*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 9

TITLE OF REPORT: ITEM REFERRED FROM CABINET: 13 JUNE 2017 – ANNUAL TREASURY MANAGEMENT REVIEW 2016/17

The following is an extract from the Draft Minutes of the Cabinet meeting held on 13 June 2017.

9. ANNUAL TREASURY MANAGEMENT REVIEW 2016/17

The Cabinet Chairman presented a report of the Strategic Director of Finance, Policy and Governance in respect of the Annual Treasury Management Review 2016/17. The following appendix was submitted with the report:

Appendix A – Annual Treasury Management Review 2016/17.

The Cabinet Chairman advised that, during 2016/17, the Council had generated £0.444million of interest from its investments. This was slightly above the budgeted total of £0.440million. The Council continued to invest in smaller Building Societies (subject to checks that compared the size of the Society with that of the investment) but did not invest outside of the United Kingdom.

The Cabinet Chairman stated that the Council had repaid £1.035million of borrowing during the year as it had matured. The Council had £0.480million of remaining borrowing. This borrowing was at a fixed rate for a fixed period. The premium from repaying this borrowing early meant that it was not worthwhile.

The Cabinet noted that the Council complied with its legislative and regulatory requirements. There was one minor breach of the limit that was set on the percentage that could be invested with a single counterparty.

The Cabinet Chairman explained that the forecast was that investment income would continue to fall due to market conditions and balances being used to fund the Capital Programme.

RESOLVED: That the position of Treasury Management activity as at the end of March 2017 be noted.

RECOMMENDED TO COUNCIL:

(1) That the actual 2016/17 prudential and treasury indicators be approved; and

(2) That the Annual Treasury Management Report for 2016/17 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 13 June 2017.

TITLE OF REPORT: ANNUAL TREASURY MANAGEMENT REVIEW 2016/17

REPORT OF: THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE
EXECUTIVE MEMBER: CLLR JULIAN CUNNINGHAM
COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 During the year the Council has generated **£0.444million** of interest from its investments. This is slightly above the budgeted total of £0.440million. 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 not invest outside of the UK.

1.2 The Council has repaid £1.035million of borrowing during the year as it has matured. The Council has £0.480million of remaining borrowing. This borrowing is at a fixed rate for a fixed period. The premium from repaying this borrowing early means that it is not worthwhile.

1.3 The Council complied with its legislative and regulatory requirements. There was one minor breach of the limit that is set on the percentage that can be invested with a single counterparty.

1.4 The forecast is that investment income will continue to fall due to market conditions and balances being used 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 2017.

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

1) Approve the actual 2016/17 prudential and treasury indicators
2) Note the annual Treasury Report for 2016/17.

3. REASONS FOR RECOMMENDATIONS

3.1 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.

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 general fund.

4.2 Our Treasury advisors from Capita 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 (Capita). The Capita service includes regular updates on economic and political changes which 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 Portfolio holder for Finance and Asset 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 1st March 2017

7. BACKGROUND

7.1 Members adopted the 2016/17 Treasury Strategy at the meeting of full Council on the 11 February 2016. There were no changes from the 2015/16 Strategy.

7.2 Members received updates on treasury activity at quarterly intervals during 2016/17, 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 contains economic background, an interest rate forecast and summary outlook provided by Capita for background 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 operated within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices. However, there was one breach to "investing no more than 10% of outstanding investments with one counter party". An existing investment was renewed with The Royal Bank of Scotland on 13th March for £2.75M and although the total invested with them remained unchanged, this was slightly over the 10% limit at 10.71%.

Risk

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

8.4 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.

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 364 days at any one time. At the end of the year the Council had £7.0M (18%) invested for longer than 364 days.

Interest (Yield)

8.12 The Council generated £0.444M of interest during 2016/17. The average interest rate agreed on new deals during the year by Tradition was 1.17%. The average interest rate on all outstanding investments at the 31st March was 1.12%.

8.13 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 16/17, with the latest predictions signalling the first increase to the base rate around quarter 3 of 2018.

8.14 The investments outstanding at the 31 March 2017 were £38.9million. This compares to a balance of £41.93million at 31 March 2016. The reduced balance reflects the use of maturing investments to fund capital expenditure. This investment in capital projects will continue during 2017/18 (e.g. DCO refurbishment works). This combined with declining returns for new investments means that the budgeted investment interest for 2017/18 is expected to be in the region of £0.27M.

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 8.12 to 8.14.

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 2016/17.

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17. BACKGROUND PAPERS

Treasury Strategy 2016/17.
CIPFA Prudential Code for Capital Finance in Local Authorities.