

Treasury Management Mid-Year Report 2016/17

Wards affected: **None**

Officer Contact: **Nisar Visram** **Ext 3615**
Email: Nisar.Visram@wycombe.gov.uk

Proposed Decision

That the treasury management mid-year report for 2016/17, covering the period 1 April 2016 - 30 September 2016 be considered and noted.

Corporate implications

These are detailed in the main body of the report

What is the audit committee being asked to do?

Treasury management is defined by the *Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice* as: “The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Council has adopted *the Chartered Institute for Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice*, which requires the Council to approve a treasury management strategy:

- before the start of each financial year
- a mid-year report and
- an annual report after the end of each financial year.

As part of this Code local authorities were required to charge a body of members to scrutinise the treasury management strategy and Council has appointed audit committee to this role.

This report is the mid-year report, which details the actual treasury management activities and performance for the period 1 April 2016 – 30 September 2016. An economic summary for the year and performance against prudential indicators set by CIPFA for year to date, are also included as appendices.

TREASURY MANAGEMENT MID-YEAR REPORT 2016/17

Summary

The Council approved the 2016/17 treasury management strategy at its meeting on the 25th February 2016. In line with the CIPFA Code of Practice on Treasury Management, the Council’s stated investment strategy is to give priority to the

safeguarding of its funds, followed by ensuring sufficient liquidity to meet the Council's cash flow needs followed by investment return as the third objective.

Treasury management activity undertaken during the 1 April 2016 – 30 September 2016 complied with the *CIPFA Code of Practice*, and the relevant legislative provisions.

The Council's strategy over the period can be summarised as follows:

- i) The Council has not taken out any new external borrowing during the current financial year.
- ii) Given continuing economic uncertainty, the security and liquidity of investments were safeguarded by restricting counterparties to those of high creditworthiness and also restricting time periods for investments.
- iii) On three occasions the Council exceeded its £4m limit with its own banking services provider Natwest Plc. This is an internal limit set by the Council's treasury strategy and the excess balance position arose due to unexpected cash being received late in the day and treasury staff not being able to place the funds in another suitable counterparty due to the financial markets being closed. On each occasion investments with Natwest Plc were brought within the approved limit at the first available opportunity. Aside from these three occasions the Council has complied with its approved investment strategy.

Key Figures 1 April 2016 – 30 September 2016

Borrowing

The Council does not have any external borrowing and none has been taken out in the current financial year.

Investments

On 4th August 2016 the Bank of England reduced its base rate from 0.5% to 0.25%. The Council has continued to face a challenging environment to earn yield on its investments. Yields available in the short term during the period are outlined in table 1 below:

Table 1: Investment Rates 1 April 2016 and 30 September 2016.

Deposit Rates	1st April 2016	30th September 2016
Overnight rates	0.40	0.20
One month	0.45	0.20
Three months	0.55	0.35
One year	0.95	0.65

Short term investment rates were already low in a historical context and have been reduced even lower during 2016/17. An interest rate forecast is provided alongside the Economic Summary of the period in Appendix A.

With low interest rates, the Council's strategy continues to be to utilise cash to support the major projects programme and generate a higher return. In July 2016 the Council purchased Sword House, an investment property, for £6.6m with tenants in place earning the Council rental income. The Council has also purchased assets in High Wycombe Town Centre, regenerating commercial premises whilst also generating a revenue income stream. The Council's property investments typically generate a revenue annual return of 4%-8% whilst meeting the Council's wider regeneration objectives and provide a significantly higher return than can be achieved by treasury investments.

Despite the low interest rate environment, the Council continues to seek a higher yield whilst prioritising the security and safety of investments, and the availability of cash to meet short term funding requirements.

Investment Transactions

At 30 September 2016 the Council held £78.1m in investments which includes a £5m UK Central Government Gilt due to mature on 22 July 2018, held in a custody account on behalf of the Council by King Shaxon Capital Ltd. A summary of investment transactions for the period are detailed in table 2 below:

Table 2: Summary of Investment Transactions 1 April 2016 – 30 September 2016

INVESTMENTS	Total
	£m
Balance at 1 st April 2016	66.4
Investments made	165.4
Investments repaid	148.7
Balance at 30 th September 2016	78.1
Income earned/capital appreciation	308.1
Average annualised return	0.77%

Table 3 below shows the maturity profile of the Council's in-house investments at the beginning and end of the six month period.

Table 3: Maturity Profile of In-House Investments 1 April 2016 and 30 September 2016

Spread of Deposits by Maturity	1 st April 2016	30 th September 2016
	£m	£m
Instant Access	18.9	24.6
Notice Account 35 days	0.00	5.0
One month	12.0	5.0
Over one month to three months	8.0	4.5
Over three months to six months	7.0	19.0
Six to twelve months	11.5	11.0
Over 1 year	9.0	9.0
Total in-house investment	66.4	78.1

Glitnir – Icelandic Investment

At 1 April 2016 Council had £0.5m invested in an escrow account in Iceland following the collapse of the Glitnir Icelandic bank in October 2008. The amounts were held pending relaxation of Icelandic Central Bank (ICB) restrictions over Icelandic Krona transferring offshore. As at the end of 2015/16 these funds were earning interest of 4.1%.

On 16th June 2016 organisations with such funds held by the ICB were provided with the option of either participating in an auction to have the funds returned or to have the money transferred to a minimum interest earning account held by the ICB. The Council participated in the auction and successfully sold its Icelandic Krona raising 600,147 Euros. The funds were received by the Council on 1st July 2016 and converted to £500,950.

Treasury Management Indicators

The CIPFA Code of Practice requires Councils to report on a series of indicators demonstrating treasury performance during the financial year. These include:

- Capital expenditure and financing and whether this has created any borrowing requirements for the Council as a result of unfunded capital
- Demonstrating that the Council has remained within its borrowing limits set in the Treasury Strategy and the affordability of any debt
- Demonstrating that the Council has complied with its investment limits including the availability of short term cash, credit rating limits and limits on the duration of investments.

A full set of Treasury indicators and performance against these are included in Appendix B.

Background working papers

Treasury Management strategy

Working papers held in Shared Support Services