TREASURY MANAGEMENT ANNUAL REPORT 2016/17

1. INTRODUCTION AND BACKGROUND

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 the financial year 2016/17. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The CIPFA Code of Practice on Treasury Management 2009 was adopted by this Council on 24 February 2010; this was updated in November 2011.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full Council of an annual treasury management strategy report (including the annual investment strategy*)* for the year ahead and an annual review report of the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of the treasury management strategy to a specific named body which in this Council is the Finance, Resources and Partnerships Scrutiny Committee.
6. Delegation by the Council of the role of scrutiny of treasury management performance to a specific named body which in this Council is the Audit and Standards Committee, a midyear and year-end review report is received by this Committee.

Treasury management in this context is defined 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. "

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of treasury management activities, for the financial year 2016/17.

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.

This Council has complied with the requirement under the Code to give prior scrutiny to the annual review report by reporting this to the Audit and Standards Committee prior to it being reported to Full Council.

2. THIS ANNUAL TREASURY REPORT COVERS

- The Council's treasury position as at 31 March 2017;
- The strategy for 2016/17;
- The economy in 2016/17;

- Investment rates in 2016/17;
- Compliance with treasury limits and Prudential Indicators;
- Investment outturn for 2016/17;
- Involvement of Elected Members;
- Other issues.

3. TREASURY POSITION AS AT 31 MARCH 2017

The Council's investment position at the beginning and the end of the year was as follows:

	At 31/03/17	Return	Average Life (Days)	At 31/03/16	Return	Average Life (Days)
Total Debt	£0m	N/A	N/A	£0m	N/A	N/A
Total Investments	£3.4m	0.60%	8	£7.5m	0.68%	11

It should be noted that the above table is only a snapshot of the total Investments as at 31 March 2017. Large fluctuations in cash inflows and outflows that occur throughout the month can have an impact on the figure reported.

4. THE STRATEGY FOR 2016/17

The strategy agreed by Council on 24 February 2016 was that:

- The Council's had no Borrowing Need (a negative Capital Financing Requirement of £0.654m) for 2016/17, due to the Council expecting to have funds available and no borrowing requirement, this was estimated to rise to £4m in future years, to allow for the possibility that the Council may need to borrow to finance capital expenditure which cannot be funded from other revenue or capital resources;

- Short term external loans (i.e. repayable on demand or within 12 months) can be taken to fund any temporary capital or revenue borrowing requirement. The amounts involved would fluctuate according to the cash flow position at any one time;

- All borrowing would be kept absolutely within the Authorised Limit of £15m and would not normally exceed the Operational Boundary of £5m (although it could for short periods of time be permitted to rise to a figure between £5m and £15m due to variations in cash flow);

- Temporary surpluses which might arise would be invested, either in short term deposits with the Council's various deposit accounts or in money market investments (cash deposits) if the size warranted this and for an appropriate period in order that these sums would be available for use when required;

- The proportions of loans and investments to be at fixed or variable rates were: fixed rate loans to be between 0% and 100% of the total and variable rate to be between 0% and 100% of the total, thus enabling maximum flexibility to take advantage of interest rate trends;

- Long term investments to be permitted as follows: maturing beyond 31/03/16 £5m, maturing beyond 31/03/17 £5m, maturing beyond 31/03/18, £5m;

- The overriding consideration is safeguarding the Council's capital. At all times the risk to the Council will be minimised. Within these constraints, the aim will be to maximise the return on investments; and,

- Forward commitment of funds for investment is permitted in respect of in house investments, in instances where market conditions warrant it.

Changes in strategy and credit Policy during the year

At the Council meeting on 7th September 2016, it was reported that, 'the delay in receiving the capital receipt from HDD (in respect of the Ryecroft redevelopment scheme), together with the Council's overall capital financial position, will mean that the Council will have to borrow, at least in the short term, to finance its interest in the Public Sector Hub project.'

As approved by Council on 24 February 2016 the Council used the creditworthiness service provided by the Council's previous treasury management advisors, Sector Treasury Services which uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element, supplemented by additional data (credit watches and outlooks, credit default swap spreads to give early warning of likely changes in credit ratings and Sovereign ratings to select counterparties from only the most creditworthy countries). This modelling approach results in a weighted scoring system providing a series of colour coded bands which indicate the relative creditworthiness of counterparties and suggested maximum investment duration.

5. THE ECONOMY AND INTEREST RATES - narrative supplied by the Council's Treasury Management Advisors – Arlingclose Limited

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in Sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the European Union referendum had an impact on import prices which, together with rising energy prices, resulted in Consumer Price Index (CPI) inflation rising from 0.3% in April 2016 to 2.3% in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August 2016 and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and Gross Domestic Product (GDP) grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

6. INVESTMENT RATES IN 2016/17 – narrative supplied by the Council's Treasury Management Advisors – Arlingclose Limited

Following the European Union referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that the Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10 year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre European Union referendum levels of 1.37% on 23 June 2016. 20 year and 50 year gilt yields also increased in quarter 3 2017 to 1.76% and 1.70% respectively, however in quarter 4 yields remained flat at around 1.62% and 1.58% respectively.

7. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Annex 1.

8. INVESTMENT OUTTURN FOR 2016/17

Internally Managed Investments
The Council manages its investments in-house and during 2016/17 invested with institutions in compliance with the credit worthiness service of the Council's previous treasury management advisors, Sector Treasury Services. The Council invested for a range of periods from overnight to up to six months during 2016/17, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. Four of the eight fixed investments (excluding use of the Government's Debt Management Office Debt Management Account Deposit Facility) made in 2016/17 were for a period of three months or less. Two fixed investments were for six months. The remaining two investments were six month investments that were carried over from 2015/16.

The Council used the Government's Debt Management Office (DMO) Debt Management Account Deposit Facility (DMADF) on five occasions during the year with the longest deposit being made for four days.

Aside from fixed investments and use of the DMO DMADF, the Council used its various deposit accounts. This included four deposits in a 95 day notice account and five deposits in a 180 day notice account, one of which was carried forward from 2015/16. On thirteen occasions funds were also deposited in the Council's business reserve account. Funds in the general fund account that the Council has with Lloyds Bank also earn interest on a daily basis.

Investment Outturn for 2016/17

During 2016/17 an average rate of return of 0.60% was achieved on an average individual investment of £3.627m. This compared with the target of 0.45% included in the departmental service plan.

9. INVOLVEMENT OF ELECTED MEMBERS

Elected members have been involved in the treasury management process during 2016/17 including:

- Scrutiny of the treasury management strategy by the Finance, Resources and Partnerships Committee prior to being submitted for approval by the Full Council.
- Scrutiny of treasury management performance by the Audit and Risk Committee through the receipt of a half yearly treasury management report.
- A quarterly budget monitoring and performance report is reported to Cabinet, this contains details of Treasury Management activity undertaken during the quarter.

ANNEX 1: PRUDENTIAL INDICATORS

Position/Prudential Indicator		2015/16 Actual	2016/17 Indicator	2016/17 Actual
1	Capital Expenditure	£2.543m	N/A	£8.729m
2	Capital Financing Requirement at 31st March *	(£0.895m)	(£0.654m)	£0.828m
3	Treasury Position at 31st March: Borrowing Other long term liabilities Total Debt Investments Net Borrowing	 £0 £0m £0m (£7.549m) (£7.549m)	 N/A N/A N/A N/A N/A	 £0 £0m £0m (£3.460m) (£3.460m)
4	Authorised Limit (against maximum position)	£0	£15.0m	£0
5	Operational Boundary (against maximum position)	£0	£5.0m	£0
6	Ratio of Financing Costs to Net Revenue Stream	(1.74%)	(0.71%)	(0.81%)
7	Upper Limits on Variable Interest Rates (against maximum position) Loans Investments	 0 0	 100% 100%	 0 0
8	Actual External Debt	0	N/A	0
9	Principal Funds Invested for Periods Longer than 364 days (against maximum position)	0	£5.0m	0

* The Capital Financing Requirement has changed from a negative position as at 31st March 2016 to a positive position as at 31st March 2017 to reflect the need for the Council to borrow during 2017/18.

GLOSSARY

CPI – Consumer Price Index

The Consumer Price Index (CPI) is the main UK measure of inflation for macroeconomic purposes and forms the basis for the Government's inflation target. It is also used for international comparisons.

DMO and DMADF - Debt Management Office and Debt Management Account Deposit Facility

The DMO is an Executive Agency of Her Majesty's Treasury. The DMO provides the DMADF to support local authorities' cash management by providing a flexible and secure facility to supplement their existing range of investment options whilst saving interest costs for Central Government.

GDP – Gross Domestic Product

A monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly). Nominal GDP estimates are commonly used to determine the economic performance of a whole country or region, and to make international comparisons.

MPC – Monetary Policy Committee

Interest rates are set by the Bank's Monetary Policy Committee (MPC). The MPC sets an interest rate it judges will enable the inflation target to be met. The Bank's MPC is made up of nine members – the Governor, the two Deputy Governors, the Bank's Chief Economist, the Executive Director for Markets and four external members appointed directly by the Chancellor. The appointment of external members is designed to ensure that the MPC benefits from thinking and expertise in addition to that gained inside the Bank of England.