

**Cabinet**  
**15 June 2017**

**Annual Treasury Report 2016/17**

**Cabinet Member:** Cllr Peter Hare-Scott  
**Responsible Officer:** Director of Finance, Resources & Assets, Andrew Jarrett

**Reason for the report:** To inform Members of the Council's treasury management performance in 2016/17.

**Matters for consideration:** That the treasury management performance for 2016/17 be noted.

**Relationship to the Corporate Plan:** Maximising our return from all associated treasury activities, whilst minimising any credit default risk, enabling the Council to support current levels of spending in accordance with our Medium Term Financial Plan.

**Financial implications:** Investment protection reduced the available interest return during 2016/17.

**Legal implications:** Compliance with the CIPFA Code is a statutory duty.

**Risk assessment:** The Section 151 Officer is responsible for the administration of the financial affairs of the Council. Implementing this strategy and the CIPFA Code of Practice on Treasury Management manages the risk associated with the Council's treasury management activity.

**Equality impact assessment:** No equality issues identified for this report.

**1.0 Introduction**

- 1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual 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).
- 1.2 During 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 (Cabinet 10/03/2016)
  - a mid-year (minimum) treasury update report (Cabinet 27/10/2016)
  - an annual review following the end of the year describing the activity compared to the strategy (this report).
- 1.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn

position for treasury activities and highlights compliance with the Council's policies previously approved by members.

- 1.4 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management was amended in November 2009 and the Council fully complies with its requirements.

## 2.0 The Economy and Interest Rates

2.1 The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

2.2 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

## 3.0 Overall Treasury Position as at 31 March 2017

3.1 This is shown below:

<b>Investments</b>	Principal held at 31 March 2017	Rate/ Return for 2016/17	Principal held at 31 March 2016	Rate/ Return for 2015/16
	£m	%	£m	%
Externally Placed	18.0	0.63	15.0	0.74
Deposit Account and cash balances	3.75	0.35	4.89	0.5
Property Fund Investments	4.64	4.32	2.39	4.67
Total Investments	26.39 (1)		22.28	

Note <sup>(1)</sup> - A breakdown of the Total Investments is held at **Appendix A**.

- 3.2 In order to inform Members as to how the Council was able to hold £26.39m in cash, deposits, and investments as at the 31 March 2017 the following reconciliation is required:

<b>Approximate Balances at 31 March 2017</b>	<b>£m</b>
HRA	2.00
HRA Earmarked Reserves	12.45
General Fund	2.16
General Fund Earmarked Reserves (incl s106 monies and New Homes Bonus)	10.40
Capital Receipts Reserve	2.43
<b>Total</b>	<b>29.44</b>

- 3.3 The Council has working capital requirements and some monies are inevitably tied up in debtors, creditors and stock, in addition to the £26.39m of cash deposits. It should also be remembered that there is the issue of timing, where we collect some monies like council tax and business rates and hold this money temporarily prior to having to pay out precepts to Devon County Council, Devon and Cornwall Police and Devon and Somerset Fire Service.

#### **4.0 Performance Measurement**

- 4.1 One of the key changes in the revision of the Code in 2009 was the formal introduction of performance management relating to investments, debt and capital financing activities.
- 4.2 The use of benchmarks for local authorities such as Mid Devon, with relatively small cash balances, is considered difficult as we are only able to place funds for short periods, however we do review our performance against the 7 day London Interbank Bid Rate (LIBID), which, as at 31/3/17 was 0.11%.

#### **5.0 The Strategy for 2016/17**

- 5.1 The expectation for interest rates within the treasury management 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 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis 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.
- 5.2 During 2016/17 there was major volatility in 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.

## 6.0 Borrowing and Investment Rates in 2016/17

6.1 **Investment Rates:** After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.

6.2 **Borrowing Rates:** PWLB borrowing rates-certainty rates have fallen to historically very low levels during the year.

## 7.0 Borrowing Outturn for 2016/17

7.1 Details of the loans outstanding at 31 March 2017 are shown below:

Public Works Loan Board	Purpose	Final Payment	Interest rate %	Principal held at 31 March 2016	Principal held at 31 March 2017
<b>Ref Number</b>				<b>£000</b>	<b>£000</b>
<b>500248</b>	HRA Self-Financing	28/3/37	2.94	41,219	39,777
<b>502059</b>	Gym Equip and Refuse Vehicle	28/3/18	1.32	175	88
<b>502905</b>	Scarab Street Sweeper	11/3/21	2.18	74	60
<b>503319</b>	Baler	25/03/24	2.68	133	118
<b>503849</b>	Market Walk/Fore St	27/03/40	2.61	4,053	3,930
			<b>Total</b>	<b>45,655</b>	<b>43,973</b>

7.2 We also have a number of finance leases outstanding at year end (£483k in 16/17 and £570k in 15/16). The total interest paid on both PWLB loans and finance leases during 2016/17 was £1,347k, (£1,336k in 15/16).

## 8.0 Compliance with Treasury Limits and Prudential indicators

8.1 During the financial year the Council operated within the Treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and Annual Treasury Management Strategy statement. The outturn for the Prudential Indicators is shown in **Appendix B**.

## 9.0 Investment Outturn for 2016/17

9.1 **Internally managed investments** – The Council manages its investments in-house and invests with the institutions listed in the Council's approved lending list.

9.2 **Investment strategy** – Any fixed term investments in the market place (except Debt Management Office [DMO]) are restricted to a maximum term of 1 year, with the maximum counterparty limit of £5m. The Council's substantial commitments (particularly the monthly precepts to the County Council and the Police and Fire Authorities) constrain the term of investments.

## 9.3 Investment outturn

The final interest position for the financial year can be summarised as follows:

### Interest Paid and Received:

	Budget £k	Actual £k	Variance £k
<b>Interest Paid:</b>			
HRA	1,214	1,201	-13
General Fund	146	146	0
HRA to General Fund <sup>(2)</sup>	54	57	3
<b>Interest Paid Total</b>	<b>1,414</b>	<b>1,404</b>	<b>-10</b>
<b>Interest Received:</b>			
General Fund	-58	-84	-26
CCLA	-113	-175	-62
HRA	-40	-59	-19
HRA-GF loan <sup>(2)</sup>	-54	-57	-3
<b>Interest Received Total</b>	<b>-265</b>	<b>-375</b>	<b>-110</b>

Note <sup>(2)</sup> – This is an internal funding arrangement therefore not included in the total cash interest figures.

## 10.0 CCLA Property Investment Fund

10.1 At 31/3/17 the Council's investments with the CCLA (Churches, Charities and Local Authorities) commercial property fund, was £5m. Accrued net dividends from the original date of investment (1/9/15) are £232k.

10.2 The investment was made with a view to a long term commitment and in common with most unit trusts and OEICS (Open ended investment companies) there is a bid/offer spread, accordingly the bid market value at 31/3/17 of Mid Devon's investment is £4.639m.

### **11.0 Further Updates and Review**

11.1 A report on treasury performance for the first 6 months of 2017/18 will be made to the Cabinet in October/November 2017 to enable Members to review the on-going Treasury Strategy and to provide an update on any other market/financial issues affecting the Council.

11.2 In accordance with recommendations agreed previously, any urgent issues relating to Treasury Management will be immediately referred to the Cabinet member for Finance.

**Contact for any more information:** Andrew Jarrett (01884 234242 – [ajarrett@middevon.gov.uk](mailto:ajarrett@middevon.gov.uk)) / JP Mclachlan– [jpmclachlan@middevon.gov.uk](mailto:jpmclachlan@middevon.gov.uk))

**Background Papers:** Capita's Annual Treasury Management Report

**Circulation of the Report:** Management Team, Cllr Peter Hare-Scott