OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

RYEDALE
DISTRICT
COUNCIL

REPORT TO:	**COUNCIL**
DATE:	**31 AUGUST 2017**
REPORT OF THE:	**RESOURCES & ENABLING SERVICES LEAD (s151) PETER JOHNSON**
TITLE OF REPORT:	**TREASURY MANAGEMENT ANNUAL REPORT 2016-17**
WARDS AFFECTED:	**ALL**

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.0 RECOMMENDATIONS

2.1 That Council is recommended to:

(i) Note the annual treasury management report for 2016/17; and

(ii) Approve the actual 2016/17 prudential and treasury indicators in this report.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

5.0 POLICY CONTEXT AND CONSULTATION

5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.

5.2 The Council uses the services of Capita Treasury Services Limited to provide treasury management information and advice.

REPORT

6.0 REPORT DETAILS

6.1 During 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 23 February 2016)
- A mid year (minimum) treasury update report (Council 8 December 2016)
- An annual review following the end of the year describing the activity compared to the strategy (this report).

6.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

6.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council.

6.4 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Summary of interest rate movement in the year;
- Detailed borrowing activity;
- Detailed investment activity.

The Council's Capital Expenditure and Financing 2016/17.

6.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

6.6 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2016/17 Actual (£)	2015/16 Actual (£)
Total Capital Expenditure	**537,842**	**1,076,215**
Resourced by:		
Capital receipts	185,315	-
Capital grants and contributions	311,680	301,878
Capital reserves	40,847	34,054
External Borrowing	-	740,283
Total	537,842	1,076,215

The Economy and Interest rates

6.7 The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016.

6.8 The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

6.9 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

Overall Treasury Position as at 31 March 2017

6.10 At the beginning and the end of 2016/17 the Council's treasury position was as follows (excluding finance leases):

	31 March 2017 Principal	31 March 2016 Principal
Total Debt	£1.75m	£1.75m
CFR	£1.70m	£1.73m
Over/(Under) borrowing	**£0.05m**	**£0.02m**
Total Investments	£16.01m	£11.66m
Net Debt	**-£14.26m**	**-£9.91m**

The Strategy for 2016/17

6.11 The Treasury Management Strategy for 2016/17 was approved by members at full Council on 23 February 2016.

6.12 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated a low but rising Bank Rate, (starting in quarter 2 of 2016) and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

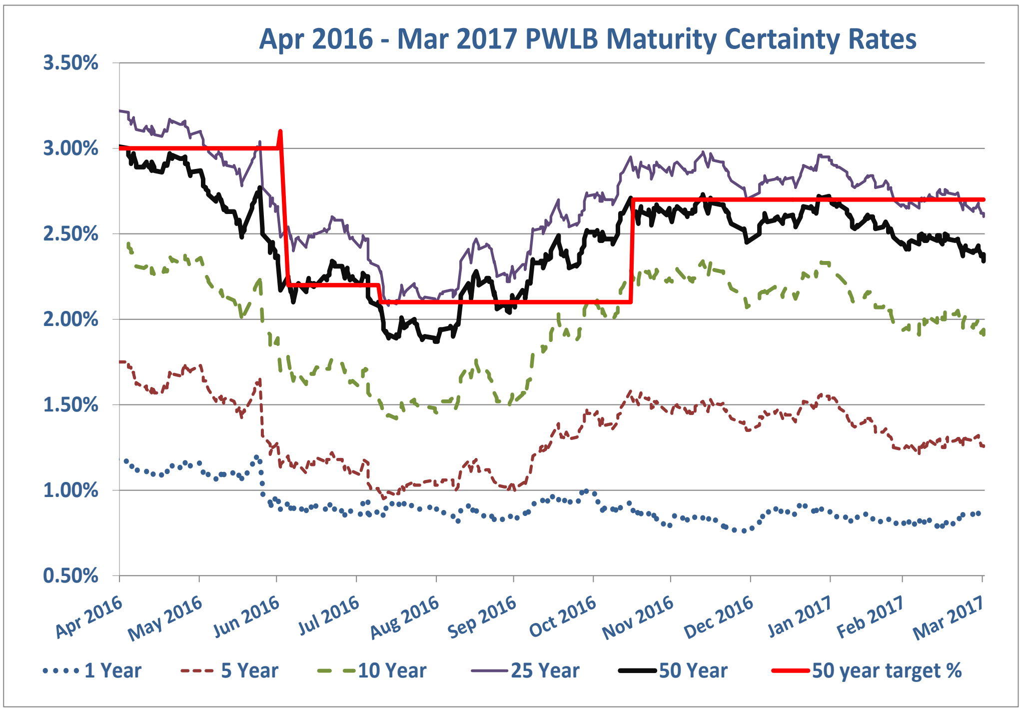
During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.

The Borrowing Requirement and Debt

6.13 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) (excluding borrowing by finance leases).

	31 March 2016 Actual	31 March 2017 Budget	31 March 2017 Actual
Total CFR	£1.730m	£1.999	£1.695m

Borrowing Rates in 2016/17



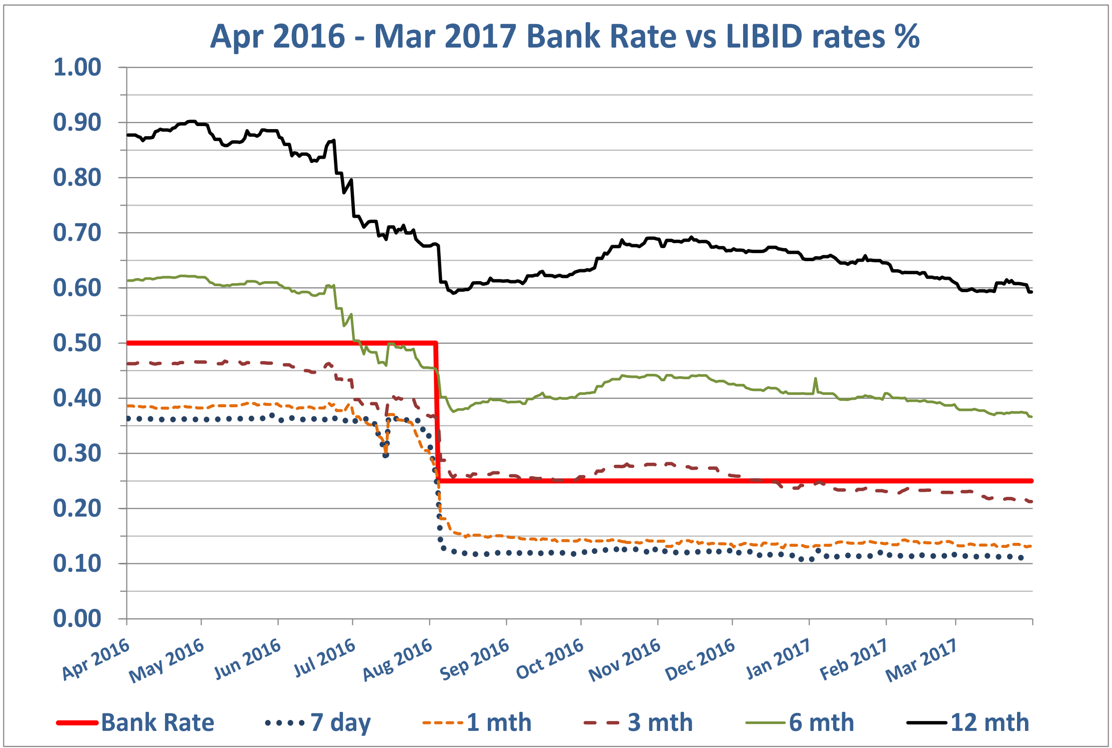
Borrowing Outturn for 2016/17

6.14 No new borrowing was undertaken during the year, the debt portfolio remains as follows:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£1.00m	Maturity	3.69%	50 years
PWLB	£0.75m	EIP	2.99%	19 years

Investment Rates in 2016/17

6.15 After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



Investment Outturn for 2016/17

6.16 The Council's investment policy is governed by DCLG guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 23 February 2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

6.17 The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.

6.18 The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the internally managed funds against the 7-day LIBID uncompounded rate bench mark:

	Average Investment (£)	**Gross Rate of Return**	**Net Rate of Return**	**Benchmark Return**
Internally Managed:				
Temporary & On-Call Investments	£5,471,259	0.18%	n/a	n/a
Fixed Term Deposits	£1,156,650	0.61%	n/a	0.20%

6.19 **The interest received by the Council from investments in 2016/17 totalled £90k; this compares to an original estimate of £65k.**

6.20 The Council's investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities and security of investments. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Treasury Management Practices. At the beginning and the end of 2016/17 the Council's investments position was as follows:

	31 March 2017 (£)	**31 March 2016 (£)**
Internally Managed Investments	16,072,738	11,660,000

6.21 The maturity of the investment portfolio was as follows;

	31 March 2017 (£)	**31 March 2016 (£)**
On-call Investments	72,738	60,000
Fixed Term Deposits:		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	0	2,100,000
Repayable 3 months to 6 months	14,000,000	9,500,000
Repayable 6 months to 12 months	2,000,000	0
Repayable 12 months to 24 months	0	0
Total	16,072,738	11,660,000

6.22 Investments were placed with the following institutions:

Type of Institution	**31 March 2017 (£)**	**31 March 2016 (£)**
UK Clearing Banks	8,172,738	7,160,000
Foreign Banks	5,000,000	2,000,000
Building Societies	2,900,000	2,500,000
Local Authorities	0	0
Total	16,072,738	11,660,000

Compliance with Treasury Limits

6.23 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (annex B).

7.0 IMPLICATIONS

7.1 The following implications have been identified:

a) Financial
The results of the investment strategy effect the funding of the capital programme.

b) Legal
There are no legal implications within this report

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no additional implications within this report.

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Background Papers: None