

For Publication

TREASURY MANAGEMENT ANNUAL REPORT 2015/16 AND MONITORING REPORT 2016/17

Meeting: Council

Date: 12 October 2016

Report by: Acting Chief Finance Officer

For publication

1.0 Purpose of report

- 1.1 To consider the Annual Treasury Management Report for 2015/16.
- 1.2 To consider the Treasury Management activities for the first five months of 2016/17.

2.0 Recommendations

- 2.1 That the **Council** is recommended to:
 - (i) Approve the outturn Prudential Indicators for 2015/16;
 - (ii) Approve the treasury management stewardship report for 2015/16;
 - (iii) Note the treasury management position for the first five months of 2016/17.

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 2015/16 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 2015/16 and confirms compliance with the Council's approved policies.
- 3.4 This report and its recommendations were considered by the Standards and Audit Committee at its meeting on 21 September, 2016 where it resolved that the report and its recommendations be supported.

4.0 **Summary of the Annual Report**

- 4.1 During 2015/16, 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 | 2014/15 Actual £'000 | 2015/16 Revised £'000 | 2015/16 Actual £'000 |
|---|----------------------------|-----------------------------|-------------------------------------|
| Actual capital expenditure | 23,425 | 30,869 | 26,480 |
| Capital Financing Requirement: | | | |
| - General Fund | 13,627 | 14,796 | 14,450 |
| - HRA | 138,482 | 136,405 | 136,405 |
| - Total | 152,109 | 151,201 | 150,855 |
| | | | |

| Actual prudential and treasury indicators | 2014/15 Actual £'000 | 2015/16 Revised £'000 | 2015/16 Actual £'000 |
|---|----------------------------|-----------------------------|----------------------------|
| External debt | 140,046 | 139,317 | 137,659 |
| Investments – under 1 year | 20,896 | 23,387 | 21,871 |
| 1 year and above | 3,266 | - | 3,270 |
| Net borrowing | 115,884 | 115,930 | 112,518 |

4.2 Other prudential and treasury indicators are to be found in Annexe 1. The Chief Finance Officer 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 2015/16.

4.3 The financial year 2015/16 continued the challenging environment of low investment return. There was a large differential between borrowing and investments rates during the year.

Investments – In the first quarter of 2015/16, our external fund manager Investec announced their withdrawal of services to the local government sector and in July, the £21m portfolio managed by them was returned to the Council. Of this, £14.6m was returned directly to the Council and was then invested in an Enhanced Money Market fund by the in-house team. The remainder, related to two investments with some time to run to maturity and these were transferred into a custodian account with King Shaxon Limited, the leading supplier of transferrable securities to UK Local Authorities. A review of the strategy for the longer term management of our investments will be undertaken during 2016/17.

The in-house team managed average balances of £12.9m earning an average rate of return of 1.18%.

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

- No new long term borrowing was undertaken; &
- Loan repayments of £2m were made.

5.0 Mid Year Review 2016/17

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 having recently been reduced to 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 31.08.2016.

5.2 Internally Managed Cash Balance

In the first quarter of the year the interest rates achieved were higher than those assumed when setting the budget (1.20% against 0.82%). The net average internal investment balance has been lower than the assumptions in the original budget but the net internal investment returns are £22,400 better than forecast for the first quarter of the year.

5.3 However the reduction in bank base rates in August 2016 and the continuing uncertainty on the impact of the UK leaving the European Union, means that investment rates are falling and it is unlikely that this level of performance will be maintained during the remainder of 2016/17. 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 £150m, the limit has not been breached.
- Operational Boundary – this was set at £139.32m for the year, again the limit has not been breached.

5.6 Treasury Management Consultants

Capita are our current treasury management advisors. The Council has recently tendered for this service and the tender has been awarded to Arlingclose for a period of 2 years with a possible one year extension. The contract will begin on 1st October 2016.

6.0 **Treasury Management Indicators 2016/17**

Amendments to the 2016/17 General Fund capital programme will be considered by Council in October. Further prudential borrowing may be necessary and this additional borrowing will 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 will 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 2015/16;

- (ii) Approve the treasury management stewardship report for 2015/16;
- (iii) Note the treasury management position for the first five months of 2016/17.

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

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|---|-----|
| Key decision number | 61 |
| Wards affected | All |
| Links to Council Plan priorities | |

Document information

| Report author | Contact number/email |
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| Background documents Local Government Act 2003, CIPFA Prudential Code & Guidance, Accountancy Services' final accounts working papers. | |
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| Annexes to the report | |
| Annexe 1 | Annual Treasury Management Review 2015/16 |