



**TO:** Audit and Governance Committee  
**FROM:** Director of Finance and IT  
**DATE:** 19<sup>th</sup> September 2017

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**TITLE OF BRIEFING PAPER: Treasury Management Outturn 2016-17 and Mid-Year Review for 2017-18**

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**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 2016-17 and Mid-Year Strategy Review for 2017-18, ahead of consideration by full Council. A draft of that report is attached as Appendix A to this report.

**2. RECOMMENDATIONS**

2.1 Members are recommended to consider the key issues to be covered in the Treasury Management Outturn Report for 2016-17 and Mid-Year Strategy Review for 2017-18, before it is submitted to the Council for approval on 5<sup>th</sup> October 2017.

**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.

**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 into one report. Audit and Governance Committee is the body responsible for scrutiny of the Treasury Management function.

**5. KEY ISSUES**

**5.1 Context**

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.

A very low interest rate environment has prevailed over recent years, and it is likely that those relatively low rates will continue for some time to come.

## **5.2 The Council's Strategic Response**

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

The low interest rate earned and charged on short term borrowing has allowed the Council to make interest savings arising from deferring long term borrowing - by covering capital programme borrowing needs initially from revenue cash balances and then by taking out short term borrowing. This has also allowed us to reduce credit risk (the risk of losing some or all of funds invested externally).

The Council's budget for borrowing costs reflects this strategy. It may, however, be necessary to take up more expensive medium/long term borrowing if interest rates look likely to increase significantly. As the extent to which short term borrowing will continue to be judged financially advantageous is uncertain (depending on actual and projected interest rates), borrowing costs will remain a key issue for the Council's revenue budget monitoring.

## **5.3 Investment Security**

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.

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.

## **5.4 Treasury Outturn 16/17**

There are no major issues over the Treasury Outturn for 2016/17, 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.

The high level of short term borrowing by the end of 2016/17 caused two of the Council's Treasury Indicators to "breach" –

- (a) more than 30% fixed term debt was due to mature in less than a year
- (b) the variable Interest Rate Exposure was over the £43M Limit

These breaches were warning flags, showing that the Council was taking more short term borrowing than it had anticipated. The Limits are designed to help the Council recognise and manage its risk appetite, not to act as a block on treasury practices.

## **5.5 Mid-Year Year Strategy Review**

It is proposed that the Mid-Year Review of the Treasury Strategy for 2017/18 leaves the current Investment Limits unchanged. We will continue to actively manage risks in the light of challenging conditions in the financial markets. Minor changes will be proposed to the Treasury Indicators for the Maturity Structure of Borrowing, and for the Upper Limit on Variable Interest Rate Exposure, to allow for the increased level of short term borrowing being taken.

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.

## **5.6 Minimum Revenue Provision - MRP**

The Council's MRP is the minimum amount which must be charged to revenue each year as a provision for the repayment of debt. The Council, within regulatory guidance, sets its own policy to ensure that the MRP it makes each year is prudent. The Council has the option to review this policy during the year, but, having done this in both 2015-16 and 2016-17, it is not anticipated that it will be necessary do this again this year.

## **6. FINANCIAL IMPLICATIONS**

6.1 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.

## **7. LEGAL IMPLICATIONS**

7.1 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.

## **8. POLICY, RESOURCE & EQUALITY IMPLICATIONS**

8.1 None.

## **9. CONSULTATIONS**

9.1 The issues raised in this report were reviewed by Treasury Management Group.

Contact officer: Ron Turvey, Deputy Finance Manager – Ext. 5303  
Louise Mattinson, Director of Finance and IT – Ext. 5600

Date: 5<sup>th</sup> September 2017

Background papers: Treasury Management Strategies for 2016-17 and 2017-18 approved at Council 29th Feb 2016 and 27th Feb 2017 respectively.

