COUNCIL: 19 October 2016

Report of: **Borough Treasurer**

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SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING 2016-17

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To set out details of Treasury Management operations in the year to date and to report on the Prudential Indicators for 2016/17, where available.

2.0 RECOMMENDATION

2.1 That the Prudential Indicators and Treasury Management activity in the year to date be noted.

3.0 BACKGROUND

3.1 The Council has adopted the CIPFA Treasury Management Code of Practice in Local Authorities. One condition of the Code is that a report must be made twice yearly to the Council on the activities of the Treasury Management function including the exercise of Treasury Management powers delegated to the Borough Treasurer.

3.2 The CIPFA Prudential Code for Capital Finance sets out a range of prudential indicators to assess whether an authority's financial position is prudent, affordable and sustainable. It is best practice that performance on these indicators is reported to Members on a regular basis.

4.0 PRUDENTIAL INDICATORS

4.1 One of the Council's main strengths is its healthy financial position, and the Council has consistently received reports from its external auditors stating that the Council has a strong financial standing. This position is confirmed in this latest set of prudential performance indicators that are set out in the Appendix.

4.2 Table 1 in the Appendix details the estimated and the projected outturn in relation to the principle of affordability contained within the Prudential Code for the current financial year. The first indicator shows that the GRA has a low ratio of financing costs compared to net revenue stream. The latest forecast is above the original estimate due to internal borrowing that was undertaken mostly at the end of the 2015-16 financial year and reduced investment income levels mainly from reductions in interest rates. The HRA has a much higher ratio of financing costs compared to net revenue stream, primarily as a result of the £88.212m of borrowing that was taken out to fund the HRA self-financing payment to the Government in March 2012. In both cases GRA and HRA debt levels are sustainable over the medium term future.

4.3 Table 2 in the Appendix details the Prudential Indicator in relation to capital expenditure, which fall under the principle of prudence. The estimate with slippage, revisions and amendments, was reported at Cabinet on 13th September 2016. This report shows that expenditure is not being committed above budget targets.

4.4 There is also a requirement to report upon the Capital Financing Requirement of the Council. This indicator details the authority's underlying need to borrow for a capital purpose. At the end of the financial year 2015/16 the capital financing requirement stood at £99.043m. Due to its nature this indicator can only be reported upon when the non current asset accounts are closed, and the figure for the 2016/17 financial year will not be available until Summer 2017.

4.5 With regard to the Treasury Management Prudential Indicators two of these relate to approved borrowing limits namely, the authorised limit for external debt and the operational boundary. Council agreed these limits at £109.50m and £103.25m respectively at its meeting on 24th February 2016, and we are currently well within these limits. Table 3 in the Appendix details the debt structure and interest payments associated with current borrowing.

5.0 INVESTMENTS

5.1 There have been on average fewer funds available for investment during the current year compared to last year. The average amount of funds invested for the first 5 months of 2016/2017 was £17.3m compared to £20.9m at the same period in 2015/2016. This position reflects a policy of reducing the level of cash investments to avoid the need to borrow to support the capital programme. This approach is appropriate given that the interest rate earned on cash investments is significantly lower than the interest rate paid on external borrowing.

5.2 The Base Rate started the year at 0.50% and was reduced to 0.25% at the start of August. Our financial advisors, Capita, have forecast that the base rate will reduce further to 0.10% early in 2017 and remain at this level until the start of 2018. It is therefore anticipated that this year, we will earn less interest than in 2015/16, as there will be less funds available for investment and the average rate of interest earned will be lower. However this position will be more than offset by savings on anticipated borrowing costs, because of the policy of reducing cash investments rather than taking out external borrowing.

5.3 The Council's strict investment criteria combined with the current state of the financial markets means that there are only a limited number of counter parties that we can invest in. These criteria mean that the Council will only invest with other Local Authorities or with UK based Banks or Building Societies with an excellent credit rating. While these criteria limit the interest rates that can be achieved they do ensure that public funds are safeguarded.

5.4 The following table provides details on investment activity during the first 5 months of this year and last year.

	End of Aug 2016/17	End of Aug 2015/16
Investment levels		
Average Funds invested	£17.3 million	£20.9 million
External Investment Interest earned	£42,967	£44,798
Turnover	£19.5 million	£32.1 million
Number of individual investments	12	26
Average Rate earned on all investments	0.509%	0.524%
Number & type of organisations invested in		
Local Authorities	0	0
Building Societies	3	3
Banks	3	3

5.5 As part of the ongoing work to achieve Best Value in Treasury Management, we continually monitor our performance against a benchmark figure of the average 3-month LIBID interest rate. The position at the end of August is that we have exceeded this target, achieving an average rate of interest earned of 0.509%, against the benchmark average of 0.410%.

5.6 Each year our treasury management advisors (Capita) undertake a review of our treasury management activities. This year's review was conducted in August and did not give rise to any major issues. The Council's policy is to limit the maximum length of its investments to 12 months, although in practice in recent times investments have been limited to 3 months or less to provide liquidity in what has been a volatile market. Following discussions with Capita it would now seem appropriate to revert to the previous practice of investing for periods of up to a year, which is consistent with the approach that is being taken by many other local authorities.

5.7 Investments are only made in very secure financial institutions with excellent credit ratings. We liaise closely with money market brokers and our treasury advisors in order to anticipate the investment landscape ahead, so that we are in a good position to safeguard our investments.

6.0 TREASURY MANAGEMENT FRAMEWORK

6.1 There have not been any significant changes made to the treasury management framework in the year to date. It is standard practice that credit rating and other financial information are fully assessed before investments are made to ensure their security. No new loans have been taken out in the year to date.

6.2 No changes have been made to the criteria used for deciding upon counterparties for investment purposes or the maximum amount that can be invested with a single organisation. In addition no changes have been made to the list of Brokers used for investment purposes.

7.0 SUSTAINABILITY IMPLICATIONS

7.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

8.0 RISK ASSESSMENT

8.1 The formal reporting to Council of Prudential Indicators and Treasury Management performance is part of the overall framework set out in Codes of Practice to ensure that the risks associated with this area are effectively controlled. Given the Council's strict investment criteria the risk of loss of investment funds is low, however given that the sums invested can be very large, treasury management activities are included in the Council's Key Risk Register.

Background Documents

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report.

Date	Document	File Ref
2003	CIPFA Prudential Code for Capital Finance	Accountancy Office
2010	CIPFA Revised Treasury Management Code of Practice	Accountancy Office

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

Appendices

Appendix A – Prudential Indicators