



**Title: Treasury Management Annual Report 2016/17**

**Author(s): Martin Hone (Interim Chief Finance Officer / Section 151 Officer)**

---

## **1. Introduction**

This report details the actual performance and activities of the authority's treasury management function for the financial year 2016/17.

Treasury management is defined in the Code of Practice as " the management of the organisation's 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".

## **2. Recommendation(s)**

That Members note the contents of the report.

## **3. Information**

- 3.1 Two annual reports on treasury management are produced. Firstly, a Treasury Management Strategy and Statement is approved by Council prior to the commencement of the financial year and then this report provides Members with a summary of actual activity for the year 2016/17. The report is required to comply with the "Code of Practice on Treasury Management in Local Government " and the Council's own Treasury Management Policy Statement.
- 3.2 The Code requires the Section 151 Officer to operate the treasury management function in accordance with treasury management practices adopted by Council. There are no issues of non-compliance with these practices that need be brought to Member's attention.
- 3.3 Under the Prudential Code for Capital Finance, the Council is required to prepare a number of prudential indicators against which treasury management performance is measured
- 3.4 Details of all borrowing and investment transactions for 2016/17 together with the performance against prudential indicators are given below.

### **3.5 Borrowing**

**Long Term** - The Authority is able to borrow on a long term basis from the Public Works Loans Board (PWLB). At the beginning of the year the amount of loan outstanding was £19.114m. During the year, £5m of long-term borrowing was undertaken in order to fund the leisure facilities renewal project. This left the outstanding balance at the end of the year unchanged at £24.114m.

**Short Term** (*Less than 365 days in duration*) - There was £4.5m of short-term

borrowing undertaken during 2016/17 (2015/16 £8m), in lieu of long-term borrowing.

### Cost of Borrowing

Interest on the outstanding loans was paid as follows:

Loan £ 000's	Maturity Date	Interest Rate	Interest £ 000's
500	29/03/52	4.10	21
500	29/03/18	3.50	17
18,114	Various	2.98*	539
5,000	30/06/55	2.66	100
1,000	05/07/17	0.50	4
3,500	15/02/18	0.56	2

#### \* Average Interest rate for loans

### 3.6 Investments

During 2016/17, the Council was in a position where it often had cash surpluses to invest. When considering investments the Council must consider the following factors:

- **Security** – the Authority has a counterparty list, based on credit ratings, within its Investment Strategy that is approved prior to the commencement of the financial year. The current list and basis of approval is attached at **Appendix C**.
- **Liquidity** – because of cash flows there is always a need to have a mix of investments that are realisable when required.
- **Yield** – probably the least important consideration as often higher yields mean greater risks

In the current economic climate and due to the volatility and uncertainty being prevalent in financial markets security has to be the most important factor of the three listed above.

For 2016/17 surplus cash was invested in the following ways.

**Special Interest Bearing Account** – This account is held with National Westminster Bank plc. It can be used for deposits up to £5 million and pays interest at 0.25%

**Business Direct Reserve Account** – Again, this is a National Westminster Bank account which allows deposits up to £1 million and also pays interest at 0.25%.

**Money Market Deposits** – Used for larger amounts up to £1.5 million. The list of institutions approved for investment was agreed at Committee on 24 March 2015 and is included again for reference in **Appendix C**. The investments fall into two categories:

- Money on Call – These investments run for a minimum of 7 days after which they can be recalled at any time. Interest rates are variable and can fluctuate during the life of the investment.
- Fixed Deposits – Investments which mature at a pre-arranged date. The interest rate is fixed for the life of the investment.

The total interest received for the year to 31 March 2015 on temporary investments amounted to £10,349 (2015/16 £13,771). A summary of the total amount invested in 2016/17 is given at **Appendix A**.

### 3.7 Prudential Indicators

The Local Government Act 2003 requires Councils to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators which provide the basis for management and monitoring of borrowing and investments. These indicators were agreed by Council on 24 March 2015.

**The Capital Financing Requirement (CFR)** – This represents the Council’s underlying need to borrow for capital purpose based on the cumulative value of capital expenditure not fully paid for. The CFR will change year on year in accordance with the value of capital spending.

The first key control over activities is to ensure that over the medium term, net borrowing will only be for capital purposes, The Authority must ensure that net external borrowing does not, except for short periods, exceed the total of the CFR. A comparison of the estimate against the actuals is shown in the table below.

	<b>2016/17 Original Estimate £ 000's</b>	<b>2016/17 Revised Estimate £ 000's</b>	<b>2016/17 Actual £ 000's</b>
Gross Borrowing	27,114	30,114	28,614
Investments	-	-	2,250
<b>Net Borrowing 31st March</b>	<b>27,114</b>	<b>30,114</b>	<b>26,364</b>
<b>Total CFR 31st March</b>	<b>35,758</b>	<b>34,845</b>	<b>33,703</b>

**The Section 151 Officer reports that the Council complied with the requirement to keep borrowing below the relevant CFR in 2016/17 and no difficulties are foreseen for the current or future years.**

**Borrowing Levels** – The following two indicators control the overall level of borrowing.

- **The Authorised Limit** – This represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.
- **The Operational Boundary** – This indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around the boundary for short times during the year. It should act as a barometer to ensure the authorised limit is not breached.

- **The actual borrowing compared to the Authorised and Operational limits agreed by Council are as follows:**

	<b>2016/17 Original Limit £ 000's</b>	<b>2016/17 Revised Limit £ 000's</b>	<b>2016/17 Actual (Max) £ 000's</b>
Authorised Limit	34,000	34,000	28,614
Operational Boundary	32,000	32,000	28,614

**Ratio of Financing Costs to Net Revenue Stream** – This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, Council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time.

	<b>2016/17 Original Estimate %</b>	<b>2016/17 Revised Estimate %</b>	<b>2016/17 Actual %</b>
General Fund	9.8	9.7	10.3
HRA	10.6	10.5	10.6

The above indicator shows that within the General Fund, financing costs are equivalent to 10.3% of the net revenue income. In the case of the HRA there is net interest payable which is equivalent to 10.6% of the net revenue income.

**Limits on Activity** – The following indicators contain the activity of the treasury function within certain limits thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position.

- **Upper Limits on Variable Rate Exposure** – This indicator identifies a maximum limit for variable interest rates.
- **Upper Limits on Fixed Rate Exposure** – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- **Maturity Structures of Borrowing** – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.
- **Total Principal Funds Invested** – This limit is set to reduce the need for early sale of investments and is based on the availability of investments after each year-end.

*(Continued overleaf)*

	2016/17 Original Indicators		2016/17 Revised Indicators		2016/17 Actual Maturity Structure	
	%		%		%	
Fixed Interest Rates Limit	100		100		100	
Variable Interest Rates Limit	25		25		0	
Maturity Structure of Borrowings	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0	25	0	25	0	16
12 months to 2 years	0	25	0	25	0	2
2 years to 5 years	0	50	0	50	0	10
5 years to 10 years	0	75	0	75	0	18
10 years and above	0	100	0	100	0	54

The Prudential Code requires indicators to be set for the maturity structure of fixed borrowings only.

**Background Documents:**

None.

**E-mail:** chris.raymakers@oadby-wigston.gov.uk

**Tel:** (0116) 257 2891

<b>Implications</b>   Treasury Management Annual Report 2016/17	
<b>Finance</b>	Strong, prudent treasury management is vital to the governance and financing of the Council.
<b>Chris Raymakers</b> Head of Finance, Revenues and Benefits	
<b>Legal</b>	No direct implications.
<b>Anne Court</b> Director of Services / Monitoring Officer	
<b>Corporate Risk(s) (CR)</b>	<input checked="" type="checkbox"/> <b>Decreasing Financial Resources (CR1)</b> In periods of tight financial control strong treasury management is vital. <input checked="" type="checkbox"/> <b>Reputation Damage (CR4)</b> Inappropriate treasury management decisions could severely damage the Council's reputation. <input checked="" type="checkbox"/> <b>Regulatory Governance (CR6)</b> Treasury management of public money is governed by statute, regulations and codes of practice,
<b>Chris Raymakers</b> Head of Finance, Revenues and Benefits	
<b>Corporate Priorities (CP)</b>	<input checked="" type="checkbox"/> <b>Effective Service Provision (CP2)</b>
<b>Chris Raymakers</b> Head of Finance, Revenues and Benefits	
<b>Vision &amp; Values (V)</b>	<input checked="" type="checkbox"/> <b>"A Strong Borough Together" (Vision)</b> <input checked="" type="checkbox"/> <b>Accountability (V1)</b> <input checked="" type="checkbox"/> <b>Teamwork (V3)</b> <input checked="" type="checkbox"/> <b>Innovation (V4)</b> <input checked="" type="checkbox"/> <b>Customer Focus (V5)</b>
<b>Chris Raymakers</b> Head of Finance, Revenues and Benefits	
<b>Equalities &amp; Equality Assessment(s) (EA)</b>	No significant implications.
<b>Chris Raymakers</b> Head of Finance, Revenues and Benefits	<input type="checkbox"/> <b>Initial EA Screening</b> <input type="checkbox"/> <b>Full EA Assessment</b> <input checked="" type="checkbox"/> <b>Not Applicable</b>