Cabinet
6 September 2017

TREASURY MANAGEMENT 2016-17 YEAR END AND 2017-18 MID YEAR REVIEWS

1 Purpose

1.1 The Authority's Treasury Management Policy requires that an annual report be brought to Council after each year end and a mid year report for the current year. This report sets out the performance of the Treasury Management section for the 2016/17 financial year and provides an update for the 2017-18 financial year.

2 Recommendations/for decision

2.1 To note the performance against the Treasury Management action plan for 2016/17.

2.2 To note the performance against the Treasury Management action plan for 2017/18.

3 Review of 2016/17 Treasury Management

3.1 The objectives for the Treasury Management team for 2016/17 were laid out in the Action Plan agreed by Council in May 2016.

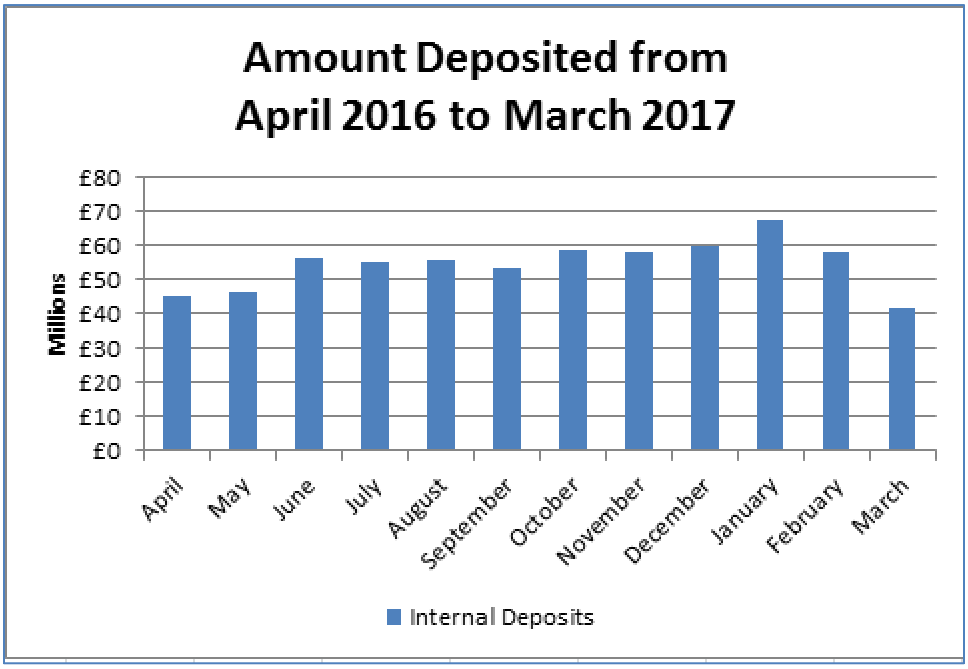
3.2 The main activities continue to be:

- Foremost, to maintain, the security of the Council's deposits by only depositing with trusted financial institutions and limiting the size and length of deposit with each organisation.
- To directly manage a range of deposits in order to provide sufficient flexibility to meet day to day operational needs and with the aim of equalling the Local Authority Average 7 Day Rate for the rate of interest earned.
- To only undertake new long term borrowing where the business case justifies it.

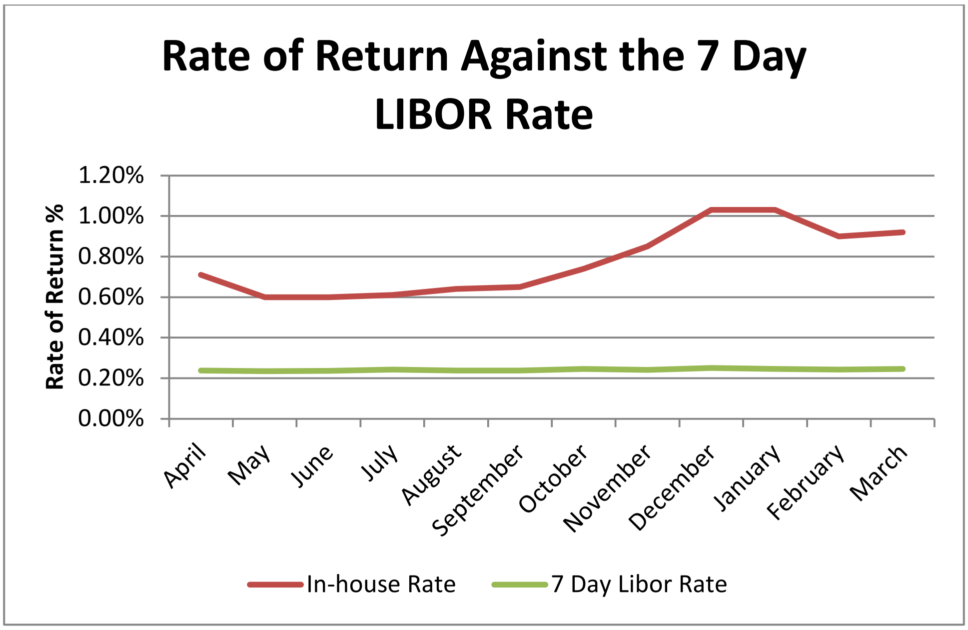
3.3 Actual performance was in line with the plan.

- The Council placed deposits in a decreasing market by spreading its deposits thinly across many trusted institutions in accordance with its policy.
- The authority did not undertake any new long term borrowing.
- The in-house team achieved interest rates above the 7 day LIBOR rate.

3.4 The average monthly balances deposited by the in house team generated by the in-house team are set out in the bar chart below:



3.5 The average monthly interest rates achieved during the year compared to the 7 day LIBOR rate is shown in the graph below:



4 In House Treasury Team Performance

4.1 When managing the Council's deposits the primary consideration is to protect capital rather than to maximise return. This reflects the fact that the deposited sums are public money and, therefore, any loss of capital should be avoided at all costs.

4.2 The Treasury Management team continue to invest money in line with its list of approved (safe) institutions, varying the amounts and length of deposit according to the institution and the cash flow requirements at the time.

4.3 Although, a safe list of institutions is maintained, major unexpected events or a sudden loss of confidence in the banking sector cannot always be predicted.

4.4 Historically, the majority of the Council's lending has been with Building Societies but over the last year the Council has invested with some of the major UK banks in order spread the risk of its portfolio. The lending list is monitored throughout the year to take account of any changes within the sector i.e. building society mergers / conversions to banks. During 2016/17 there were no mergers that affected the Council's lending list.

4.5 Within the constraints of the lending list the objective of the in-house team remains to at least equal the Local Authority 7 Day Rate of Interest (LIBOR) whilst ensuring that money is always available to meet the Council's day to day operational needs.

4.6 With interest rates still at their lowest level, the actual amount of deposit income generated exceeded expectations by £84,763. This was due to the high level of money available for deposit from unspent reserves and balances held to meet capital programme obligations. The amount of interest received was £344,763.

4.7 With the prevailing low rates the likelihood of an increase in the interest generated remains low especially if the capital programme starts to pick up.

5 Money Market Funds

5.1 The council continues to operate two Money Market Funds to give the in-house team easy access to surplus funds.

5.2 Whilst, Money Market Funds have the highest credit ratings the interest rates offered during the year reduced, this meant the returns were lower than expected. Although, the returns have reduced the MMFs are required to manage the daily cash flow as they offer daily access without any loss of interest.

6 New Borrowing

6.1 No new borrowing was taken out during the year.

6.2 Any borrowing that the council undertakes must be within the Authority's Authorised Limit and Operational Boundary, which are set at the beginning of each year.

6.3 It is a requirement of the code that any deviations from these limits, approved or otherwise, are reported to Council.

7. Fund Manager Performance

7.1 The council does not use fund managers to aid its investment decisions.

8 Mid Year Review of 2017/18 Treasury Management

8.1 There is a requirement that Council receives a mid year review of its Treasury Management functions. Although, the Treasury Team has started to report more information on its activities in the Quarterly Financial Digest.

8.2 At the time of writing no new borrowing has been taken out, leaving the balance outstanding at £23.5 million.

8.3 Appearing elsewhere on this agenda is a proposal to create a Property Investment Strategy financed by up to £100 million of Prudential Borrowing. If approved the Borrowing limits will need to be revised in order to accommodate this.

8.4 In practice, it is likely that the need to borrow this sum will be phased over a number of years, as the acquisition of suitable property is likely to take some time. However, so as not to prevent opportunities being taken to acquire suitable property earlier, should they present themselves, it is proposed that the limits be increased to their maximum amounts as soon as the policy is agreed in order to provide maximum flexibility.

8.5 The Council's current Authorised and Operational Limits are set out and explained below. Should the Property Investment Strategy be agreed then these amounts will both need to be increased by £100 million.

<u>Authorised Limit £70 million</u> - The combined maximum amount the Authority can take in borrowing to finance its capital expenditure plans and its day to day cash flow purposes.

<u>Operational Limit £50 million</u> - The amount the Authority realistically expects to borrow and represents the figure that the Authority would not expect to exceed on a day to day basis.

8.6 The amount of money deposited with banks and building societies at the end of July was £50 million with another £8.8 million held in the two Money Market Funds.

9. Counter Parties – Foreign Banks

9.1 The council still has the option to place some deposits with foreign banks and during the year it reviewed its accounts with Handelsbanken, the Swedish bank, so that money was transferred from a 90 Day Notice Account to a 30 Day Notice Account, the balance currently on deposit is £2 million.

9.2 Apart from Handelsbanken, the council deposited some funds with the Sumitomo Mitsui bank of Japan. This was done after consultation with our treasury management advisors, Capita Asset Services. The balance currently on deposit with them is £1 million.

10. Property Funds

10.1 Property Funds still offer some of the best returns on capital and investing in a Property Fund is within the strategy but as yet the council has decided not to invest. Current returns on an investment are between 4.5% and 5%.

10.2 However, as investments in property are tied to property value, there remains the risk that investing in this sector could result for in reductions in capital value.

10.3 For this reason, any investment would have to be for a minimum of five years in order to smooth out fluctuations in the property sector and maximise the return. If there was any change in investment strategy and an investment was being considered then a report would be brought to Council for consideration.

11. Scrutiny

11.1 Finance and Services Scrutiny Committee now receive the Treasury Management Strategy prior to Council.

12. Reasons for Recommendation

12.1 Under the terms of the Statutory Code of Practice for Treasury Management, the Council is required to receive an annual report on its Treasury Management performance as well as a mid term report on the current year. This report represents the fulfilment of that requirement.

13. Resource implications

13.1 The authority continues to operate an Interest Equalisation Reserve to smooth out fluctuations in interest rates.

13.2 As a result of the increase in the level of sums managed by the Council during 2016/17 and despite the reduced interest rates available, the interest generated, although low compared to previous year, exceeded expectations.

13.3 This means that at the end of 2016/17, the interest equalisation reserve stands at £2.897 million.

13.4 The phased use of the balance on the Interest Equalisation Reserve forms part of the annual budget setting exercise. Following the last budget setting exercise, it was agreed that the current balance on the reserve was a prudent amount to hold in light of there being no expected change in interest rates in the medium term.

13.5 The Medium Term Financial Plan also recognises the Council's use of capital and other balances in delivering its plans and the impact that this will have on interest earnings. The plan is, therefore, gradually reducing the Council's reliance on interest earnings over time, so as to manage the remaining balance on the interest equalisation reserve.

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Background Documents	Treasury Management Action Plan 2016/17 CIPFA Prudential Code Statutory Code of Practice for Treasury Management