

# Audit, Governance & Standards Committee

26<sup>th</sup> June 2016

Is the final decision on the recommendations in this report to be made at this meeting?

**Yes**

## Treasury Management Annual Review 2016/17

<b>Final Decision-Maker</b>	Audit, Governance & Standards Committee
<b>Lead Head of Service</b>	Ellie Dunnet, Head of Finance
<b>Lead Officer and Report Author</b>	John Owen, Finance Manager
<b>Classification</b>	Public
<b>Wards affected</b>	All Wards

### **This report makes the following recommendations to this Committee:**

1. The Audit, Governance and Standards Committee note the review of the financial year 2016/17 in accordance with CIPFA's Code of Practice on Treasury Management.
2. The Audit, Governance and Standards Committee agree that no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2016/17.

### **This report relates to the following corporate priorities:**

- Securing a successful economy for Maidstone Borough - ensuring the safeguarding of the Council's finances and the liquidity of funds when liabilities become due will enable the Council to provide a successful economy for Maidstone Borough.

### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards	26 June 2017

# Treasury Management Annual Review 2016/17

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code requires that authorities report on the performance of the treasury management function at least twice a year (at mid-year and year-end).
  - 1.2 The Council has delegated the role of considering these reports to the Audit, Governance and Standards Committee.
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## 2. INTRODUCTION AND BACKGROUND

- 2.1 This report sets out the activities of the Treasury Management function for 2016/17 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 12 months.
- 2.2 The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
- 2.3 The Authority's Treasury Management Strategy for 2016/17 was approved by full Council on 2<sup>nd</sup> March 2016. The key elements of the Strategy are:
  - Due to the adoption of the amended capital programme by Policy & Resources Committee on 27<sup>th</sup> January 2016, it was believed there would be a prudential borrowing requirement of £11,950,000;
  - Maximum investment limit of £8m with AAA rated institutions/instrument;
  - All other investments short term (less than 1 year) unless an opportunity arises.

### 2.4 Economic Overview of 2016/17

2.4.1 During financial year 2016/17 the following developments took place:

- The UK voted to leave the European Union.
- UK inflation was subdued in the first half of 2016 as a consequence of weak global price pressures. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017.

- Bank Rate was cut to 0.25% in August 2016 and the Bank of England embarked on further gilt and corporate bond purchases as well as providing cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.
- The economy's growth was fairly buoyant during the year with the GDP growing 0.6% in the second quarter, 0.5% in the third quarter and 0.7% in the fourth quarter of the calendar year of 2016.
- Unemployment had dropped to its lowest level in 11 years in February 2017 to 4.7%.
- Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA after the referendum result due to the negative reaction. None of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios.

## 2.5 Investment Activity

2.5.1 The CIPFA Code and Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council has adhered to these principles during 2016/17.

2.5.2 The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17 the Authority's investment balances have ranged between £14.2m and £40.2m. The average investment balance for the year was £29.2m. The Council held investments totalling £15.86m as at 31st March 2017. A full list of these can be found within **Appendix I**.

2.5.3 Investment income for the year totalled £186k with the average rate on investments for 2016/17 is 0.58% against the benchmarked rate of 0.54%.

2.5.4 All investments during 2016/17 have been short term due to rates not being sufficiently appealing to justify the risk of investing funds for longer periods. Funds have also been kept liquid due to being required to fund the capital programme and daily liabilities of the Council as and when necessary.

2.5.5 All investments during the year have been within the agreed limits of the Treasury Management Strategy 2016/17.

## 2.6 Borrowing Activity

2.6.1 As at 31<sup>st</sup> March 2017, the Authority did not hold any loans. The Council's only borrowing requirements for 2016/17 have been for short term

purposes where the cheapest options to borrow were sought within the market. Details of these borrowings are as follows:

- Leicester City Council - £2,000,000 2 days @ 0.45% cost of borrowing £49.32.
- Salford City Council - £500,000 4 days @ 0.60% cost of borrowing £32.88.

## 2.7 Prudential and Treasury Indicators

2.7.1 The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the indicators that must be set and monitored each year.

2.7.2 The Council has operated within its Prudential and Treasury Indicators set out in the Treasury Management Strategy 2016/17 and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **Appendix II**.

## 2.8 Compliance Report

2.8.1 The Director of Finance & Business Improvement is pleased to report that all treasury management activities undertaken during 2016/17 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

## **3. AVAILABLE OPTIONS**

3.1 The Audit, Governance and Standards Committee agrees that no amendments to the current procedures are necessary as a result of the review of activities in 2016/17.

3.2 The Audit, Governance and Standards Committee proposes changes to the current procedures as a result of the review of activities in 2016/17.

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## **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

4.1 The Audit, Governance and Standards Committee agrees that no amendments to the current strategy for 2017/18 are necessary as a result of the review of activities in 2016/17 as there is no justification to make any changes.

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## 5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 None.

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## 6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 If Audit, Governance and Standards Committee agrees that no change in current procedures with Treasury management will be made, then there will be no further action.

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## 7. CROSS-CUTTING ISSUES AND IMPLICATIONS

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	None	
<b>Risk Management</b>	<p>Risk management is included within the Treasury Management Practices to which the Council adheres. These risks comprise of:</p> <ul style="list-style-type: none"><li>• credit and counterparty risk,</li><li>• liquidity risk,</li><li>• interest rate risk and</li><li>• exchange rate risk, refinancing risk (however, the Council only deals in its home currency sterling).</li><li>• Legal &amp; regulatory risk</li><li>• Fraud, error and corruption</li><li>• Market risk management</li></ul>	Mark Green Director of Finance and Business Improvement
<b>Financial</b>	This report relates to the financial activities of the council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Mark Green Director of Finance and Business Improvement
<b>Staffing</b>	None	
<b>Legal</b>	The legal implications are	Interim

	detailed within the body of the report which is compliant with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities.	Deputy Head of Legal Partnership
<b>Equality Impact Needs Assessment</b>	None	
<b>Environmental/Sustainable Development</b>	None	
<b>Community Safety</b>	None	
<b>Human Rights Act</b>	None	
<b>Procurement</b>	None	
<b>Asset Management</b>	None	

## **8. REPORT APPENDICES**

The following documents are to be published with this report and form part of the report:

- Appendix I: List of Investments as at 31<sup>st</sup> March 2017
- Appendix II: Prudential and Treasury Indicators

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## **9. BACKGROUND PAPERS**

None.