1,010,100
Capital spend in 2015/16 on assets with 10 year life (including highways maintenance)	£1,324,,000	Annuity	1.64%	Feb 16	Feb 26	£1,440,900
Capital spend in 2015/16 on assets with 15 year life (regeneration and community based projects)	£184,000	Annuity	2.02%	Feb 16	Feb 31	£214,200
Capital spend in 2015/16 assets with 30 year life (mainly maintenance of buildings and highways improvements)	£5.024.000	Annuity	2.85%	Feb 16	Feb 46	£7,507,800
Capital spend in 2015/16 assets with 50 year life (mainly new buildings, including schools)	£5,023,000	Annuity	3.14%	Feb 16	Feb 66	£9,790,200

6.3 £4.1million loan repayments were made in 2015/16, leaving the balance of long term debt with the PWLB at 31st March 2016 at £126.1million.

6.4 In the current financial year (2016/17) we anticipate that the Council's total long term PWLB debt will increase by approximately £6.5 million, to £132.6 million to allow for the financing of planned capital expenditure in 2016/17 and previous years, less principal repayments due to be made this year on existing loans. Over the next seven years, the level of the Council's long term debt is expected to reach a peak of approximately £145 million. This debt level is in line with the capital strategy and MTFS approved by Council in March 2016. From 2024/25 onwards, the Council's long term debt is expected to start to decrease at a rate of about £1.2million per year.

6.5 These figures do not include the debt embedded in the Waste PFI contract to finance the cost of building the Padworth Waste Management facility. This debt, which is included in the total borrowing shown on the Council's balance sheet, stood at £15.5 million at the 31st March 2016. (Repayments of this debt are included in the monthly waste contract charges, which are paid from the revenue budget for waste management).

6.6 As explained in paragraph 3.3 (above), the Council has avoided borrowing more than is necessary in the past, by offsetting some capital expenditure against its useable reserves. This means that, if the Council wishes to spend any significant amount from its reserves, it is likely to be necessary to undertake more borrowing to refinance previous years' capital expenditure, so increasing the revenue cost of financing capital spend. However, the forecast future level of borrowing and the cost of debt repayments included in the MTFS both allow for the amount expected to be borrowed to refinance previous year's capital expenditure.

6.7 The council also aims to minimise borrowing by making use of capital receipts wherever possible to fund capital investment.

7 Consultation and Engagement

Internal Consultation:

Andy Walker	-	Head of Finance
Anthony Chadley	-	Portfolio holder for finance
Lee Dillon	-	Shadow portfolio holder for finance

Subject to Call-In:
Yes: ☐ No: ☒

The item is due to be referred to Council for final approval	☐
Delays in implementation could have serious financial implications for the Council	☐
Delays in implementation could compromise the Council's position	☐
Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months	☐
Item is Urgent Key Decision	☐
Report is to note only	☒

Wards affected:

Strategic Aims and Priorities Supported:

The proposals will help achieve the following Council Strategy aim and priority:

☒ **MEC – Become an even more effective Council**

The proposals contained in this report will help to achieve the above Council Strategy aims and priorities by improving the efficiency with which the Council's property is managed.

Officer details:

Name: Gabrielle Esplin
Job Title: Finance Manager – Capital, VAT and Treasury
Tel No: 01635 519836
E-mail Address: gabrielle.esplin@westberks.gov.uk

Appendix B

Equality Impact Assessment - Stage One

We need to ensure that our strategies, polices, functions and services, current and proposed have given due regard to equality and diversity.

Please complete the following questions to determine whether a Stage Two, Equality Impact Assessment is required.

Name of policy, strategy or function:	Treasury Management Annual Report
Version and release date of item (if applicable):	25th July 2016
Owner of item being assessed:	Gabrielle Esplin
Name of assessor:	Gabrielle Esplin
Date of assessment:	25th July 2016

Is this a:		**Is this:**	
Policy	**No**	**New or proposed**	**No**
Strategy	**No**	**Already exists and is being reviewed**	**Yes**
Function	**Yes**	**Is changing**	**No**
Service	**No**		

1. What are the main aims, objectives and intended outcomes of the policy, strategy function or service and who is likely to benefit from it?	
Aims:	To manage the Council's cash flow, investments and borrowing.
Objectives:	To ensure sufficient funds are available on a day to day basis for the Council's operations and generate income from investment of surplus funds, while minimising the exposure of investments to risk.
Outcomes:	Income is earned from the Council's short term investments and a strategy is in place to fund long term borrowing for capital investment.
Benefits:	To contribute towards the Council's revenue budget.

2. Note which groups may be affected by the policy, strategy, function or service. Consider how they may be affected, whether it is positively or negatively and what sources of information have been used to determine this.

(Please demonstrate consideration of all strands – Age, Disability, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Race, Religion or Belief, Sex and Sexual Orientation.)		
Group Affected	**What might be the effect?**	**Information to support this**
No groups of service users are directly affected by this report		
Further Comments relating to the item:		

3. Result	
Are there any aspects of the policy, strategy, function or service, including how it is delivered or accessed, that could contribute to inequality?	**No**
Please provide an explanation for your answer: No groups of service users or employees are directly affected by this report	
Will the policy, strategy, function or service have an adverse impact upon the lives of people, including employees and service users?	**No**
Please provide an explanation for your answer: No groups of service users or employees are directly affected by this report	

If your answers to question 2 have identified potential adverse impacts and you have answered 'yes' to either of the sections at question 3, or you are unsure about the impact, then you should carry out a Stage 2 Equality Impact Assessment.

If a Stage Two Equality Impact Assessment is required, before proceeding you should discuss the scope of the Assessment with service managers in your area. You will also need to refer to the Equality Impact Assessment guidance and Stage Two template.

4. Identify next steps as appropriate:	
Stage Two not required:	

Name: Gabrielle Esplin **Date: 25th July 2016**

Please now forward this completed form to Rachel Craggs, the Principal Policy Officer (Equality and Diversity) for publication on the WBC website.