Annexe B (to the Executive Report)

TREASURY MANAGEMENT ANNUAL REPORT 2016/17

1 INTRODUCTION

1.1 The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity during 2016/17. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through regulations issued under the Local Government Act 2003.

1.2 The report covers

- The current treasury position
- Capital Expenditure and Financing 2016/17
- The Strategy for 2016/17
- The Economy in 2016/17
- The investment and borrowing outturn for 2016/17
- Compliance with Treasury Limits

2 SUPPORTING INFORMATION

Current Treasury Position

2.1 At the end of the financial year net borrowing stood at £5.133m with the overall treasury position as follows

Table 1 – Treasury Position 31/03/17

Treasury Position	**At 31 March 2017**		**At 31 March 2016**	
	Principal	**Average Rate**	**Principal**	**Average Rate**
Fixed Interest Borrowing	£25.000m	2.10%	£0.000m	0.00%
Variable Interest Borrowing	£0.000m	0.0%	£0.000m	0.00%
Total Borrowing	**£25.000m**	**2.10%**	**£0.000m**	**0.00%**
Fixed Interest Investments	£0.000m	0.00%	£7.000m	0.70%
Variable Interest Investments	£19.867m	0.25%	£18.038m	0.46%
Total Investments	**£19.867m**	**0.25%**	**£25.038m**	**0.53%**
Net borrowing/(Investment) position	**£5.133m**		**(£25.038)**	

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Capital Expenditure and Financing

2.2 The Council undertakes capital expenditure on long term assets. These activities may either be funded immediately through capital receipts or capital grants or contributions, or if insufficient financing is available financed through borrowing. The actual capital expenditure forms one of the required prudential indicators and the table below shows how this was financed in 2016/17. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources, and is shown below in Table 2.

Table 2 Financing of Capital Programme 2016/17

	£'000
Expenditure	
Capital Programme	76,300
Total	**76,300**
Financed by	
Capital Receipts	3,430
Community Infrastructure Levy	3,037
Government Grants/Contributions	10,622
S106 Contributions	8,212
Capital Financing Requirement	50,999
Total	**76,300**

The Strategy for 2016/17

2.3 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in quarter 1 of 2017) and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

2.4 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk. During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.

The Economy in 2016/17

2.5 The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth.

2.6 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

Investment Outturn

2.7 After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.

2.8 The Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 24th February 2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.). No changes were made to the counterparty criteria for 2016/17. The investment activity during the year conformed to the approved strategy.

2.9 The average rate on investments was 0.39% on an average balance of £22.1m, representing a 19 basis points out-performance on the 7-Day LIBID benchmark (0.20%).

2.10 The outturn for net investment income is £437k (see table 3), an increase in income of £358k on the original budget. Cash balances remained stronger than anticipated throughout most of the year. The capital programme lagged projections in the early part of the year, particularly in relation to the major schemes that were progressing in 2016/17 (Coral Reef Roof, Binfield Learning Village and Town Centre Regeneration). The actual cash-outflow for these schemes are difficult to predict in advance and the re-phasing resulted in considerably higher cash balances in 2016/17. An additional benefit of higher than anticipated cash-balances was the ability of the Council to maximise the opportunity to make a pre-payment to the Pension Fund enabling the Council to benefit from a pre-payment premium of £340,000 (against an anticipated premium of £100,000).

2.11 However the implementation of the Council's Commercial Property Investment strategy (CPIS) later in the year utilised all cash balances and required the Council to borrow externally for the first time. The cost of borrowing associated with the

CPIS investment is significantly lower than the rental yield and will as such generate an income that will support the Council's medium term budget.

Table 3 – Investment Income	Budget £'000	Actual £'000
Investment Income		
Gross Interest Received	-34	-87
Other Interest Received	-190	-508
Total Interest	**-224**	**-595**
Expenditure		
Interest Payments - Other	75	72
Fees & Charges	70	86
Total Expenditure	**145**	**158**
Net Interest	**-79**	**-437**

Fees and Charges include costs related to finance charges, software licences and professional support and advice.

<u>Borrowing Outturn</u>

2.12 The following loans were entered into during the year.

Table 4 – Borrowing undertaken in year

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£10m	Fixed	2.60%	31/03/2066
PWLB	£10m	Fixed	2.60%	31/03/2062
Greater London Authority	£5m	Fixed	0.47%	15/06/2017

<u>Compliance with Treasury Limits</u>

2.13 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement.

2.14 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR) and is set out in Table 5. The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources This includes PFI and finance lease schemes on the balance sheet, which increases the Council's borrowing need however no borrowing is actually required against these schemes as a borrowing facility is included in the contract.

2.15 As noted above the Council's progress on its major capital programme schemes (Binfield Learning Village, Coral Reef and Town Centre Regeneration) along with the first two property purchases as part of the Council's Commercial property Investment Strategy required the Council to borrow externally. This was carried out with the advice of the Council's Treasury Management advisors.

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Table 5 – Capital Financing Requirement	
	31 March 2017 Actual Indicator (£m)
Opening balance	**62.300**
Net financing need for CFR purposes	50.999
Less MRP/VRP and other financing movements	-1.591
Closing balance	**111.708**

2.16 The outturn for the remaining Prudential Indicators are as follows

THE PRUDENTIAL CODE FOR CAPITAL FINANCE FOR LOCAL AUTHORITIES

No.	AFFORDABILITY INDICATORS	2016/17 Out-turn
1	**Financing Costs to Net Revenue Stream**	**%**
(a)	General Fund	-0.62
2	**Impact of New Capital Investment**	**£ p**
(a)	Cumulative Increase in Council Tax (Band D, per annum)	1.67
No.	**CAPITAL EXPENDITURE INDICATORS**	
3	**Gross Capital Expenditure**	**£'000**
(a)	General Fund	£76,300
No.	**EXTERNAL DEBT INDICATORS**	**2016/17 Out-turn**
5	**Authorised limit for external debt -**	**£'000**
(a)	Borrowing	108,000
(b)	Other long term liabilities	16,000
(c)	TOTAL	124,000
6	**Operational boundary -**	**£'000**
(a)	Borrowing	103,000
(b)	Other long term liabilities	16,000
(c)	TOTAL	119,000

The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

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- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken ;
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act. The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

The Council has complied with all of the above relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

Annexe E (to the Executive Report)

Virements between Departments

Total	Explanation
£'000	
	Corporate Services / CX Office
84	Allocation of Planned Maintenance budgets to match the programme of works.
-87	Revenue contributions to meet HR & Payroll System capital costs.
100	An allocation from the Structural Changes Reserve to finance additional costs associated with redundancies.
10	Savings identified on the stationery contract. This is a saving that is to be attributed to the Facilities Management Category Strategy savings target.
	Children, Young People and Learning
28	Allocation of Planned Maintenance budgets to match the programme of works.
36	Allocations from the Structural Changes Reserve to finance additional costs associated with redundancies.
-48	Revenue contributions relating to school capital projects.
-3	Savings identified on the stationery contract. This is a saving that is to be attributed to the Facilities Management Category Strategy savings target.
	Adult Social Care, Health and Housing
1	Allocation of Planned Maintenance budgets to match the programme of works.
-2	Savings identified on the stationery contract. This is a saving that is to be attributed to the Facilities Management Category Strategy savings target.
	Environment, Culture and Communities
82	Allocation of Planned Maintenance budgets to match the programme of works.
115	An allocation from the Structural Changes Reserve to finance additional costs associated with redundancies.
-237	Revenue contributions for equipment purchases at, Coral Reef, EHPCC and the Cemetery and Crematoria and for bins
-62	A sum of £0.109m was vired from the Section 106 SPA Mitigation monies received to fund 3.15 FTE posts to enable the production of, co-ordination and monitoring of the Suitable Alternative Natural Green Spaces (SANGS) plans together with the co-ordination of access management measures. Due to staff vacancies the full transfer was not required so £0.062m is to be returned to S106 for future years.
-5	Savings identified on the stationery contract. This is a saving that is to be attributed to the Facilities Management Category Strategy savings target.
	Non-Departmental
-195	Allocation of Planned Maintenance budgets to match the programme of works.
372	Revenue contributions towards capital
-251	Structural Changes Reserve
62	S106 Transfers
0	**Total Virements**

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Departmental Virements over £50,000

Debit	Credit	Explanation
£'000	**£'000**	
		Corporate Services / CX Office
		The Devolved Staffing Budgets (DSB) have been realigned to reflect in year staff turnover and amendments to staffing structures as follows:
33		Legal
74		Chief Executive's Office
4		Human Resources
47		ICT
33		Democratic & Registration
	-76	Finance
	-11	Customer Services
	-44	Property
	-12	Director of Corporate Services
	-48	Community Engagement
191	**-191**	**Total**

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Departmental Virements over £50,000

Debit	Credit	Explanation
£'000	**£'000**	
		Environment Culture and Communities
		Realignment of waste services budgets to reflect the contract expenditure and income split between the two recycling services for monitoring and reporting purposes.
417		Brown Bin Collection Service
	-417	Waste Collection Recycling
		The Devolved Staffing Budgets (DSB) have been realigned to reflect in year staff turnover and amendments to staffing structures.
73		Bracknell Leisure Centre
25		Regulatory Services
	-261	Departmental Support Services
16		Waste Management
17		Director and Support
41		Development Control
46		Planning Policy
204		Transport Policy, Planning & Strategy
	-161	Highway Maintenance (including Street Lighting)
839	**-839**	**Total**

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Departmental Virements over £50,000

Debit	Credit	Explanation
£'000	**£'000**	
		<u>Adult Social Care, Health and Housing</u>
		To reflect the new management housing structure and the government grant in respect of reducing housing benefits fraud and error.
	-71	Housing Benefits ad Supporting People - employees
	-42	Housing Benefits - Government Grants
113		Strategy & Enabling and Housing Options - employees
		Winter Pressure Funding from the NHS.
	-235	Older People & long Term Conditions - other grants, reimbursements and contributions
76		Older People & long Term Conditions / Community Team for Mental Health Older Adults - employees
159		Older People & long Term Conditions - third party payments
		To reflect staff costs that are incurred by Bracknell but paid for by other local authorities as part of the Emergency Duty Team. This virement is required to ensure the department does not overspend on DSB budget.
	-128	Internal Services - other grants, reimbursements and contributions
128		Internal Services - employees
476	**-476**	**Total**

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Departmental Virements over £50,000

Debit	Credit	Explanation
£'000	**£'000**	
		Schools Budget
		under which school budgets will be adjusted to take account of changing circumstances. These can be in respect of local policy decisions or in order to comply with relevant legislation.
3,481		Funds Delegated to Schools
	-117	De-delegated Budgets
	-414	Other School Services
	-1,590	Maintained Schools & Academies
	-1,371	EY Free Entitlement
16	-5	Other budgets
		The transfer of Brakenhale Secondary school to an academy resulted in the Education Funding Agency paying sixth form grant direct to the school, rather than to the council requiring a resultant budget adjustment.
466		Funds Delegated to Schools
	-466	School Grant Income
3,963	**-3,963**	**Total**
5,469	**-5,469**	**Grand Total**