Appendix 6a

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

on

23 May 2016

TREASURY MANAGEMENT OUTTURN REPORT FOR THE YEAR ENDED 31 MARCH 2016

---

1. INTRODUCTION

One of the requirements of CIPFA's (Chartered Institute of Public Finance and Accountancy) 2011 Prudential Code and Treasury Management Codes of Practice is that periodic reports on the Council's treasury management activities are submitted to the Executive. This annual report on performance is for the 2015/16 financial year.

The Council manages its cashflow and long-term financing of capital investments in accordance with its annual Treasury Management Strategy. The 2015/16 Strategy was approved by the Council on 27 February 2015 and its objectives are as follows:

- to set the framework for managing the Council's investments and cashflows and controlling its banking, money market and capital market transactions

- to plan and secure appropriate borrowing in order to finance the Capital Programme for 2015/16 and the next two years, at the lowest cost to the Council

- to achieve the best rates of return from the investment of temporary surplus cash balances commensurate with risk, subject to the overriding principle of maintaining an acceptable level of security

- to control effectively the risks associated with these transactions

- to comply with appropriate codes and regulations including the International Financial Reporting Standards as they apply to Treasury Management.

In delivering the above objectives the Council will:

- decide its own borrowing limits taking account its financial situation, long-term plans and in particular what it thinks is affordable now and sustainable in the future

- monitor these limits using performance measures called Prudential indicators. All local authorities must use the same system of performance measurement and risk control. The borrowing limits have been set in accordance with the Council's Medium-term Financial Plan.

2. BORROWING TRANSACTIONS 2015/16

2.1 Loans Raised

The Council's total borrowing powers at 1 April 2015 (the Authorised Limit) stood at £279m. No new long-term borrowing has been taken in the year.

The 2015/16 borrowing requirement for the Capital Programme was deferred until such time that interest rates are judged to be favourable to the Council. This action reduces the Council's exposure to counterparty risk whilst enabling savings to be made in long-term borrowing costs. The Treasury Management Panel's view is that it will continue to monitor interest rates and borrow only when market conditions are favourable.

Temporary borrowing has been required to deal with the normal peaks and troughs of the cashflow, including creditor payments, grant receipts, etc. It has also been required to cover troughs in cashflow due to the delay in taking new long-term borrowing.

2.2 Loans Repaid

During the year £6.3m was repaid in addition to the temporary borrowing referred to in 2.1 above and £0.9m debt, which originated at the time of the Local Government Reorganisation and was held through Lancashire County Council (LCC), has been repaid during the year.

Of the £6.3m loans repaid to the Public Works Loan Board which are referred to above: a £5.3m loan was repaid when it matured in September 2015, a £600,000 loan was repaid when it matured in March 2016 and a £400,000 loan was repaid in two equal instalments of principal in September 2015 and March 2016.

2.3 Loans Refinanced

From time to time opportunities arise to repay existing loans and replace them with lower cost alternative loans. Where this arises savings in annual interest costs can be achieved which keep the Council's overall borrowing costs as low as possible.

No new opportunities to refinance existing loans were identified in 2015/16 but the Treasury Management Panel continues to look at ways to reduce the cost of interest on long-term loans.

2.4 Summary

The Council's pooled borrowing rate on its long-term debt increased from 4.76% in 2014/15 to 4.83% in 2015/16. This change occurred as a result of the movement in loans referred to in 2.2 above.

Temporary borrowing has been required at certain times during the year in order to manage the peaks and troughs in cashflows. The Council's borrowing activities for the 2015/16 financial year are summarised on the next page:

	Debt financing at 1 Apr 2015	Additions to debt	(Reductions) in debt	Debt financing at 31 Mar 2016
	£M	£M	£M	£M
PWLB	55.6	-	(6.3)	49.3
Market Loans	39.3	-	-	39.3
Temporary Loans	46.5	138.7	(121.1)	64.1
Sub total	141.4	138.7	(127.4)	152.7
Local Government Reorganisation (LGR) Debt	20.3	-	(0.9)	19.4
TOTAL	161.7	138.7	(128.3)	172.1

The revised maturity profile for the total external long-term debt outstanding as at 31 March 2016 is shown in Annex 1 of this report.

3. INVESTMENT TRANSACTIONS 2015/16

3.1 Overview

The Bank of England Official Bank Rate - the 'Base Rate', i.e. the general level to which all short-term interest rates are related - has remained the same throughout 2015/16 at 0.5%.

Annex 2 shows this interest rate graphically from 1 September 2008 to 31 March 2016.

3.2 Receipts and Payments during the Year

Annex 3 of this Report summarises the Council's cashflows during the year, short-term interest receivable and payable, year-end loans outstanding and investment balances.

3.3 Investment Earnings

Interest which has been earned from temporary investments is included in Annex 3, together with a comparison with the budgeted income for the financial year. Actual investment earnings, included within the short-term net receivable/payable figure, are £25,000 and these are referred to in Annex 4 within the note on higher cash balances.

3.4 Approved Institutions for Investments

The Treasury Management Panel will continue to manage the Council's treasury and investment affairs in a cautious and prudent manner taking account of changes in the economic climate. The Council's Treasury Management Policy restricts investments to a list of approved institutions. Each institution has its own maximum investment limit and timeframe and the security of funds is the overriding factor.

The list comprises UK-registered banks along with their subsidiaries, the Nationwide and Coventry Building Societies, upper tier local authorities and certain other public sector bodies plus short-term gilts and UK treasury bills. The list continues to be reviewed regularly in the light of changes in credit ratings and market intelligence.

4. REVENUE OUTTURN 2015/16

The Treasury Management revenue account for 2015/16 had net expenditure of £11,278,000, an improvement of £2,828,000 over the budget of £14,106,000.

A comparison of the Treasury Management revenue account with the budget for 2015/16 is set out in Annex 4.

The debt servicing costs for 2015/16 decreased due to the use of cheaper temporary loans and the deferral of any new long-term borrowing.

Low levels of interest available on temporary cash balances coupled with fewer opportunities to restructure the long-term loan portfolio mean that further savings cannot be guaranteed in future years.

5. PRUDENTIAL INDICATORS

The Prudential Indicators and Limits for 2015/16 are set out within Annex 5 to this Report.

6. MINIMUM REVENUE PROVISION (MRP) POLICY CHANGE

The Treasury Management Strategy for 2016/17 which was approved by the Council on 25 February 2016, contained details of a change in Minimum Revenue Provision policy affecting the Treasury Management Outturn for the year ending 31st March 2016 and subsequent years. The revised policy adopts a more prudent approach, replacing the 4% reducing balance method of calculating Minimum Revenue Provision on debt which arose prior to 1

April 2008 with the 2% straight line method.

As a result the Minimum Revenue Provision charge on supported borrowing in 2015/16 reduces by £1.4m (reflected in Annex 4). The total Minimum Revenue Provision overprovided up to and including 2014/15, due to the change in Minimum Revenue Provision Policy referred to in the paragraph above, is calculated to be £11.1m. Of this amount £2.6m in the current year (Annex 4) and £8.5m over the next three years will be used to create a new pay reserve and a transformational cost reserve.

7. RECOMMENDATION

The Executive is asked to note the report on treasury management activities for the financial year ending 31 March 2016.

S. THOMPSON

DIRECTOR OF RESOURCES