COUNCIL
18 JULY 2018

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: ITEM REFERRED FROM CABINET: 19 JUNE 2018 – TREASURY MANAGEMENT ANNUAL REVIEW 2017/18

The following is an extract from the Minutes of the Cabinet meeting held on 19 June 2018.

10 ANNUAL TREASURY MANAGEMENT REVIEW 2017/2018

The Executive Member for Finance and IT presented a report of the Service Director - Resources in respect of the Annual Treasury Management Review 2017/18. The following appendix was submitted with the report:

Appendix A – Annual Treasury Management Review 2017/18.

The Executive Member for Finance and IT advised that some of the Council's investment funds could well be moved in the future to fund items in the Capital Programme. It was proving increasingly difficult to find investments which provided a reasonable rate of return.

The Executive Member for Finance and IT reminded the Cabinet of the important revisions to the Treasury Management Strategy made during the year in relation to changes to the boundaries in respect of borrowing, should the Council be in a position where borrowing was required. However, he commented that borrowing would not be required until and unless the Council had exhausted its Capital reserves.

The Executive Member for Finance and IT stated that, during the year, there had been three breaches of the limit set on the percentage that could be invested with a single counterparty. The Service Director – Resources explained the processes and procedures to be put in place to prevent any future breaches.

The Executive Member for Finance and IT alluded to the risks faced by the Council in dealing with its finances, and in this regard, encouraged as many Members as possible to attend the Risk Management training session scheduled for 25 June 2018.

RESOLVED: That the position of Treasury Management activity as at the end of March 2018 be noted.

RECOMMENDED TO COUNCIL:

(1) That the actual 2017/18 prudential and treasury indicators be approved; and

(2) That the Annual Treasury Management Report for 2017/18 be noted.

REASON FOR DECISION: To ensure the Council's continued compliance with CIPFA's Code of Practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

The following is the report considered by the Cabinet at its meeting held on 19 June 2018.

TITLE OF REPORT: ANNUAL TREASURY MANAGEMENT REVIEW 2017/18

REPORT OF: SERVICE DIRECTOR - RESOURCES
EXECUTIVE MEMBER : CLLR JULIAN CUNNINGHAM
COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 During the year the Council has generated **£0.334million** of interest from its investments. This is slightly above the budgeted total of £0.320million. The Council continues to invest in smaller Building Societies (subject to checks that compare the size of the Society with that of the investment) but does no invest outside of the UK.

1.2 The Council has repaid £0.025million of borrowing during the year as it has matured. The Council has £0.455million of remaining borrowing. This borrowing is at a fixed rate for a fixed period. The premium incurred from repaying this borrowing early means that it is not worthwhile to do so.

1.3 The Council complied with its legislative and regulatory requirements throughout the year. There were however three minor breaches of the limit set on the percentage that can be invested with a single counterparty.

1.4 The forecast for 2018/19 is that investment income will continue to reduce due to both market conditions and the use of cash balances to fund the capital programme.

2. RECOMMENDATIONS

2.1 Cabinet is asked to note the position of Treasury Management activity as at the end of March 2018.

2.2 Cabinet is asked to recommend this report to Council and ask Council to:

1) Approve the actual 2017/18 prudential and treasury indicators
2) Note the annual Treasury Report for 2017/18.

3. REASONS FOR RECOMMENDATIONS

3.1 To ensure the Council's continued compliance with both the CIPFA code of Practice on Treasury Management and the Local Government Act 2003, and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 In general there is a relationship between the risk of an investment and the level of interest that is received (yield). Risk can be summarised under the headings of credit, liquidity and market. The risk appetite and approach of the Council determines what strategy it adopts. Whilst the focus is on managing risk, the interest received is an important income stream for the Council's General Fund.

4.2 Our Treasury advisors from Link Asset Services promote a different risk approach, particularly in relation to smaller Building Societies and non-UK investments. This option has been dismissed on the basis of Members' different view of risk and the impact on the general fund.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 There is ongoing dialogue with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link). The Link service includes regular updates on economic and political changes that may impact on the Council's borrowing and investment strategies, advice on rescheduling, information and prudent parameters in respect of investment counterparty creditworthiness, document templates, access to technical updates and to the Technical Advisory Group. The Executive Member for Finance IT Management is also regularly briefed.

6. FORWARD PLAN

6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 16th February 2018

7. BACKGROUND

7.1 Members adopted the 2017/18 Treasury Strategy at the meeting of full Council on the 9th February 2017. There were no changes from the 2016/17 Strategy although there were a couple of clarifications to the Property Fund criteria.

7.2 Members received updates on treasury activity at quarterly intervals during 2017/18, and this report represents the final quarterly update.

8. RELEVANT CONSIDERATIONS

8.1 Appendix A provides the Treasury Management update at year end. This document begins with information on the wider economic climate and hence provides context to Treasury activities. The remainder of the document contains an update on the Council's investment strategy.

8.2 In summary, the Council has generally operated both within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices. There were however three breaches of the expressed limit of "investing no more than 10% of outstanding investments with one counter party". An existing investment was renewed with National Counties Building Society on 20th March for £1.5M and although the total invested with them remained unchanged, this was slightly over the 10% limit at 11.01%. Also two investments were placed with other Local Authorities in March that were over the 10% limit.

8.3 The Council generated £0.334M of interest during 2017/18. The average interest rate agreed on new deals during the year by Tradition was 1.0%. The average interest rate on all outstanding investments at the 31st March was 1.13%.

8.4 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.

8.5 **Credit Risk** – The possibility that other parties fail to pay amounts due to the Authority.

8.6 The Council's counterparty list comprises mostly UK building societies and UK banks with a Fitch (a credit rating agency) credit rating greater than BBB but also includes other Local Authorities and Public Corporations.

8.7 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.

8.8 Investments were split between the Cash Manager, Tradition and the In-House team. The In-House investments cover the day to day cash flow activity of the Council whilst the Cash Manager's investments take advantage of higher long term interest rates when they become available. However the in-house team are now often able to access most of the deals that Tradition can, without paying a fee. During 2018/19 the Cash Manager will only be used where they can access better rates.

8.9 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.

8.10 Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risks of long term deals are:

(i) The longer the time period the longer the investment is exposed to default.

(ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.

8.11 Members have indicated that they are prepared to accept this risk within the limits expressed in the Treasury Strategy which allows no more than 40% of outstanding investments to be invested for longer than 365 days at any one time. At the end of the year the Council had £1.0M (3.3%) invested for longer than 365 days.

8.12 **Interest (Yield)** - This year has continued to prove challenging to find counterparties willing to pay a reasonable return on cash investments, either long or short term. The uncertainty around interest rate changes has continued in 17/18, with the latest predictions signalling the first increase to the base rate around December 2018.

8.13 The investments outstanding at the 31 March 2018 were £32.8million. This compares to a balance of £39.9million at 31 March 2017. The reduced balance reflects the use of maturing investments to fund capital expenditure. Investment in capital projects will continue during 2018/19 and combined with declining returns for new investments means that the estimated investment interest for 2018/19 is expected to be in the region of £0.17M.

9. LEGAL IMPLICATIONS

9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.

9.2 Section 151 of the Local Government Act 1972 states that:
".every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

9.3 The Prudential Indicators comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

10.1 These are covered in section 8, and in particular sections 8.11 to 8.13.

11. RISK IMPLICATIONS

11.1 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependant on banks and building societies need for borrowing. The introduction of the Funding for Lending Scheme which allows financial institutions access to low cost funding from Government for an extended period has impacted on their need to borrow and the rates at which they are prepared to borrow.

12. EQUALITIES IMPLICATIONS

12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 There are no direct equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

13.1 The Social Value Act and “go local” policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resource or equality implications.

15. APPENDICES

15.1 Appendix A - Annual Treasury Management Review 2017/18.

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17. BACKGROUND PAPERS

Treasury Strategy 2017/18.
CIPFA Prudential Code for Capital Finance in Local Authorities.