**Agenda Item No. 9**

## Audit Committee – 27 June 2016

## Treasury Management Annual Report 2015/16

### 1. Summary of report

1.1 This report sets out Walsall council's treasury management annual report for 2015/16 as required by the CIPFA Code of Practice (Appendix A).

### 2. Recommendations

2.1. Audit Committee are asked to approve and recommend to Council the treasury management annual report for 2015/16 (Appendix A).

### 3. Background information

#### 3.1 Treasury Management Annual Report

The annual report is detailed in Appendix A and includes:

- Annual treasury management strategy
- Economic review, operational treasury management and interest rates
- Review of 2015/16 activities
- Borrowing and investments
- Compliance with treasury limits
- Prudential and local indicator performance

The report is presented to Audit Committee with a recommendation for referral to Council for approval.

#### 3.2 Highlights of TM Annual report

The following key points of interest have been extracted from the report:

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- The annual report meets the requirement of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.
- Capital expenditure was £88.904m of which £25.442m was funded from borrowing (Table 2, Appendix A).
- The MRP policy was approved by Council on the 25 February 2016. The amendment backdating the 2014/15 policy to 2008 allowed greater flexibility and smoothing of future charges, in line with the agreed strategy of maintaining the level of capital financing costs as a proportion of tax revenue.
- The council made a repayment of £20m long term debt. The council's average rate on its borrowing was reduced from 4.60% to 4.43%

- All prudential indicators were complied with; the main variation was on capital expenditure which was significantly lower than expected due to higher carry forwards for externally funded schemes.
- The banking environment has continued to be one of the lowest interest returns with some improved confidence in counter party risk. Expected increases in interest rates have not materialised further dampening investment rates offered.
- The Investment performance was 1.08% in 2015/16 compared to 1.09% in 2014/15.

**4. Resource and Legal considerations**

4.1 **Financial**

Treasury management activity forms part of the council's financial framework and supports delivery of the medium term financial strategy.

4.2 **Legal**

The Council is required to have regard to the Prudential Code under the duties outlined by the Local Government Act 2003. One requirement of the Prudential Code is that the Council should comply with the CIPFA Code of Practice for Treasury Management. The Council complies fully.

**5. Risk and performance management issues**

5.1 **Risk**

Treasury management activity takes place within a robust risk management environment which enables the council to effectively maximise investment income and minimise interest payments without undue or inappropriate exposure to financial risk. Treasury management practices approved by Council provide the governance framework specifically TMP 1 which details the risk management arrangements in place.

5.2 **Performance**

Performance is regularly reviewed by the treasury management panel.

**6. Equality implications**

6.1 None directly relating to this report.

**7. Consultation**

7.1 The report has been approved by the finance treasury management panel, an internal governance arrangement comprising the Chief Finance Officer, Head of Finance and Treasury Financial Administration and Systems Manager. It will be distributed to all councillors and used for member training.

## 8.0 Background papers

- Various financial working papers
- Annual review of treasury management policy statement and practices – Audit Committee 09.11.15
- Corporate budget plan and treasury management and investment strategy 2015/16 – Council 26.02.15.

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**03 June 2016**

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# Appendix A

# Annual Treasury Management Report 2015/16

Walsall Council
June 2016

# Contents

# Annual Treasury Management Report 2015/16

## Purpose

This council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and prudential and treasury indicator performance for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2015/16 the following reports were produced:

- an annual treasury strategy in advance of the year (Council 26/02/2015)
- a mid-year (minimum) treasury update report (Audit Committee 9/11/2015)
- an annual review of treasury management policies (Audit Committee 9/11/2015)
- an annual report following the year describing the activity compared to the strategy (this report to Audit Committee )

In addition, this council's treasury management panel has received regular treasury management update reports.

The regulatory environment places an onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the council's policies previously approved by members.

This council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. In order to support members' scrutiny role annual member training on treasury management issues was undertaken during November 2015.

## Executive summary

During 2015/16, the council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

| Table 1<br>Actual prudential and treasury indicators | 2014/15<br>Actual<br>£m | 2014/15<br>Restated<br>£m | 2015/16<br>Original<br>£m | 2015/16<br>Revised<br>£m | 2015/16<br>Actual<br>£m |
|---|---|---|---|---|---|
| Actual capital expenditure | 45.425 | 45.425 | 47.600 | 103.730 | 88.904 |
| Capital Financing Requirement: | | | | | |
| Including PFI and finance leases | 306.082 | 310.335 | 325.077 | As Original | 328.018 |
| Excluding PFI and finance leases | 297.800 | 302.053 | 316.787 | As Original | 320.488 |
| External Borrowing | 243.958 | 243.958 | 243.958 | As Original | 232.790 |
| Investments | 144.940 | 144.940 | 144.940 | As Original | 129.799 |
| Net borrowing | 99.018 | 99.018 | 99.018 | As Original | 102.990 |

The capital programme was updated (revised column) during the year from that originally approved by Council on 26 February 2015 (original column) for capital carry forwards and re-profiling of spend from 2014/15, and additional grants received during the year.

Other prudential and treasury indicators are to be found in the main body of this report. The Assistant Director of Finance confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.

The Capital Financing Requirement 2014/15 was restated following the annual MRP review which revealed the opportunity to implement the MRP policy agreed in 2014/15 back to 2008 and to apply relevant accounting practices consistently over that period.

The challenging environment of low investment returns and uncertainty of counterparty risk has continued in 2015/16.

## 1. Introduction and background

To set the context of the treasury management environment it is first necessary to provide a review of the economy and interest rates.

In 2015/16 the challenging investment environment of previous years' continued, namely low investment returns, although levels of counterparty risk has continued to subside. The interest rate forecast was that the low interest rate environment would continue throughout 2015/16 and thus the target for investment returns was reduced. An economic summary is given at the beginning of the borrowing and investment sections.

## 2. The Council's Capital Expenditure and Financing 2015/16

The council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc., which has no resultant impact on the council's borrowing need); or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed. The amount to be funded from borrowing in 2015/16 was £25.442m. It shows a significant increase in capital expenditure funded from grants, this is mainly due to Growth Fund Projects, for which Walsall is the accountable body for all the Black Country Districts.

| Table 2 | 2014/15 Actual £m | 2015/16 Original £m | 2015/16 Actual £m |
|---|---|---|---|
| **Total capital expenditure** | **45.425** | **47.600** | **88.904** |
| Resourced by: | | | |
| • Capital receipts | 2.618 | 3.247 | 0.790 |
| • Capital grants | 22.272 | 22.150 | 56.620 |
| • Capital Reserves and Revenue | 4.441 | 0.960 | 6.052 |
| • Borrowing | | 21.243 | |

| | | | |
|---|---|---|---|
| | 16.094 | | 25.442 |
| | **45.425** | **47.600** | **88.904** |

## 3. The Council's Overall Borrowing Need

The council's underlying need to borrow for capital expenditure is termed the capital financing requirement (CFR). This figure is a gauge of the council's debt position. The CFR results from the capital activity of the council and what resources have been used to pay for the capital spend. It represents the 2015/16 capital expenditure funded by borrowing (see table 2), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the council.

**Reducing the CFR** – the council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The council is required to make an annual revenue charge, called the minimum revenue provision (MRP) to reduce the CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a voluntary revenue provision (VRP).

In 2014/15 the MRP policy was reviewed, updated and approved by Council. Following a further review in 2015/16 council on 26 February 2016 amended the implementation date of these changes from 1st April 2014 to 1st April 2008. The effect of this is a smoothing of the MRP charge. The policy change supports the strategy of maintaining the level of current capital financing costs as a proportion of council tax revenue. A further outcome of the review of the MRP policy was a restatement of the Capital Financing Requirement

(CFR) as at 31st March 2015. This was due to the review also highlighting the opportunity to apply consistently accounting practices from 2008 to 2015.

The council's CFR for the year 2015/16 is shown below in Table 3, and represents a key prudential indicator (PrI4). It includes PFI and leasing schemes from the balance sheet which increase the council's borrowing need, the CFR. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable). It shows that in 2015/16 the council's CFR has increased by £17.683m from £310.335m to £328.018m.

| Table 3<br>CFR (£m) | 31 March 2015<br>Actual<br>£m | 31 March 2015<br>Restated<br>£m | 31 March 2016<br>Actual<br>£m |
|---|---|---|---|
| **Opening balance** | **301.029** | **306.659** | **310.335** |
| Add capital expenditure funded from borrowing (as above) | 16.094 | 16.094 | 25.442 |
| Add adjustment to CFR | 0 | Cr 1.378 | Cr 0.058 |
| Less MRP/VRP* | Cr 11.041 | Cr 11.040 | Cr 7.701 |
| **Closing balance** | **306.082** | **310.335** | **328.018** |

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR. Table 4 below highlights the council's net borrowing position (£102.990m) against the CFR excluding PFIs and Finance leases (£320.488m) because the debt liability for these are not in the net borrowing position of the council. The council has complied with this prudential indicator.

| Table 4 | 31 March 2015<br>Actual<br>£m | 31 March 2016<br>Actual<br>£m |
|---|---|---|
| Gross Borrowing | **251.031** | **239.475** |
| Net borrowing position | **99.019** | **102.991** |
| CFR – excluding PFIs and Finance Leases | **297.800** | **320.488** |
| Long term Assets | **534.375** | **532.818** |
| Net Borrowing % of Long term Assets | **19%** | **19%** |

Another measure of prudency is the proportion of net to fixed assets. Table 4 shows that the net borrowing position of the council as at 31.03.16 is £102.990m this is 19% of the value of the council's long term assets which are valued on the council's balance sheet at 31.03.2016.

Other key Prudential Indicators are shown in Table 5 below:

| Table 5 Prudential and Borrowing Limits | 2014/15 £m | 2015/16 £m |
|---|---|---|
| 1. Authorised limit | **349.022** | **357.585** |
| 2. Maximum gross borrowing in year | **263.562** | **252.797** |
| 3. Operational boundary | **307.527** | **320.488** |
| 4. Average gross borrowing | **258.968** | **238.838** |
| 5. Financing costs as proportion of net revenue stream | **8.46%** | **6.41%** |

1. **The authorised limit** - the authorised limit is the "affordable borrowing limit" set by the council as required by section 3 of the Local Government Act 2003. The council does not have the power to borrow above this level without the prior approval of full Council. Table 5 demonstrates that during 2015/16 the council's maximum gross borrowing was within its authorised limit.

2. **Maximum Gross borrowing** – is the peak level of borrowing in year.

3. **The operational boundary** – the operational boundary is the expected borrowing position of the council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. In 2015/16 the council's average borrowing position was less than the operational boundary.

4. **Average Gross Borrowing** – is an estimate of the borrowing level in the year see Table 7 for analysis of Borrowing.

5. **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. Net revenue stream is defined as Net Council Tax Requirement + Standard Spending Assessment (previously Formula Grant).

## 4. Prudential Indicators

The following tables show performance against statutorily required prudential and local indicators.

| Table 6 Prudential Indicator | | Actual 2014/15 £m | Target 2015/16 £m | Position at 31-Mar-16 £m | Variance to target | % |
|---|---|---|---|---|---|---|
| PrI 1 | Capital Expenditure | 45.420 | 103.730 | 88.935 | Cr 14.795 | - 14% |
| PrI 2 | Ratio of financing costs to net revenue stream | 8.46% | 10.00% | 6.41% | Cr 3.59% | -36% |
| PrI 3 | Estimates of the incremental impact of new capital investment decisions on Council Tax | £18.19 | £30.33 | £30.33 | | 0% |
| PrI 4 | Capital Financing Requirement | 310.335 | 329.209 | 328.018 | Cr 1.191 | 0.4% |
| PrI 5 | Authorised Limit for external debt | 349.022 | 357.585 | 357.585 | | 0% |
| PrI 6 | Operational Limit for external debt | 307.527 | 316.787 | 320.488 | 3.701 | 1% |

| Table 6 continued Prudential Indicator | | Actual 2014/15 £m | Target 2015/16 £m | Position at 31-Mar-16 |
|---|---|---|---|---|
| PrI 7 | Gross Borrowing exceeds capital financing requirement | No | No | **No** |
| PrI 8 | Authority has adopted CIPFA Code of Practice for Treasury Management | Yes | Yes | **Yes** |
| PrI 9 | Total principle sums invested for longer than 364 days must not exceed | **15.500** | 25.000 | **10.500** |

| Table 6 continued Prudential Indicator | | Upper Limit | Lower Limit | Position at 31-Mar-15 | Position at 31-Mar-16 |
|---|---|---|---|---|---|
| PrI 10 | Fixed Interest Rate Exposure | 95% | 45% | **95%** | **83%** |
| PrI 11 | Variable Interest Rate Exposure | 45% | 0% | **5%** | **17%** |
| PrI 12 | ***Maturity Structure of Borrowing*** | | | | |
| | Under 12 months | 25% | 0% | **5%** | **25%** |
| | 12 months and within 24 mnths | 25% | 0% | **22%** | **15%** |
| | 24 months and within 5 years | 40% | 0% | **26%** | **13%** |
| | 5 years and within 10 years | 50% | 10% | **17%** | **16%** |

| | | | | | |
|---|---|---|---|---|---|
| | 10 years and above | 85% | 40% | **30%** | **31%** |

All Prudential indicators were complied with. Key variances are because of the following reasons:

Prl 1 Total capital expenditure - variation of £14.795m
The variation is due to capital carry forwards particularly capital grants which are expected to be spent in 2015/16.

Prl 2 Estimates of the ratio of financing costs to the net revenue stream variation of 3.59%
Compared to other councils, Walsall's ratio of capital financing to total revenue costs is low, which demonstrated good performance. This is favourably less than target due to the early repayment of £20m long term loans and a special airport dividend.

PrI 12 Maturity Structure of Borrowing
For the purpose of the maturity profile indicator the next call date on a LOBO loan is assumed; as it is the right of the lender to require repayment. However due to the low interest rate environment it is unlikely that in the medium term that any of the LOBO's will be called.

## 5. Treasury Position at 31st March 2016

The council's debt and investment position is organised by the treasury management team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the council's treasury management practices. At the beginning and the end of 2015/16 the council's treasury position was as follows see Table 7:

| Table 7 Loans and Investments | Opening Balance £m | Average Rate At 31/03/15 % | Movement in Year £m | Closing Balance £m | Average Rate At 31/03/16 % |
|---|---|---|---|---|---|
| PWLB loans | 106.558 | 4.49% | 0.033 | 106.621 | 4.55% |
| Market Loans | 122.000 | 4.67% | Cr 20.000 | 102.000 | 4.64% |
| Bonds | 0.288 | 3.94% | 0.341 | 0.629 | 1.60% |
| **Total excluding WMCC debt** | 228.876 | 4.60% | Cr 19.626 | 209.250 | 4.43% |
| WMCC Debt | 22.068 | 6.57% | Cr 1.191 | 20.877 | 6.37% |
| **Total Borrowing over 12 months** | 250.944 | | Cr 20.817 | 230.127 | |
| Temporary Loans | 0.087 | 0.50% | 9.262 | 9.349 | 1.12% |
| **Gross Borrowing** | 251.031 | 4.79% | Cr 11.555 | 239.476 | 4.60% |
| Waste Disposal & Cannock Chase Debtor | Cr 7.073 | 6.57% | 0.446 | Cr 6.686 | 6.85% |
| **Borrowing** | 243.958 | 4.73% | Cr 11.109 | 232.790 | 4.54% |
| CFR less PFI finance & leases | 302.053 | | 18.435 | 320.488 | |
| **Under Borrowing** | 58.095 | | | 87.698 | |
| **Debt as % of CFR** | 81% | | | 73% | |
| Call Accounts | 11.640 | 0.50% | Cr 3.841 | 7.799 | 0.50% |
| Short Term Investments | 117.800 | 1.08% | Cr 6.300 | 111.500 | 1.30% |
| Long Term Investments | 15.500 | 2.04% | Cr 5.000 | 10.500 | 1.84% |
| **Total Investments** | 144.940 | 1.13% | Cr 15.141 | 129.799 | 1.29% |
| **Net Borrowing Position** | 99.019 | | 4.032 | 102.991 | |

The under borrowing position the council has represents additional external borrowing the council could choose to take if required and has increased due to the change in the implementation of the MRP policy referred to in section 3. Overall the initial lower MRP charge is offset by the later higher MRP charge.

## 6. The Borrowing Strategy for 2015/16 and Economic Context

The expectation for interest rates within the treasury management strategy for 2015/16 anticipated a low but rising Bank Rate, (starting in quarter 1 of 2016), 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.

The actual movement in gilt yields meant that the general trend in PWLB rates during 2015/16 was an increase in rates during the first quarter followed by marked bouts of sharp volatility since July 2015 but with an overall dominant trend for rates to fall to historically low levels by the end of the year. It was just prior to this period that advantage was taken of undertaking a repayment of £2 0m long term borrowing.

Market expectations for the first increase in Bank Rate moved considerably during 2015/16. The interest increase was first of all expected to be in quarter 3 2015 but this was moved back to quarter 1 2016, by the end of the year it had moved back further to quarter 2 2018. This was due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in the UK surged strongly during both 2013/14 and 2014/15 to make the UK the top performing advanced economy in 2014. However, 2015 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling materially. These rates continued at very low levels during 2015/16.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB had announced in January 2015 that it would undertake a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.

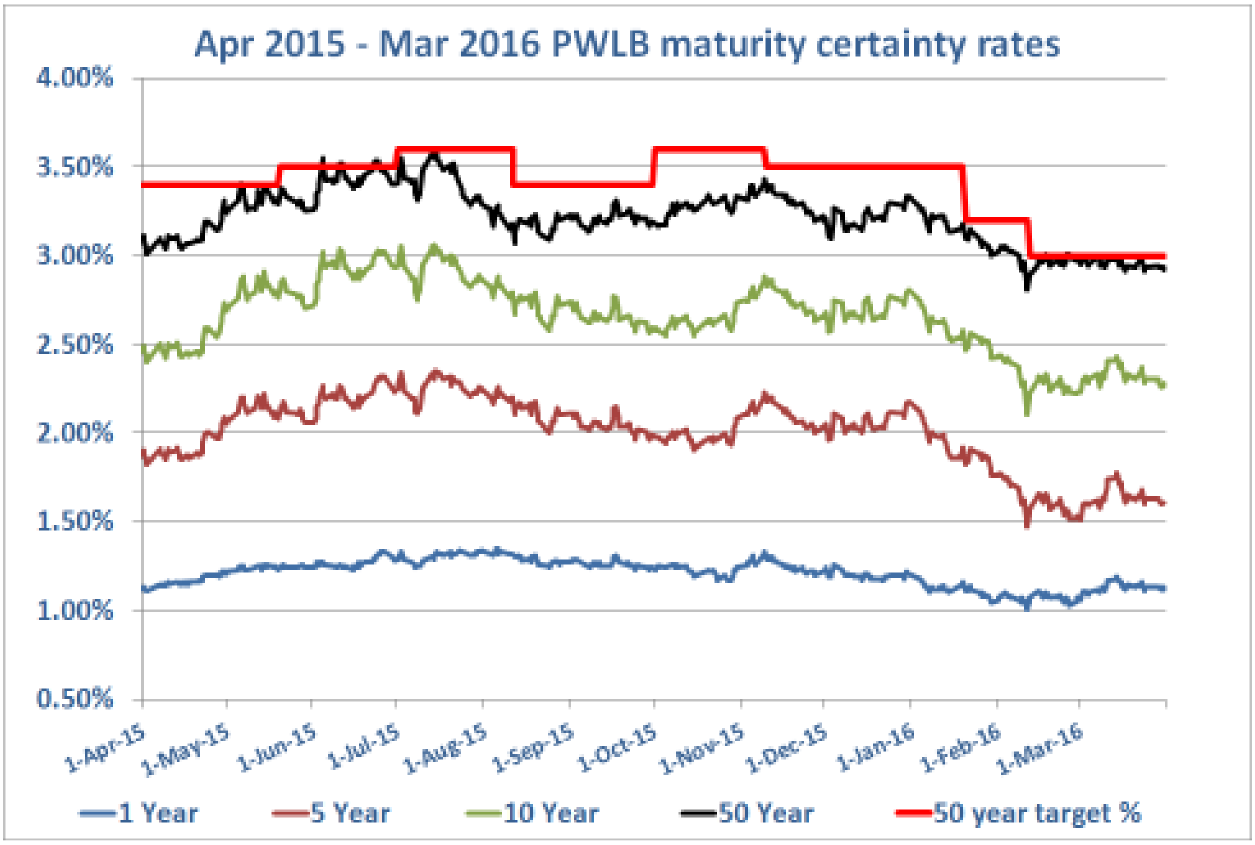
As for America, the economy has continued to grow healthily on the back of resilient consumer demand.  The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

On the international scene, concerns have increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts. The Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and Brazil, are in recession. The situations in Ukraine, and in the Middle East with ISIS, have also contributed to volatility.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

**PWLB borrowing rates -** Graph 1 shows PWLB certainty rates for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.

**Graph 1 :- PWLB rates 2015/16**

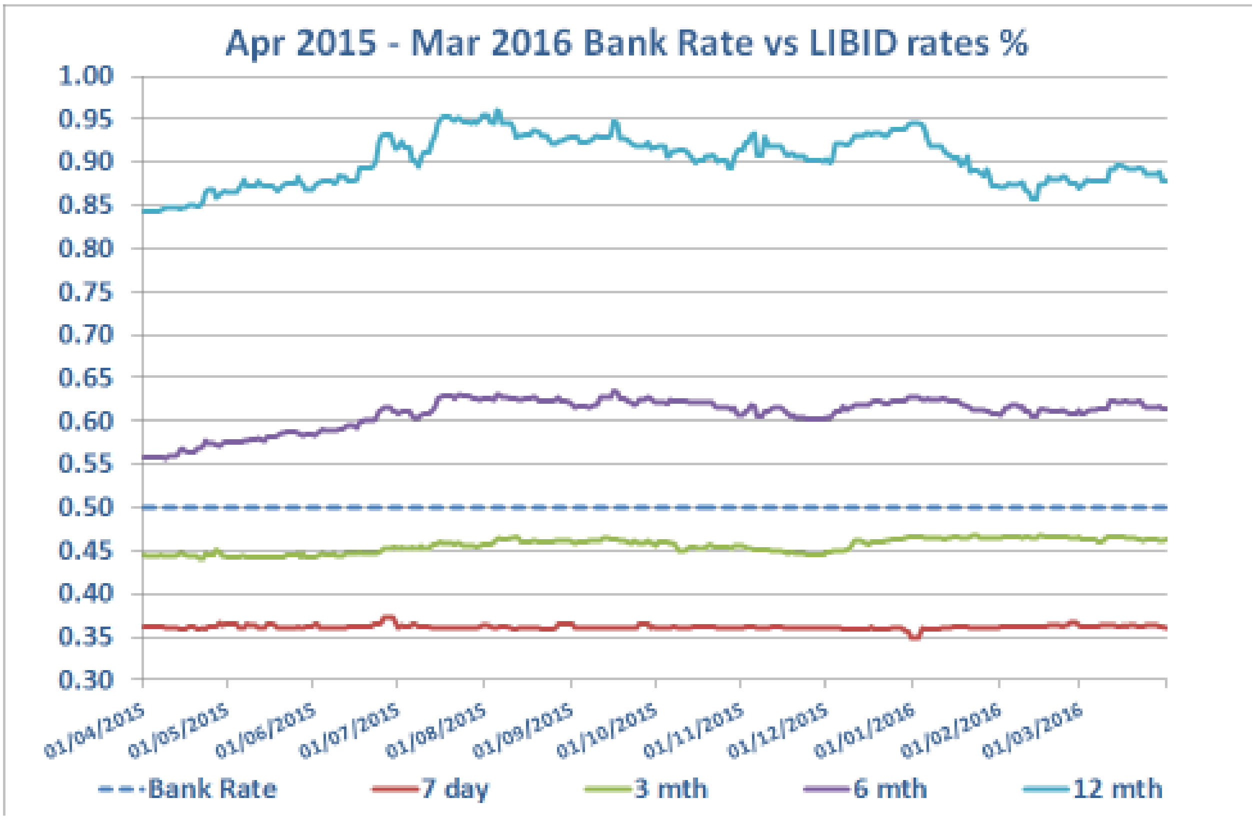



## 7. Borrowing Outturn for 2015/16

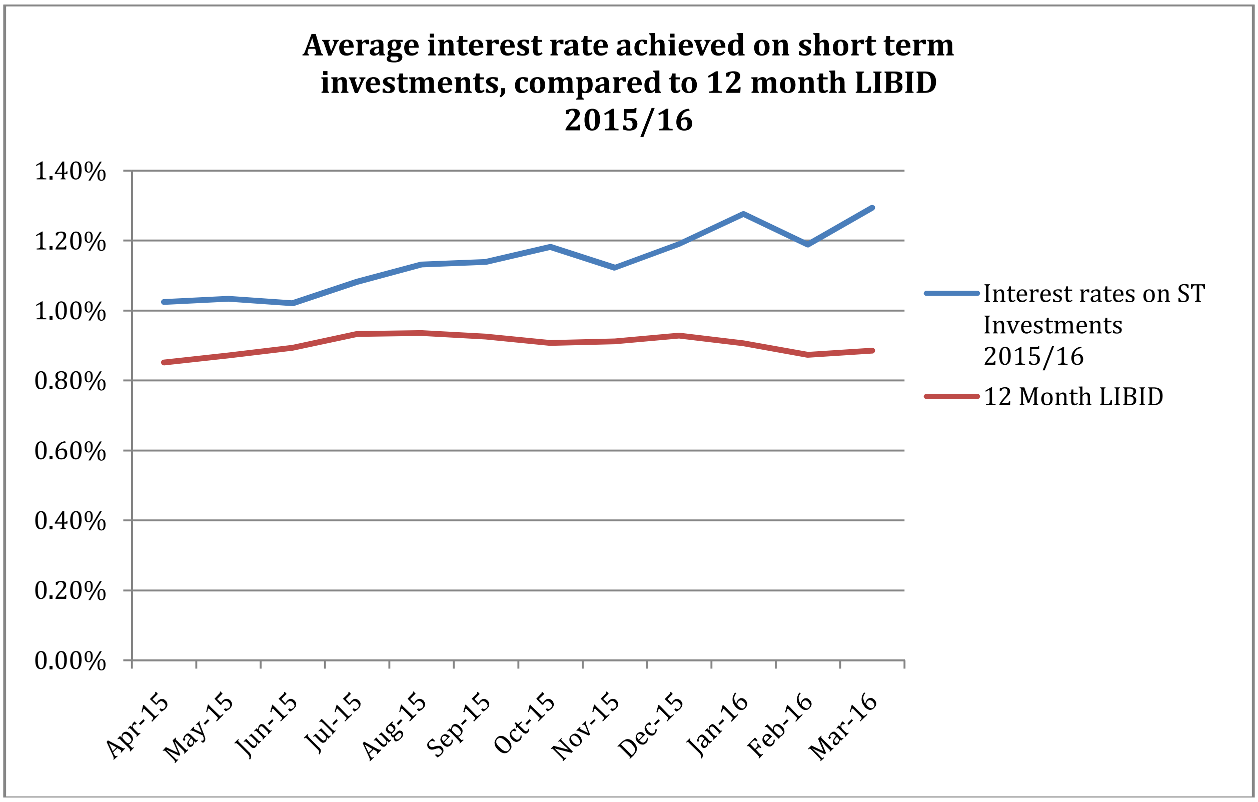
The council's long term borrowing (over 12 months in length) has reduced in the year from £251m to £230m. In line with the treasury management strategic objective of seeking beneficial debt rescheduling or debt repayment opportunities, the council made an early repayment of £20m of long term borrowing with Barclay's bank on 15th July 2015. The premium cost of £8.878m for the repayment was financed from an earmarked reserve created for this purpose and capital receipts. A detailed financial appraisal was undertaken prior to the repayment and an evaluation of the repayment has been made by our Treasury Advisors. The council will make an annual revenue saving on interest payments of £0.960m.

# 8. Investments in 2015/16 and Economic Context

The UK's Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.




The following chart plots Walsall's total short term Investment performance over the past 12 months. Table 10 on page 16 details our investment by call, short and long term. The 7 day rate above is a fair comparator for at-call and the 12 month LIBID for short term investments.




**Resources** – the council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations.

**Investment Policy** – the council's investment policy is governed by Central Government guidance, which was implemented in the Annual Investment Strategy approved by Council on 26 February 2015. This policy set out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by KPMG survey of Building Societies. The investment activity during the year conformed to the approved Strategy, and the council had no liquidity difficulties.

At the end of 2015/16 Walsall's investment balance was £15.141m lower than that at the start of the year. **Table 9** below shows an age profile of the investments.

| Table 9: Changes in Investments during 2015/16 | Opening Balance £m | Closing Balance £m | Movement in Year £m |
|---|---|---|---|
| At Call accounts | 11.640 | 7.799 | Cr 3.841 |
| Between 1 week and 3 months | 13.000 | 34.000 | 21.000 |
| Between 3 and 12 months | 104.800 | 77.500 | Cr 27.300 |
| Over 12 months | 15.500 | 10.500 | Cr 5.000 |
| **Total** | **144.940** | **129.799** | **Cr 15.141** |

**Investments held by the council** - the council maintained an average balance of £164m of internally managed funds. The internally managed funds earned an average rate of return of 1.08%. A comparable performance indicator is the average 7-day LIBID rate (which was 0.36%).

Recognising the continuation of the stresses on the world banking system, enhanced priority has continued to be given to security and liquidity. To reduce counterparty risk to the maximum possible extent the investment portfolio was spread across a range of appropriately credit rated institutions. **Table 10** shows the outturn on investment income in 2015/16.

| Table 10 Investments Interest – Gross Income | 2015/16 Approved Cash Limit £m | Outturn at 31 March 2016 £m | Over /(under) achieved cash limit £m | % Targe t Rate | % Average Rate achieved |
|---|---|---|---|---|---|
| Call Account investments | 0.080 | 0.139 | 0.059 | 0.40% | 0.47% |
| Short Term Investments | 0.563 | 0.875 | 0.313 | 0.90% | 1.14% |
| Long Term Investments | 0.270 | 0.259 | Cr 0.011 | 1.80% | 1.94% |
| **Total** | **0.913** | **1.273** | **0.361** | **1.10%** | **1.08%** |

### Local Authority Money Brokers

The council liaises with five brokers on a regular basis. Of the £741m of new investments made in 2015/16 £114m was through the 5 brokers and £626m was deals undertaken by the treasury team, the majority of which were through call accounts.

| | Table 12: Brokers Perforn 2015/16 | No of deals per broker | Value of Deal (£m) | % of deals |
|---|---|---|---|---|
| | Broker 1 | 22 | 50.000 | 6% |
| | Broker 2 | 8 | 19.500 | 2% |
| | Broker 3 | 2 | 10.000 | 1% |
| | Broker 4 | 6 | 19.000 | 2% |
| | Broker 5 | 4 | 16.000 | 1% |
| | **Total Broker deals** | **42** | **114.500** | |
| Call/fixed | Barclays | 232 | 334.955 | 62% |
| Call/Notice | Santander | 64 | 170.911 | 17% |
| Notice | Lloyds | 7 | 32.600 | 2% |
| Call | Bank of Scotland | 21 | 71.138 | 6% |
| Call | Royal Bank of Scotland | 1 | 2.910 | 0% |
| | Direct | 6 | 14.000 | 2% |
| | **Other Deals** | **331** | **626.514** | |
| | **Total No of Deals** | **373** | **741.014** | 100% |

# 9. Performance Measurement

One of the key requirements in the Cipfa Code of Practice on Treasury Management is the formal introduction of performance measurements relating to investments, debt and capital financing activities. Walsall has previously participated in the Cipfa treasury management benchmarking club. The table 14 below shows that Walsall has consistently achieved a higher average return on it's investments and has reduced it's average rate it pays for its borrowing.

| Table 13 Comparison of Walsall with other councils Average Interest Rates | Walsall Rate Received % | Group Average Rate Received % | Walsall Rate Paid % | Group Average Rate Paid % |
|---|---|---|---|---|
| 2011/12 | 1.80 | 1.20 | 4.53 | 4.53 |
| 2012/13 | 2.14 | 1.11 | 4.47 | 4.52 |
| 2013/14 | 1.29 | 0.85 | 4.51 | 4.26 |
| 2014/15 | 1.09 | 0.77 | 4.61 | 4.14 |
| 2015/16 | **1.08** | | **4.54** | |

Council approved the following local performance indicators, all of which were complied with during the year Table 14 provides the indicators for March 2016.

| Table 14 Local Indicators – March 2016 | | Actual 2014/15 | Target 2015/16 | Position as at 31-Mar-16 | Variance to target | Met |
|---|---|---|---|---|---|---|
| L1 | Full compliance with prudential code | **YES** | Yes | **YES** | | Y |
| L2 | Average length of debt | **15** | 15 to 25 years | **15** | | Y |
| L3a | Net borrowing costs as % of net council tax requirement | **23.7%** | 25.00% | **18.27%** | -27% | Y |
| 3b | Net borrowing costs as % of Tax Revenue | **13.40%** | 13.50% | **10.67%** | -21% | Y |
| L4 | Net actual debt vs. operational debt | **78%** | 75 - 90% | **72.64%** | | Y |
| L5 | Average interest rate of external debt outstanding excluding OLA | **4.60%** | 4.60% | **4.43%** | -4% | Y |
| L6 | Average interest rate of external debt outstanding including OLA | **4.73%** | 4.73% | **4.54%** | 4% | Y |
| L7 | Gearing effect of 1% increase in interest rate | **0.99%** | 5.00% | **3.51%** | -14% | Y |
| L8 | Average interest rate received on STI vs. 7 day LIBID rate | **0.66%** | 0.50% | **0.89%** | 77% | Y |
| L9a | AT call investments | **0.50%** | 0.40% | **0.50%** | 25% | Y |
| L9b | Short Term Investments | **1.08%** | 0.90% | **1.30%** | 44% | Y |
| L9c | Long Term Investments | **2.04%** | 1.80% | **1.84%** | 2% | Y |
| L10 | Interest rate on all ST investments (ST and AT call) | **1.02%** | 0.80% | **1.25%** | 56% | Y |
| L11 | Interest rate on all investments | **1.13%** | 1.10% | **1.29%** | 17% | Y |

| | | | | | | |
|---|---|---|---|---|---|---|
| L12 | % daily bank balances within target range | **100%** | 98.00% | **100%** | 2% | **Y** |

**Local Authority Mortgage Scheme.**

Under this scheme the council place funds of £2m with Lloyds for a period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the specified / non specified investment categories. At 31st March 2016, 76 mortgages have been supported through the LAMs scheme using £1,579,116 of the indemnity cover and a further 2 mortgages applications are being processed which when completed will use up a further £52,800.