REPORT TO:	**CABINET OVERVIEW WORKING GROUP**
DATE:	**11 JANUARY 2018**
TITLE:	**TREASURY MANAGEMENT REVIEW**
LEAD OFFICER(S):	**SIMON FREEMAN, HEAD OF FINANCE (01279) 446228**

RECOMMENDED that:

A The Working Group considers the report and the underpinning principles that support the Council's Treasury Management Strategy.

B That the Working Group refers any specific issues identified as a result of the review to Cabinet for consideration.

BACKGROUND

1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management (as revised November 2009) – "the Code". Under the Code the minimum reporting requirements are that Full Council receives the following reports:

   - An annual treasury strategy in advance of the year.
   - A mid-year treasury update report.
   - An annual review following the end of the year describing the activity compared to the strategy.

2. The 2018/19Treasury Management Strategy will be approved in February 2018 at the same time as the MTFS, General Fund Budget, HRA estimates and rent levels and the Capital Programme. The Strategy supports the financial activities by setting out the investment and borrowing policy and it ensures that the Councils cash holdings are safeguarded as far as possible from loss in the current economic climate.

3. The strategy also contains the Prudential indicators required under the Prudential Code which set limits and boundaries for the capital expenditure of the Council. The Capital programme and borrowing activity must be constrained within the limits set by the indicators. It is intended that these limits ensure the Council operates within financial boundaries which it can afford in the context of its wider financial strategies. The current strategy is attached to the report at Appendix 1

4. The mid-year treasury management update report was presented to Cabinet

at its December meeting and is attached as Appendix 2 to this report.

5. The annual report for 2016/17 has been produced in compliance with the Code and was reported to Cabinet in September 2017. The full report is attached as Appendix 3 to this report. The regulatory environment governing treasury management places onus on Councillors for the review and scrutiny of treasury management policies and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the policies approved by the Council.

ISSUES/PROPOSALS

2016/17

6. As reported to Council in September, the Council operated within the Treasury Management Strategy Statement during 2016/17

7. The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17 the Council's investment balances have ranged between £35.007m and £58.367m, finishing the financial year at £35.887m. The average balance of investments held during 2016/17 was £48.509m. The actual interest received was £0.304m with the average return received by the Council of being 0.626% which compared very favourably to the 7 day LIBID rate of 0.2%

8. Security of capital remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17.

9. During 2016/17 the Council continued to diversify its investments following the actions taken in 2015/16 where it began to utilise certificates of deposit (CDs) and the CCLA Property Fund.

10. The Annual report shows that this diversification has seen a move away from the unsecured investments held with banks and building societies and has focus on replacing these investments with transactions with other local authorities. This is a trend that has also continued in to the 2017/18 financial year.

11. Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

12. The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options.

13. During 2016/17 the Council complied with the Prudential Indicators for as set within the Council's Treasury Management Strategy Statement approved in February 2016. The indicators themselves are included as part of the Annual report attached.

2017/18

14. The Council remains compliant with its Prudential Indicators for 2017/18, set in February 2017 as part of the Council's Treasury Management Strategy Statement and has continued to look to move its investments in to vehicles that remove or limit the exposure to unsecured investments.

15. The June General Election and the recent announcement that the Bank of England has increased the base rate for the first time in 10 years from 0.25% to 0.50% has added further uncertainty to money market activities during the latter part of 2017. The market experts remain uncertain of the outcomes for long-term interest rates, exchange rates, budget cuts and bank defaults at the current time.

16. In response to this situation the Council has continued to proceed in its treasury activity with great caution and continues to maintain particular emphasis on its key priority of investment security. The Council has operated within the remit of the approved Treasury Management Strategy Statement (TMSS) and is utilising the lending list of approved institutions provided by the Council's treasury advisors, Arlingclose. This lending list is regularly updated and amended by Arlingclose in response to changes in the status and ratings of institutions and in response to forecasts and events occurring within the markets. As a result the lending list has continued to experience a reduction in the options available for investing the Council's cashflow balances, as well as shortening of investment periods and investment limits.

17. The Council's overriding response to the current market conditions is to continue to ensure the security of investments above liquidity and yield. Officers aim to ensure that investments are made in the most cost efficient and effective manner.

18. In order to further protect the Council's investment options, it may also be necessary to review some of the investment parameters within the TMSS (for example investment limits) if there are indications that future market events may constrict the lending list beyond what is manageable within the Council's

treasury operations.

19. There are further changes proposed to the wider investment market sector with effect from January 2018 under the EU Markets in Financial Instruments Directive (or Mifid II as it is more commonly known) This has involved a large amount of work for the Council in entering into agreements with the Financial Institutions it utilises to be regarded as a Professional Client rather than a Retail Client. ‘Opting up’ to Professional status has ensured that the ongoing advice the Council receives from its Treasury Advisors remains available along with market access to products and fee structures that are not available to retail clients.

20. Further information regarding the current TMSS assumptions are contained within the report at Appendix 1 and verbal updates on current activity and how it may influence the 2018/19 TMSS will be provided at the meeting.

IMPLICATIONS

Place (includes Sustainability)
None Specific
Author: **Graeme Bloomer, Head of Place**

Finance (Includes ICT)
As contained within the body of the report and appendices.
Author: **Simon Freeman, Head of Finance**

Housing
Non Specific
Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)
None Specific.
Author: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)
None Specific.
Author: **Brian Keane, Head of Governance**