BLACKBURN with DARWEN BOROUGH COUNCIL

TO:	Audit and Governance Committee
FROM:	Director of Finance and IT
DATE:	20th September 2016

TITLE OF BRIEFING PAPER: **Treasury Management Outturn 2015-16 and Mid-Year Review for 2016-17**

1. PURPOSE

1.1 To allow the Audit and Governance Committee, as the body responsible for scrutiny of the Treasury Management function, to consider the key issues to be covered in the Treasury Management Outturn Report for 2015-16 and Mid-Year Strategy Review for 2016-17, ahead of consideration by full Council.

2. RECOMMENDATIONS

2.1 Members are recommended to consider the key issues to be covered in the Management Outturn Report for 2015-16 and Mid-Year Strategy Review for 2016-17, prior to the full report being submitted to the Council for approval on 6th October 2016.

3. BACKGROUND

3.1 The Council has previously adopted CIPFA's *Code of Practice on Treasury Management in the Public Services*.

3.2 Under the Council's Financial Regulations, the Council both sets a Treasury Management Strategy in advance of the financial year, and receives a combined mid-year review of the current year and annual report in respect of the outcome of the previous year, after its close.

3.3 The Council's investment priorities remain security and liquidity, ahead of yield.

4. RATIONALE

4.1 The CIPFA *Code of Practice on Treasury Management in the Public Services* requires the Council to receive a report on the Treasury Management Outturn each year, and a Mid-Year Treasury Management Strategy Review. This Council combines these two in a single report. Audit and Governance Committee is the body responsible for scrutiny of the Treasury Management function.

5. KEY ISSUES

5.1 Recent and current Treasury Management Strategies have been set at a time of considerable uncertainty in the financial markets. Furthermore, the Council is aware that further pressure will be applied to public finances over the next few years. Both of these issues heighten the importance of maintaining sound and prudent treasury practices.

5.2 It is likely that relatively low interest rates will continue for some time, so the returns made on investments will continue to be low. However, this has been more than offset over recent years by interest savings arising from deferring borrowing - by effectively covering recent capital programme borrowing needs from revenue cash balances. This has also allowed us to reduce credit risk (the risk of losing some or all of funds invested externally). It will, however, be necessary to take up borrowing if interest rates look likely to increase significantly, and to ensure that cash balances remain sufficient.

5.3 The current Revenue Budget reflects projected costs associated with taking up new borrowing, and as the extent to which this will be necessary (to maintain liquidity) or judged financially advantageous (depending on actual and projected interest rates) is uncertain, there remains some uncertainty as to the timing and costs of borrowing to be taken; this will continue to be a key item for consideration on revenue monitoring.

5.4 The Council is aware of the limitations of credit ratings, and that they are relative rather than absolute measures of credit risk. Nonetheless a key control for investment security remains the setting of limits with reference to credit ratings. These have remained tightly controlled over recent years and this stance will continue. We will continue to seek to place funds across a range of counterparties, as this is another aspect of managing credit risk.

5.5 There are no major issues over the Treasury Outturn for 2015/16, with savings made on borrowing costs previously reported. The council operated within the Approved Strategy and there were no significant issues regarding performance against the Indicators and Limits set for the year. A brief summary of the Outturn position for 2015/16, which will be reflected in more detail in the full report, is appended.

5.6 It is proposed that the Mid-Year Review of the Treasury Strategy for 2016/17 leaves the current investment limits unchanged. We will continue to actively manage risks in the light of challenging conditions in the financial markets.

5.7 Over and above the limits approved as part of the Treasury Management Strategy, the Council's Treasury Management Group will continue to review all the individual counterparties included on the operational Investment List.

5.8 The Borrowing Strategy will also remain unchanged, with the Council looking to take new borrowing as determined by cash flow requirements and by reference to movements in long term interest rates.

6. POLICY IMPLICATIONS

6.1 None.

7. FINANCIAL IMPLICATIONS

7.1 Any changes to interest costs will be reflected, along with any other implications of updated borrowing and investment forecasts, both in Corporate Budget Monitoring and in the Medium Term Financial Strategy.

8. LEGAL IMPLICATIONS

8.1 The review of the Treasury Management Strategy fulfils the Council's obligations under the guidance on local authority investments, issued by the Department for Communities and Local Government.

9. RESOURCE IMPLICATIONS

9.1 None.

10. EQUALITY IMPLICATIONS

10.1 None.

11. CONSULTATIONS

11.1 The issues raised in this report have been reviewed with the Treasury Management Group.

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Date:	7th September 2016
Background papers:	Treasury Management strategies for 2015-16 and 2016-17 approved at Council 2rd March 2015 and 29th February 2016 respectively.