

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

14 JULY 2017

REPORT OF RESOURCES & CORPORATE SERVICES PORTFOLIO HOLDER

A.9 TREASURY MANAGEMENT PERFORMANCE 2016/17

(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 2016/17.

EXECUTIVE SUMMARY

- Borrowing and investments have been undertaken in accordance with the 2016/17 Annual Treasury Strategy that was approved by Council on 5 April 2016.
- No external borrowing was undertaken in 2016/17 for either the General Fund (GF) or Housing Revenue Account (HRA).
- The amount of interest earned from investments remained low because of the continuing unprecedented low interest rates existing throughout the year, which were cut further in August 2016 to 0.25%. However due to maximising investment opportunities and cash flow advantages during the year interest returns were in line with the budget.
- Treasury performance figures for the year are set out in **Appendix A** with Prudential Indicators attached as **Appendix B**.

RECOMMENDATION(S)

That Cabinet notes the Treasury Management performance position 2016/17 and approves the Prudential and Treasury Indicators for 2016/17.

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

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. 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).

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. (For 2016/17, a number of issues were brought to the attention of members as part of this reporting process with no further issues to raise as part of this outturn review)
- 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 2016/17 (**Appendix A**) and final Prudential and Treasury Indicators at the end of 2016/17 (**Appendix B**).

The chart in **Appendix A** showing average investments held has been amended to show the daily balance held, rather than just the balance on the last working day of the month, as this gives a better picture of the investments held over the course of the year.

During 2016/17, the Council complied with its legislative and regulatory requirements and associated treasury management activity remained in accordance with the Treasury Strategy and Treasury Management Practices with further details in respect of specific borrowing and investment considerations set out in the next section of the report.

BORROWING AND INVESTMENTS 2016/17

Borrowing

The Base Rate was cut to 0.25% on 4 August 2016 and the latest forecast from the Council's treasury advisors indicates that this is unlikely to change until June 2019. Public Works Loan Board (PWLB) rates were very volatile during 2016/17, with rates falling in the early part of the year to historically very low levels in July and August 2016, before rising significantly to December 2017 and then partially easing back by March 2017.

No external borrowing was undertaken during the year. In respect of the General Fund, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent, as investment returns are low and counterparty risk is high. As set out in the Treasury Strategy, the current internal borrowing position is running just ahead of the £5m agreed. However given the continuing low return on investments and no significant increases in PWLB interest rates in the immediate future, it is felt prudent to maintain this position in the short term although this will be kept under review in consultation with the Council's external advisors and set against the background of potential increases in borrowing rates in the future.

No new borrowing or restructuring of existing debt was undertaken for GF or HRA purposes in 2016/17. 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 2016/17.

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

One of the key prudential indicators relates to the Council's Authorised Borrowing Limit. It is therefore worth highlighting that borrowing has been maintained within the Council's Authorised limit as set out below:

Key Indicator	Limit 2016/17	Amount Borrowed (Internal and External)
Authorised borrowing	£79,486m	£53.478m

Investments

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

The Council's investments continued across the following investment types:

- Deposits at fixed rates and for fixed terms with other local authorities and the Government's Debt Management Office (DMO)

- Deposits at fixed rates and for fixed terms with UK-based banks and building societies meeting the counterparty risk criteria
- Treasury bills, which are tradeable but if held to maturity are at fixed rates
- Certificates of deposit, which are tradeable but if held to maturity are at fixed rates
- Use of deposit accounts with UK banks for liquidity

These remain the same instruments the Council has used in prior years so there has been no new investment types used during 2016/17. Further details on how the investment types changed over the year is set out below.

With 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 have, however, seen their ratings rise over the past 24 months which brought them back onto the Council's lending list. Treasury bills were bought in the first months of the year, but the returns on these dropped in the summer. Certificates of deposit and fixed deposits with banks were pursued for much of the year instead of investing with local authorities as a better return was available from these instruments without adding significant additional risk. Local authority rates rose in late 2016 and early 2017 and the Council continued to invest with them again. 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 DMO and local authorities at 31 March 2017 was **£1.500m** and **£34.500m** respectively out of a total investment of **£52.865m**. Other investments were held with UK banks and one UK building society 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 UK holds an AA rating with two rating agencies and Aa1 with the third, with the lower grades not having a specific adverse impact on the Council's treasury activities at the present time.

The only account that remains open with the Co-operative bank is the account for the Paypoint and Post Office collections, which is a requirement under a separate contract for these types of payment methods. However, this service has been retendered during 2016/17 with a new supplier selected from 1 July 2017. Once all transactions are finalised the bank account with the Co-operative bank will be closed. The ratings of The Co-operative Bank remain below the levels acceptable for investment under the Treasury Management Policies, but as the bank still provided the Council's Paypoint and Post Office facility during all of 2016/17, money is paid in to a Co-operative account but the amount held in that account overnight is kept as low as possible.

Specific Issues Experienced in 2016/17

The Council's Treasury Management Practices allow up to £1 million to be held in the current bank accounts with Lloyds bank overnight. As reported to Members during the year as part of the Corporate Budget Monitoring Report process, there was a single occasion when this £1 million limit was exceeded due to the Christmas Closure. Although pre-emptive / mitigating action was taken, more money was received from customers electronically than expected with £1.256m held in the Lloyds accounts overnight on 30 December 2016. There was no increased risk to the security of the Council's deposits as

the Council's bankers were not on any market / credit rating 'alerts' etc. which were reviewed as part of the approach taken. Given that the Christmas closure has been confirmed for future years, it is proposed to seek to increase the amount of money that can be held in the Council's current accounts at any one time from **£1.000m** to **£1.500m** to accommodate a potential repeat of this situation. This request will be set out in a report nearer the time.

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 a 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 (excluding property).

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 2016/17

Appendix B Prudential and Treasury Indicators 2016/17