

## REPORT TO EXECUTIVE



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<b>PORTFOLIO</b>	<b>Executive</b>
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## Annual Treasury Management Report Review of 2016/17 Activity

### PURPOSE

- To inform members of the Council's treasury management activity during 2016/17.

### RECOMMENDATION

- That the Executive recommends to Full Council to note the annual treasury management activity for the year ended 31 March 2017.

### REASONS FOR RECOMMENDATION

- To comply with the regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

For 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 24/02/16)
- a mid-year treasury update report (Council 21/12/16)
- an annual review following the end of the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

## SUMMARY OF KEY POINTS

### 4. Overall Treasury Position as at 31 March 2017

The Council's debt and investment position is organised in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the Treasury Policy Statement, and through officer activity detailed in the Council's Treasury Management Practices.

### 5. Council's treasury position:

£m	31 March 2016 Actual	31 March 2017 Actual
Total debt	20.6	20.6
Capital Financing Requirement	27.4	28.6
Over / (under) borrowing	(6.8)	(8.0)
Total investments	10.3	14.7
Net debt	10.3	5.9

### 6. The maturity structure of the debt portfolio:

£m	31 March 2016 Actual	31 March 2017 Estimated	31 March 2017 Actual
Under 12 months	2.0	1.0	1.0
12 months and within 24 months	1.0	1.0	1.0
24 months and within 5 years	4.4	4.6	4.6
5 years and within 10 years	7.2	7.0	7.0
10 years and above	6.0	8.6	7.0
<b>Totals</b>	<b>20.6</b>	<b>22.2</b>	<b>20.6</b>

### 7. The Strategy for 2016/17

The expectation for interest rates within the strategy for 2016/17 anticipated low but rising Bank Rate (starting in quarter 1 of 2017), and gradual rises in medium and longer term fixed borrowing rates during 2017/18. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in world markets promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, and despite the low interest environment, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments, reduce counterparty risk and reduce interest payments.

Following the general election, it is now believed that interest rate rises will be further

delayed.

During 2016/17 there was major volatility in Public Work Loans Board (PWLB) rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.

## 8. Borrowing Limits 2016/17

**The authorised limit** - this is the Council’s statutory limit for debt as determined under section 3(1) of the Local Government Act 2003. These limits include provision for “unusual cash movements” as referred to in the Code.

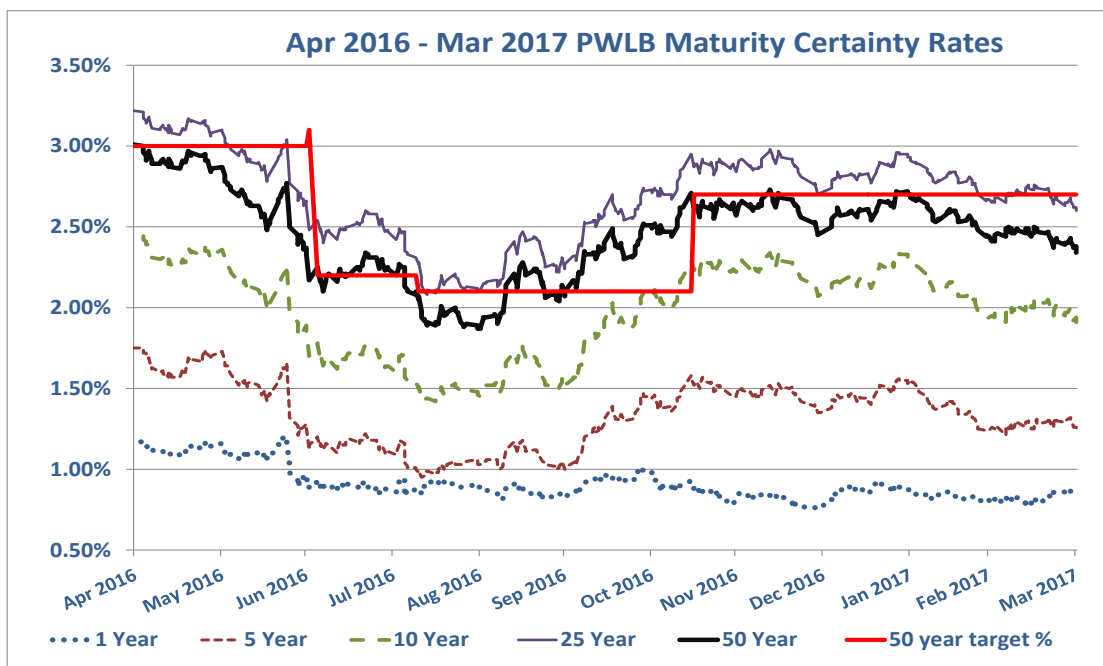
**The operational boundary** – this is usually set lower than the authorised limit by the additional headroom provided for “unusual cash movements”.

**Financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2016/17
Authorised limit	£32.6m
Maximum gross borrowing position	£20.6m
Operational boundary	£31.0m
Average gross borrowing position	£20.1m
Actual Financing costs as a proportion of net revenue stream	10.9%
Budgeted Financing costs as a proportion of net revenue stream	11.0%

## 9. Borrowing Rates in 2016/17

PWLB borrowing rates - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year, but then started to gradually creep back up.



## **Borrowing Outturn for 2016/17**

10. **Borrowing** – the following PWLB loans were taken during the year:

Date	Lender	Principal	Type	Interest Rate	Maturity
31/3/17	PWLB	£1m	Maturity	2.43%	44 years
31/3/17	PWLB	£1m	Maturity	2.43%	50 years

11. **Repayments** – The following PWLB loans were repaid during the year, as scheduled:

Date	Lender	Principal	Balance at Repayment (£)	Type	Interest Rate	Duration
15/9/16	PWLB	£1m	1m	Maturity	2.18%	5 years
31/3/17	PWLB	£1m	1m	Maturity	4.40%	11.5 years

12. **Investment Rates in 2016/17**

After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August. As a result, it became increasingly more difficult to obtain reasonable rates of returns. For example, the Councils' bank, HSBC, reduced the interest rate it paid on the sweep facility from 0.35% to 0.10% in response. There was an average daily total of £7.41m being invested within the HSBC's "sweep" deposit account. This account earned an average 0.22% in 2016/17.

13. **Investment Outturn for 2016/17**

**Investment Policy** – the Council's investment policy is governed by Government guidance, which has been implemented in the annual investment strategy approved by the Council on 24 February 2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data. This guidance is enhanced by advice from Capita Asset Services.

**Investments held by the Council** - the Council maintained a daily average balance of £15.9m of investments during 2016/17. The investments earned an average rate of return of 0.49% which exceeded the target of base rate (originally 0.5%, then 0.25%) minus 0.2%.

There were a total of 7 market investments made during the financial year, totalling £11m.

Appendix 1 shows the maximum amount invested with any of the counterparties at any one time during the period April 2016 to the end of March 2017. The maximum limit per counterparty is shown in brackets and it is confirmed that these were not exceeded.

14. **Interest payable on External Borrowing / Interest Receivable on Investments**

The revised budget for the PWLB interest payable on external borrowing for 2016/17 was set at £1,039,125.

The outturn position was £886,137, due to proactive management of the Councils' cash flows, slippage in capital spending and borrowing requirements, lower PWLB interest rates payable, and higher than estimated interest receivable on external deposits.

The total interest receivable on temporary investments in 2016/17 amounted to £78,117 compared with a budget for the year of £41,845.

**FINANCIAL IMPLICATIONS AND BUDGET PROVISION**

15. None arising as a direct result of this report.

**POLICY IMPLICATIONS**

16. All transactions are in accordance with the Council's approved Treasury Policy Statement

**DETAILS OF CONSULTATION**

17. None

**BACKGROUND PAPERS**

18. None.

**FURTHER INFORMATION  
PLEASE CONTACT:**

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