

Key Decision Required:	Yes	In the Forward Plan:	Yes
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CABINET

5 AUGUST 2016

REPORT OF FINANCE, REVENUES AND BENEFITS PORTFOLIO HOLDER

A.4 TREASURY MANAGEMENT PERFORMANCE 2015/16
 (Report prepared by Richard Barrett and Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To report on the Council’s treasury management activities and Prudential Indicators for 2015/16.

EXECUTIVE SUMMARY

- Borrowing and investments have been undertaken in accordance with the 2015/16 Annual Treasury Strategy that was approved by Council on 24 March 2015.
- No external borrowing was undertaken in 2015/16 for either the General Fund (GF) or Housing Revenue Account (HRA).
- The amount of interest earned from investments remained low because of the continuing low interest rates existing throughout the year. However due to maximising investment opportunities and cash flow advantages during the year interest returns were in line with the increased amount budgeted.
- The outturn for the Prudential Indicators is attached as **Appendix B**.

RECOMMENDATION(S)

That the Treasury Management performance position and Prudential and Treasury Indicators for 2015/16 be noted.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Good and effective Treasury Management supports the Council in delivery against its corporate goals and objectives.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Key treasury management performance data is set out in **Appendix A**.

Risk

Risk is inherent in all treasury management activities. Such risks are considered within the Treasury Strategy with management actions necessary to mitigate the risks set out in the

Council's Treasury Management Practices.

LEGAL

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance which this Council has adopted.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications in respect of the above areas.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Services. The main reporting elements to comply with this code include:

- An Annual Treasury Strategy approved by Cabinet after consultation with the Corporate Management Committee for recommending to the Full Council.
- Regular monitoring reports that form part of the Council's Corporate Budget Monitoring arrangements during the year, which include a half-yearly update as at end of September each year.
- An annual treasury performance or outturn report for the preceding year that is presented to Cabinet.

This report sets out the necessary information in response to the third bullet point above and provides a summary of the treasury activities undertaken in 2015/16 (**Appendix A**) and final Prudential and Treasury Indicators at the end of 2015/16 (**Appendix B**).

BORROWING AND INVESTMENTS 2015/16

Borrowing

The Base Rate has remained at the same level throughout the year. Given the uncertainty that has followed the recent EU referendum, it is difficult to forecast the movement in interest rates in the short term to medium term. Public Works Loan Board (PWLB) rates remained relatively low although these began to rise during 2015/16 as a result of an increase in confidence in equity markets anticipating stronger economic recovery in key global economies. The continuation of this trend now needs to be set against the current economic uncertainty.

No external borrowing was undertaken during the year. The Strategy proposed that internal borrowing be maintained at a level of between £4m to £5m. Internal borrowing is running just above £5m but the Strategy recognised that given the continuing low return on investments and no significant increases in PWLB interest rates in the immediate future, it was prudent to maintain this position in the short term although this would be kept under review in consultation with the Council's external advisors.

No new borrowing or restructuring of existing debt was undertaken for GF or HRA

purposes in 2015/16. Principal on HRA debt continues to be repaid each year in line with the 30 year business plan.

Debt rescheduling opportunities are limited in the current economic climate with no debt rescheduling taking place in 2015/16.

No temporary borrowing from the markets was required during the year.

Investments

The year saw the continuation of the challenging investment environment of low investment returns and heightened levels of counterparty risk. The tight monetary conditions remain and short term deposit rates remain at low levels.

The Council manages its investments in-house and invests in accordance with the approved strategy. The Council invests for periods of time dependent on the Council's cash flows, the view as to future interest rate movements and the interest rates offered by counterparties whilst balancing various risks such as interest rate risk and counterparty risk.

With relatively poor investment returns available along with limited 'low' risk counterparties, a significant proportion of the Council's investments were still made with other local authorities. A number of banks did, however, see their ratings rise over the past 12 months which brought them back onto the Council's lending list. Certificates of deposit and treasury bills were purchased in the first months of the year instead of investing with local authorities as a better return was available from these instruments. Local authority rates rose later in the year as their requirement for cash increased and the Council therefore moved back to investing with them over the latter part of the year if they provided better value. Both government and local authority investments fit well with the Council's low appetite for risk with the security and liquidity of the investment the prime concern.

The total invested in the Government's Debt Management Office (DMO) and local authorities at 31 March 2016 was **£0.600m** and **£32.000m** respectively out of a total investment of **£45.260m**. Other investments were held with UK banks and three UK building societies with no amounts held with non-UK institutions or in Treasury Bills.

The Council receives regular credit rating updates during the year following which the appropriate action is taken as soon as practical where the credit rating falls below the minimum ratings which form part of the Council's Treasury Management Practices.

The recent EU referendum has introduced a high level of uncertainty into the markets. It is too early to forecast with any certainty of how things will progress over the coming months. To date there has been no significant impact on treasury activities but it is expected that interest rates will start to move even lower than at present, which will have an impact on investment returns.

Specific Issues Experienced in 2015/16

The Council's Treasury Management Practices allow up to £1 million to be held in the current bank accounts with Lloyds bank overnight. A minimum of £100,000 headroom is allowed for when making investment decisions each day, which aims to ensure that the predicted balance is never more than £900,000 each night. This headroom is usually sufficient, but on 1 March 2016 the cleared overnight balance was £1,091,085.72 because there was unexpected income received too late in the day to invest it in the markets. Additionally, on 3 May 2016 the £1 million limit was exceeded again with a cleared

overnight balance of £1,030,294.71 against a predicted balance of £890,021.56. This arose because on 3 May the Council received a total of £202,067.86 in faster payments, which cannot be predicted and similar to the above issue, notification was received too late in the day to place the money with a counterparty. Whilst this shows the success of channel shift in persuading people to undertake more transactions online, analysis of the balances over the past year shows that the unpredicted difference does peak on the first working day of the month. To prevent a recurrence, the headroom has been increased to £200,000 from £100,000 taking account of the Council's on-going cash flow forecasts.

The Treasury Management Practices currently allow amounts to be invested for more than 365 days but restricts the total investment to £3.5 million. There is an argument for allowing a proportion of monies representing the minimum balance the Council needs to hold to be invested for a longer term, potentially up to two years. This has been reviewed by officers and based on the fact that interest rates are expected to rise over the next few years, there is currently a high financial risk associated with placing investments for longer periods, which has to be balanced against the possible higher interest rate that could be earned over a longer period so no long term investments are proposed at the current time.

Compliance with Treasury and Prudential Limits

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy. The outturn for the Prudential Indicators is shown in **Appendix B**.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A Treasury Performance figures 2015/16

Appendix B Prudential and Treasury Indicators 2015/16