ITEM 14 Treasury Management Outturn 2015/16

Report of the Economic Portfolio Holder

Recommendation:

That the Annual Treasury Management Report for 2015/16 and the Prudential Indicators for the year as shown in the Annex to the report be noted.

SUMMARY:

- This report reviews the performance of the Treasury Management function in 2015/16 compared with the forecasts and policies set out for last year.
- Investment income for the year was £30,890 more than included in the forecast.

1 Introduction

1.1 The Chartered Institute of Public Finance Accountancy (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 22 February 2010.

1.2 There are a number of requirements which the Council has to meet in order to comply with this Code of Practice. One of these requirements is to submit an annual review of treasury management performance against the approved strategy each year.

2 Background

2.1 The expectation for interest rates within the treasury strategy for 2015/16 was for interest rates to remain static at 0.5% until at least the end of 2016.

2.2 The primary objective for investments placed was, and continues to be, the security of the investment. The impact of this is that returns continue to be low, but the Council remains well placed to take advantage of increases in interest rates when they eventually come.

3 Treasury Performance in 2015/16

3.1 The Council operated in 2015/16 without the need for any short term borrowing, and with all investments being managed in-house.

3.2 Most investments during the year were placed in call-accounts or fixed-term deposits for durations of up to one year, with the exception of an investment to a Local Authority of £5M for five years.

3.3 The average return on investments for the year was 0.74% compared to the 7 day Libid benchmark of 0.36%, an out-performance of 0.38%.

3.4 The Council's investment position at the end of the year is detailed below.

	Principal at 31/03/16 £M	Principal at 31/03/15 £M	Rate of Return 2015/16 %	Benchmark Return %	Variance %
Internally Managed Investments	61.6	59.4	0.74	0.36	+0.38

3.5 Of the principal invested at 31st March 2016, £19.7M was invested in fixed rate, fixed term deposits and the remainder was invested in call accounts with access ranging from immediate to 100 days' notice.

3.6 A comparison of the investment interest earned with the original budget and forecast is shown in the table below. The base rate remained as expected in the year.

	Original Budget 2015/16 £000	Forecast 2015/16 £000	Actual 2015/16 £000	Variance to Original £000
Interest on Investments	394	513	554	+160

3.7 Income received on the Council's cash balances was higher than forecast due to slippage in the Capital Programme and Asset Management Plan, Business Rates Income exceeding expectations and the receipt of additional government grants(e.g. Small Business Rates Relief Grants), leading to a favourable variance of £160,000 when measured against the original budget, and £41,000 when compared to the budget forecast prepared in February 2016.

3.8 During the financial year all investing activities were carried out within the limits of the Council's Treasury Management Strategy and in compliance with the Council's Treasury Management Practices.

4 Prudential and Treasury Indicators

4.1 There are three indicators related to investments and treasury management that are required to be reported to those charged with governance. These relate to the affordability of capital expenditure and the impact that capital expenditure has on Council Tax.

4.2 The first indicator is the "Ratio of financing costs to net revenue stream" (number 1 on the annex). The purpose of this ratio is to identify what proportion of net revenue costs relate to the financing of debt. However, as the Council has large investments and no long term debt, the ratio is negative and shows that interest income is the equivalent of 6.1% of the Council's net revenue expenditure.

4.3 The second indicator is the "Capital financing requirement" (number 2 on the annex). The capital financing requirement shows the Council's underlying need to borrow to finance capital expenditure that has not been financed by its own resources. As all of the Council's capital expenditure has been financed through the use of capital receipts and contributions or through revenue reserves, the capital financing requirement is nil.

4.4 The final indicator is "The incremental impact that decisions to commit capital expenditure has on the level of Council Tax" (number 3 on the annex). This calculation is based on the amount of investment income foregone / borrowing costs incurred when capital expenditure is committed. This is a purely notional calculation designed to show the effect of changes in capital investment decisions. The true estimated level of council tax in future years is shown in the Medium Term Financial Strategy, and the actual decision on Council Tax will only be determined by Full Council at the time that the annual budget is set.

4.5 The indicators are shown in the Annex.

5 Equalities and Risk Management

5.1 This report is for information purposes only, so the Council's risk management and EQIA processes do not need to be applied.

6 Conclusion and reasons for recommendation

6.1 Despite a continually low Bank of England base rate during the year, the Council achieved an average investment income rate of 0.74% in the year compared with a benchmark figure of 0.36%.

6.2 Actual income for the year exceeded the original estimate by £159,895.

6.3 The report summarises performance during 2015/16. It does not propose any changes in respect of Treasury Management in the future and therefore the recommendation is that the report be noted.

Background Papers (Local Government Act 1972 Section 100D)			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1	File Ref:	
(Portfolio: Economic) Councillor Giddings			
Officer:	Will Fullbrook	Ext:	8201
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