

## **ITEM 10 Treasury Management Outturn 2017/18**

Report of the Finance Portfolio Holder

### **Recommended:**

**That the Annual Treasury Management Report for 2017/18 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 2017/18 compared with the forecasts and policies set out for last year.
- Investment income for the year was £81,526 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 2017) 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 2017/18 was for interest rates to remain static throughout the year. This did not occur and interest rates were raised in November 2017 by 0.25% to 0.50%. Indicators show that it is likely that there will be a rise in May however, there is some uncertainty about the extent and timing of further increases.
- 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 2017/18**

- 3.1 The Council operated in 2017/18 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 investments to Local Authorities of £5M for five years and £12M for two years.
- 3.3 The average return on investments for the year was 0.61% compared to the average 7 day Libid benchmark of 0.21%, an out-performance of 0.40%.

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

	Principal at 31/03/18 £M	Principal at 31/03/17 £M	Rate of Return 2017/18 %	Benchmark Return %	Variance %
Internally Managed Investments	60.3	63.4	0.61	0.21	+0.40

3.5 Of the principal invested at 31 March 2018, £38.5M 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.

	Original Budget 2017/18 £000	Forecast 2017/18 £000	Actual 2017/18 £000	Variance to Original £000
Interest on Investments	337.1	351.5	418.6	81.5

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 and higher investment rates than forecast, offset against funds transferred for investment in property. This resulted in a favourable variance of £81,500 when measured against the original budget, and £67,100 when compared to the budget forecast prepared in February 2018.

3.8 During the financial year there were two minor breaches of the Treasury Management Strategy which were reported to Council on the 23 February 2018 ( Minute 272.2.1.2 refers)

#### **4 Prudential Indicators, Treasury Limits and MRP Statement**

##### Prudential Indicators

4.1 There are three key prudential indicators that are required to be reported each year. These relate to the affordability of capital expenditure and the impact that capital expenditure has on Council Tax. The prudential indicators and borrowing limits are shown in Annex 1 and are relevant for setting an integrated treasury management statement.

4.2 The first indicator is the ratio of financing costs to net revenue stream. This compares the Council's net investment income and borrowing expenditure as a ratio of the budget requirement. A negative figure shows that investment income is greater than borrowing costs.

4.3 The second indicator is the Capital Financing Requirement (CFR). This is the total amount by which the funding of capital expenditure is reliant on external borrowing.

- 4.4 Despite being debt-free the Council does not strictly comply with this limit because the Council’s CFR is negative i.e. nil borrowing is greater than the negative CFR balance. This does not cause any operational issues or fetter any part of the Treasury Strategy, but is required to be highlighted as part of this report.
- 4.5 The final indicator is the incremental impact that decisions to commit capital expenditure have on the level of Council Tax. This calculation is based on the amount of interest that is foregone by reducing the level of investments when capital expenditure is committed. Slippage and a reduction of £15.9M from the original estimate of Capital spend at outturn 2016/17, resulted in the impact on Council Tax changing from an increase of £4.34 to a decrease of £2.04 for 2017/18.

## 5 Equality Issues

- 5.1 An EQIA screening has been completed in accordance with the Council’s EQIA methodology and no potential for unlawful discrimination or low level negative impact have been identified, therefore a full EQIA has not been carried out.

## 6 Consultations

- 6.1 The Council’s treasury advisors, Link Asset Services, have been consulted in the preparation of this report.

## 7 Conclusion and reasons for recommendation

- 7.1 Despite a continually low Bank of England base rate during the year, the Council achieved an average investment income rate of 0.61% in the year compared with an average benchmark figure of 0.21%.
- 7.2 Actual income for the year exceeded the original estimate by £81,500.
- 7.3 The report summarises performance during 2017/18. 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)

None

### 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:	N/A
----------------	---	-----------	-----

(Portfolio: Finance ) Councillor Giddings

Officer:	Laura Berntsen	Ext:	8204
----------	----------------	------	------

Report to:	Cabinet	Date:	16 May 2018
------------	---------	-------	-------------