

Scrutiny Panel

18 July 2017

Item
14

Report of	Assistant Director (Policy and Corporate)	Author	Steve Heath ☎ 282389
Title	Treasury Management – Annual Review 2016/17		
Wards affected	Not applicable		

The Panel is invited to review treasury management performance in 2016/17

1. Action required

- 1.1 To consider the Annual Treasury Management Review for 2016/17.
- 1.2 To note the performance of the Council's treasury management advisors.
- 1.3 To note new borrowing activity undertaken so far in 2017/18.

2. Reason for scrutiny

- 2.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management and the Council's Treasury Management Policy Statement both require an annual report to be considered. This highlights the importance of the Scrutiny Panel examining Treasury Management performance in each financial year.

3. Annual Review 2016/17

- 3.1 Treasury management comprises all borrowing and investment activities of the Council. Details of treasury management activities during 2016/17 are provided as a background paper that should be read alongside this report. The key areas are summarised in the following paragraphs.
- 3.2 During 2016/17, the Council complied with its legislative and regulatory requirements. All of the borrowing and investment activity during the year was in accordance with the Prudential Indicators approved by Council in February 2016. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year are shown below. Other indicators are included in the main body of the report.

	31-Mar-16	31-Mar-17	31-Mar-17
	Actual	Budget	Actual
	£'000	£'000	£'000
General Fund capital expenditure	6,401	7,221	11,390
HRA capital expenditure	13,663	11,899	10,705
Total capital expenditure	20,064	19,120	22,095
Capital Financing Requirement (CFR)	153,563	154,890	154,597
External Debt	136,094	136,094	136,094
Investments	(37,376)	(30,558)	(45,236)
Net borrowing	98,718	105,536	90,858

- 3.3 The strategy for 2016/17 anticipated that the UK Bank rate would remain at a historically low 0.5% until quarter 2 of 2016. In this scenario the borrowing strategy was to continue to 'borrow internally', which is primarily due to investment rates on offer being lower than

long term borrowing rates. The investment policy reflected the Council's low appetite for risk, using counterparties with only the highest credit ratings.

- 3.4 The 2016/17 strategy was subject to revision as part of the mid-year update. This included a revised interest rate forecast, resulting changes to the borrowing and investment strategies, revised accounting treatment for an element of long term debt and a revision to the Council's MRP policy.
- 3.5 The Council's long-term debt as at 31 March 2017 remained at £136.1m, as a result of the strategy of internal borrowing. The average rate of the Council's debt therefore remained at 4.56%.
- 3.6 The Council has managed all of its excess surplus funds internally during the year. These mainly consist of overnight and short-term investments to cover cash flow needs and in respect of 'core' balances. The financial year continued the challenging investment environment of previous years, namely low investment returns. The average rate earned on investments during the year was 0.47%, which was higher than the relevant benchmark. The Council's investments outstanding at the end of the year totalled £45.2m. These are detailed in **Appendix B** to the annual report.
- 3.7 The Council employ Capita Asset Services to provide a consultancy service in respect of treasury management, to include advice on both debt and investments. During the year they provided advice on borrowing, investments, counterparty credit details and general capital accounting information.
- 3.8 **Appendix A** to the annual report contains a list of abbreviations and definitions that are frequently used in treasury management reports.

4. Borrowing activity 2017/18

- 4.1 In accordance with the strategy the Council has so far undertaken the following new external borrowing in 2017/18 to support its Capital Programme:

Source	Amount (£'000)	Duration (Years)	Rate (%)
Local Authority	2,000	4.5	1.02
PWLB	3,000	50.0	2.29

5. Strategic Plan references

- 5.1 Prudent treasury management underpins the budget required to deliver all Strategic Plan priorities.

6. Publicity considerations

- 6.1 **Appendix B** to the annual report is confidential.

7. Financial implications

- 7.1 Interest paid and earned on borrowing and investments is shown within the Central Loans and Investment Account (CLIA). Outturn figures for 2016/17 show the CLIA as being broadly on budget. This takes into account lower levels of borrowing recharge to the HRA than was budgeted, as well as investment income being higher than budgeted due to the level of cash balances available.

8. Risk Management implications

- 8.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Policy Statement contains a section on treasury Risk Management (TMP1).
- 8.2 TMP1 covers the following areas of risk all of which are considered as part of our treasury management activities:

- Credit and counterparty risk
- Liquidity risk
- Interest rate risk
- Exchange rate risk
- Refinancing risk
- Legal and regulatory risk
- Fraud, error and corruption, and contingency management
- Market risk

9. Other Standard References

- 9.1 Having considered consultation, equality, diversity and human rights, health and safety and community safety implications, there are none which are significant to the matters in this report.

Background Papers

Annual Treasury Management Review 2016/17 (as attached)