



| Report of:  | Meeting | Date            | Item no. |
|---|---------|-----------------|----------|
| Cllr. Alan Vincent,<br>Resources Portfolio<br>Holder and Clare<br>James, Head of<br>Finance | Council | 1 December 2016 | 10       |

### Treasury Management Activity April 2016 to September 2016

#### 1. Purpose of report

- 1.1 To report on the overall position and activities in respect of Treasury Management for the first half of the financial year 2016/17.

#### 2. Outcomes

- 2.1 An informed Council who have an understanding of Treasury Management activity, in line with the approved Treasury Management Policy and Strategy Statements and Treasury Management Practices.

#### 3. Recommendation

- 3.1 That the Annual Report on Treasury Management Activity for the first half of the 2016/17 financial year be approved.

#### 4. Background

- 4.1 In order to demonstrate compliance with the CIPFA Code of Practice for Treasury Management a review of the Treasury Management Policy Statement, Treasury Management Procedures, Strategy and Minimum Revenue Provision Policy Statement is undertaken each year and reported to Cabinet in March. The Council, in accordance with legislation is also formally required to approve the formulation of the plan or strategy for the control of the authority's borrowing, investments or capital expenditure and for the determination of the authority's minimum revenue provision. This is agreed by Council in April.

**4.2** A requirement of the Treasury Management Code of Practice is the reporting of the results of treasury management activity twice a year. This report covers the six months ending 30 September 2016. A further report including activity for the 2016/17 financial year in its entirety will be considered by Council in July 2017.

**4.3** The Treasury Management Procedures indicate that the report should include the following issues, where relevant:

- a) Total debt and investments at the beginning and end of the review period and average interest rates;
- b) Explanations for variance between original strategies and actual;
- c) Debt rescheduling done in the year;
- d) Actual borrowing and investment rates achieved through the year;
- e) Comparison of return on investments to the investment benchmark; and
- f) Compliance with Prudential and Treasury Indicators.

## **5. Key issues and proposals**

**5.1** The referendum vote for Brexit in June this year delivered an immediate fall in confidence indicators and business surveys, pointing to an impending slowdown in the UK economy. However, subsequent surveys have shown a sharp recovery in confidence, although it is generally expected that whilst the economy will now avoid flat-lining, growth will be continue to be weak through the second half of 2016 and into 2017.

The Bank of England meeting on 4<sup>th</sup> August addressed this expected slowdown in growth by introducing a package of measures including a cut in the Bank Rate from 0.5% to 0.25%. This has resulted in reduced interest rates from the Councils' counterparties and a lower return on investments.

**5.2** The table below illustrates the Council's debt and investment position at the beginning of the 2016/17 financial year and as at 30 September 2016:

|                                     | 1 <sup>st</sup> April 2016 | 30 <sup>th</sup> September 2016 |
|-------------------------------------|----------------------------|---------------------------------|
|                                     | £                          | £                               |
| Loans - Temporary                   | 0                          | 0                               |
| - Cash Overdrawn                    | 180,874                    | 123,885                         |
| <b>Total Short-term Debt</b>        | <b>0</b>                   | <b>0</b>                        |
| Loans - Long-Term Borrowing         | 1,552,000                  | 1,552,000                       |
| <b>Total Long-term Debt</b>         | <b>1,552,000</b>           | <b>1,552,000</b>                |
| Investments - Temporary             | 16,366,442                 | 21,147,970                      |
| Cash in Bank                        | 0                          | 0                               |
| Cash held by the Authority          | 2,634                      | 2,584                           |
| <b>Total Short-term Investments</b> | <b>16,369,076</b>          | <b>21,150,554</b>               |

- 5.3** The Prudential Code for Capital Finance aims to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. The code sets out indicators that must be used and requires local authorities to set relevant limits and ratios. The indicators for the 2016/17 financial year were originally considered by Cabinet 17 February 2016 and agreed at Council on 3 March 2016. During the six months to 30 September 2016 the Council operated within these treasury limits and Prudential Indicators.
- 5.4** The 2016/17 Budget assumed no additional long-term borrowing and capital schemes were to be funded by grants and contributions, capital receipts and the Capital Investment Reserve.
- 5.5** From 1 September 2011, and following a cost/benefit analysis it was decided to cease the formal overdraft facility. The formal overdraft facility used to cost the Council £2,000 plus 1% over the base rate for overdrawn net balances over £500,000. The new arrangement now incurs charges at 4% over the current base rate for net overdrawn balances with no annual arrangement fee. The Council's net bank account position was overdrawn on two occasions during the period April to September 2016. The first occasion was an overdrawn balance of £569,152 in June due to £1m being entered on the bank transaction investing in the NatWest Liquidity account when only £395,885 should have been invested. According to supporting documents, this was identified the following morning and monies were recalled. This resulted in an overdrawn interest charge of £70.16. The second occasion in September for £6,466 was due to insufficient funds being recalled which resulted in a £0.75 overdrawn interest charge.
- 5.6** There were no short-term borrowing transactions (i.e. less than 365 days) during the first six months of 2016/17.
- 5.7** Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates. No debt rescheduling has been undertaken during the 6 months to 30 September 2016.
- 5.8** Interest payments in respect of short-term and long-term borrowing for the first half of the financial year are on target and total £34,415 compared to a budgeted figure of £68,830 for the full year. Including miscellaneous payments in 2016/17 the actual at 30 September is £34,426 compared to a full year budget of £69,950. The budget includes £1,000 for interest in the latter part of the financial year owing to potential temporary borrowing being requirements as income from Council Tax reduces during February and March.

**5.9** The Council has continued to invest any surplus balances with the Council's Bank, NatWest on call deposit facility, Money Market Funds (MMF) with Prime Rate Capital Management and LGIM, Nationwide Building Society (3 month fixed), the Bank of Scotland (Overnight/Call account and fixed rates 3 month and 6 month notice facilities), Goldman Sachs International Bank (3 month fixed notice facility), Santander (31day, 60 day and 95 day corporate notice facility) and Svenska Handelsbanken (instant access and 35 day notice facilities).

There have been four occasions where funds greater than £100,000 have remained in the Council's accounts overnight as a surplus balance in the first six months of 2016/17. The NatWest have introduced a new roll-up feature that is being looked into which could address this in the future.

The current investment counterparty selection criteria approved in the Treasury Management Strategy is meeting the requirement of the treasury management function.

The equated investments for the first half of 2016/17 are detailed in the following table:-

|  | Equated Investment Principal | Interest Due  | Rate of Return | Benchmark Return |
|--|------------------------------|---------------|----------------|------------------|
|  | £                            | £             |                |                  |
| NatWest Call Account                   | 711,291                      | 1,780         | 0.25%          | 0.28%            |
| Money Market Funds                     | 2,501,840                    | 11,873        | 0.47%          | 0.28%            |
| Bank of Scotland (Overnight/ Call)     | 421,918                      | 1,666         | 0.39%          | 0.28%            |
| Bank of Scotland (3 month Fixed)       | 1,142,466                    | 6,910         | 0.60%          | 0.28%            |
| Bank of Scotland (6 month Fixed)       | 378,083                      | 3,025         | 0.80%          | 0.28%            |
| Svenska Handelsbanken (Instant Access) | 1,048,992                    | 3,515         | 0.34%          | 0.28%            |
| Svenska Handelsbanken (35Day Notice)   | 523,721                      | 2,155         | 0.41%          | 0.28%            |
| Nationwide BS (3 Month Fixed)          | 120,548                      | 603           | 0.50%          | 0.28%            |
| Santander (60 Day Notice)              | 1,504,110                    | 10,664        | 0.71%          | 0.28%            |
| Santander (31 Day Notice)              | 164,384                      | 1,068         | 0.65%          | 0.28%            |
| Santander (95 Day Notice)              | 295,890                      | 2,046         | 0.69%          | 0.28%            |
| Goldman Sachs IB (3 Month Fixed)       | 501,370                      | 2,511         | 0.50%          | 0.28%            |
| <b>Total</b>                           | <b>9,314,613</b>             | <b>47,816</b> | <b>0.51%</b>   | <b>0.28%</b>     |

**5.10** The table above reflects that investments earned an average return of 0.51% against a benchmark LIBID (London Interbank Bid Rate) 7-day average of 0.28%. The Bank of England base rate reduced from 0.50% to 0.25% with effect from 4<sup>th</sup> August 2016.

**5.11** Interest receivable on investments for the first half of the financial year is £36,892 (or £37,406 including miscellaneous items) compared to an annual budget of £60,000. The rate of interest received is expected to reduce through the second part of the year due to falling interest rates and the funds available for investment diminish as a result of increased capital expenditure and reduced levels of Council Tax income in the last quarter of the year

**5.12** Within the Council's current Annual Investment Strategy, the Investment Policy criteria are based on Sector's creditworthiness service and it is meeting the requirement of the treasury management function. The Council, to date, has adopted a very cautious approach and regularly monitors organisations with which investments are held to ensure they meet the Investment Policy criteria.

| <b>Financial and legal implications</b> |   |
|---|---|
| Finance                                 | Considered in detail in the report above.   |
| Legal                                   | The approval of the recommendations will ensure compliance with the CIPFA Code of Practice. |

**Other risks/implications: checklist**

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with an x.

| <b>risks/implications</b> | <b>✓ / x</b> |
|---------------------------|--------------|
| community safety          | <b>x</b>     |
| equality and diversity    | <b>x</b>     |
| sustainability            | <b>x</b>     |
| health and safety         | <b>x</b>     |

| <b>risks/implications</b> | <b>✓ / x</b> |
|---------------------------|--------------|
| asset management          | <b>x</b>     |
| climate change            | <b>x</b>     |
| data protection           | <b>x</b>     |

| report author | telephone no. | email                   | date     |
|---------------|---------------|-------------------------|----------|
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| <b>List of background papers:</b> |      |                                |
|-----------------------------------|------|--------------------------------|
| name of document                  | date | where available for inspection |
|                                   |      |                                |

**List of appendices**

None

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