

## **For Publication**

### **TREASURY MANAGEMENT ANNUAL REPORT 2016/17 AND MONITORING REPORT 2017/18**

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Meeting: (1) Standards & Audit Committee  
(2) Council

Date: (1) 20 September 2017  
(2) 11 October 2017

Cabinet portfolio: Deputy Leader

Report by: Director of Finance and Resources

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#### **For publication**

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#### **1.0 Purpose of report**

- 1.1 To consider the Annual Treasury Management Report for 2016/17.
- 1.2 To consider the Treasury Management activities for the first five months of 2017/18.

#### **2.0 Recommendations**

- 2.1 That the **Council** is recommended to:
  - (i) Approve the outturn Prudential Indicators for 2016/17;
  - (ii) Approve the treasury management stewardship report for 2016/17;
  - (iii) Note the treasury management position for the first five months of 2017/18.

- 2.2 That **Standards and Audit Committee** scrutinizes the report and makes recommendations to the full Council for consideration.

### 3.0 **Background**

- 3.1 The Council's Treasury Management Strategy requires the full Council to receive three treasury reports each financial year; the Strategy report before the start of each financial year, an annual report for the previous financial year and a mid-year review for the current year.
- 3.2 The Annual Report for 2016/17 is attached at Annexe 1. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 3.3 Following the Icelandic banks collapse in 2008 the regulatory framework places a much greater emphasis on the review and scrutiny by Members of treasury management activities. The attached report provides details of the treasury management activities in 2016/17 and confirms compliance with the Council's approved policies.
- 3.4 For the purpose of this report all transactions relating to the Waterside Project loan from the Sheffield City Region (LEP) Growing Places Fund have been excluded.

### 4.0 **Summary of the Annual Report**

- 4.1 During 2016/17, 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:

Actual prudential and treasury indicators	2015/16 Actual £'000	2016/17 Revised £'000	2016/17 Actual £'000
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Actual prudential and treasury indicators	2015/16 Actual £'000	2016/17 Revised £'000	2016/17 Actual £'000
Actual capital expenditure	26,480	19,768	<b>18,855</b>
Capital Financing Requirement:			
- General Fund	14,450	12,371	<b>13,983</b>
- HRA	136,404	134,359	<b>134,359</b>
- Total	150,854	146,730	<b>148,342</b>
External debt	137,659	133,245	<b>133,245</b>
Investments – under 1 year	21,871	35,899	<b>31,762</b>
1 year and above	3,270	-	<b>3,256</b>
Net borrowing	112,518	97,346	<b>98,227</b>

- 4.2 Other prudential and treasury indicators are to be found in Annexe 1. The Director of Finance and Resources also confirms that borrowing over the medium term is only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached in 2016/17.
- 4.3 The financial year 2016/17 continued the challenging environment of low investment return. There was a large differential between borrowing and investments rates during the year.

**Investments** – Despite the challenging environment, interest income received for the year was above budget by £16,000. Following a review of investments during the 2016/17 financial year the Council diversified its investment portfolio in order to achieve greater security of investments and access higher returns. Further information can be found in Annexe 1.

The in-house team managed average balances of £37.8m earning an average rate of return of 0.88%.

**Borrowing** – in terms of activity during the year on the Council's debt portfolio:

- No new long term borrowing was undertaken; &
- Long term loan repayments of £1m were made.

**Treasury Management Advisors** – In October 2016 Arlingclose became the Council's new treasury management advisors. Treasury recommendations were incorporated into the 2017/18 Treasury Management Strategy Statement that was approved by Council in February 2017.

## 5.0 **Mid Year Review 2017/18**

### 5.1 Annual Investment Strategy

In accordance with the Cipfa Code and the Council's Investment Strategy, the investment priority is to ensure security and liquidity of capital, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate with the Bank Rate remaining at just 0.25%, investment returns are at a historically low level. The continuing uncertainty of economic recovery and the geo-political uncertainties, prompts a low risk and short term strategy. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the five months ended 31<sup>st</sup> August 2017.

### 5.2 Internally Managed Cash Balance

In the first quarter of the year the interest rates achieved were slightly higher than those assumed when setting the budget (0.69% against 0.62%). The net average internal investment balance has been in line with the assumptions made in the original budget but the net internal investment returns are £2,700 better than forecast for the first quarter of the year.

5.3 However the continuing uncertainty on the impact of the UK leaving the European Union, means that investment rates continue to remain at historically low levels and it is unlikely that this level of performance will be maintained during the remainder of 2017/18. The budget forecast for investment income will be reviewed as part of the revised budget process in the Autumn.

### 5.4 Borrowing activities in the period:

- No new long term borrowing has been undertaken;
- No repayments of principal have yet been made; &

- No debt rescheduling was undertaken.

## 5.5 Compliance with Treasury & Prudential Limits

All treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices have been maintained.

The main Prudential Indicators relating to borrowing are:

- Authorised Borrowing Limit – the limit for the year was set at £143m, the limit has not been breached.
- Operational Boundary – this was set at £133.25m for the year, again the limit has not been breached.

## 6.0 **Treasury Management Indicators 2017/18**

Amendments to the 2017/18 General Fund capital programme will be considered by Council in October. Further borrowing may be necessary and this additional borrowing would require an adjustment to the Prudential Indicators (PI's) approved as part of the Treasury Management Strategy Statement in February. The PI's detailed below would need to be amended:-

- General fund Capital Expenditure & Financing
- General Fund Capital Financing Requirement
- Operational Boundary
- Authorised Limit

These amended PI's will be reported to Cabinet as part of the budget monitoring report in the autumn.

## 7.0 **Recommendations**

7.1 That the **Council** is recommended to:

- (i) Approve the outturn Prudential Indicators for 2016/17;
- (ii) Approve the treasury management stewardship report for 2016/17;
- (iii) Note the treasury management position for the first five months of 2017/18.

- 7.2 That **Standards and Audit Committee** scrutinizes the report and makes recommendations to the full Council for consideration.

## 8.0 **Reasons for recommendations**

- 8.1 To comply with the Council's Treasury Management Policy and Practices, the CIPFA Code of Practice on Treasury Management (2009) and the CIPFA Prudential Code for Capital Finance in Local Authorities (2009).

### **Decision information**

<b>Key decision number</b>	61
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
Karen Ludditt	01246 345457 Karen.ludditt@chesterfield.gov.uk
<b>Background documents</b> Local Government Act 2003, CIPFA Prudential Code & Guidance, Accountancy Services' final accounts working papers.	
<b>Annexes to the report</b>	
Annexe 1	Annual Treasury Outturn Report 2017/18