

REPORT TO: CABINET

DATE: 14 SEPTEMBER 2017

TITLE: ANNUAL TREASURY MANAGEMENT
REPORT 2016/17

PORTFOLIO HOLDER: COUNCILLOR MIKE DANVERS, PORTFOLIO
HOLDER FOR RESOURCES

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This is a Key Decision

It is on the Forward Plan as Decision number I007286

This decision is not subject to Call-in procedures for the following reasons:

The decision stands as a recommendation to Council.

This decision will affect no ward specifically

RECOMMENDED that Cabinet:

- A** Notes the annual Treasury Management Report for 2016/17 (Appendix A) including that the Council operated within the Treasury Management Strategy Statement during 2016/17, and that the report is recommended to Full Council for approval.
- B** Notes the issues that the outcome of the EU Referendum is creating and their impact on the Council's treasury management activities.
- C** Recommends to Full Council adoption of the revised Minimum Revenue Provision (MRP) Policy, attached as Appendix B.

REASON FOR DECISION

- A** In complying with latest Codes of Practice, Full Council is required to receive an annual report on the prior year's treasury management functions of the Council. This should also be reviewed by Cabinet in advance of its presentation to Full Council.
- B** The Prudential Indicators are also required to be reported to Full Council. These are included within the annual treasury management report.

- C** Recognising the Council's contribution towards economic development within the town, particularly in relation to the Enterprise Zone, provides a timely opportunity to review the Council's MRP Policy to ensure it remains prudent.

BACKGROUND

1. Treasury management is defined as: 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
2. On 10 February 2010, Full Council adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management (as revised November 2009), known as the Code.
3. During 2016/17, the minimum reporting requirements were that Full Council should receive the following reports:
 - a) An annual treasury strategy in advance of the year (Full Council, 4 February 2016);
 - b) A mid-year treasury update report (Full Council, 16 December 2016); and
 - c) An annual review following the end of the year describing the activity compared to the strategy (this report).
4. The annual report for 2016/17 has been produced in compliance with the Code and is set out in Appendix A 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 Council's policies previously approved by councillors.

ISSUES

5. The Council will continue to take all practical steps to protect its investment portfolio. In this respect, emphasis remains in this order of priority: security, liquidity and yield.
6. Security is defined as 'reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments'. In practice this means placing investments with organisations which have a high quality credit rating, including banks and other bodies which have a Fitch rating of

A(-) and above. Councils do not usually have credit ratings, but are inherently safe havens for investment.

7. Liquidity means 'ensuring that investments are not committed for excessive time periods in order to facilitate the Council's cashflow requirements and to reflect the risk of not having immediate access to funds'. Councils are discouraged from investing disproportionate sums of money for long periods of time at what seem attractive rates of return.
8. Yield is 'obtaining a reasonable return on investments'. Once again, 2016/17 has been a year of continued low interest rates. The Bank of England's Base Rate reduced from 0.5 percent to 0.25 percent in August 2016. The Council has attempted to gain the best yields without compromising security and liquidity. The average rate achieved was 0.626 percent.
9. The advice from Arlingclose is that the Council must aim towards a good investment spread as this is the best way to protect the Council from a possible capital loss. As a result, the Council held investments in Certificates of Deposit, the CCLA (the council property fund), Money Market Funds, fixed and variable investments and the Treasury's Debt Management Office. Looking forwards, other investment vehicles will be considered that meet the security requirements of the Treasury Management Strategy Statement whilst offering yet further investment opportunities and flexibility.

MINIMUM REVENUE PROVISION POLICY

10. Where the Council finances capital expenditure by debt, regulations require that it should set aside resources from its revenue budget to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). The regulations provide freedom for councils to consider an annual profiling of MRP which best fits the prudent management of their own financial circumstances, providing that they meet the basic test of prudence which is to repay debt over the life of the benefit.
11. The last comprehensive review of the Council's MRP Policy occurred in 2013. Recognising the Council's growing role in pump-priming economic investment within the town and its input in development of the Enterprise Zone, it is now important to update the MRP Policy so that the Council's financial support mechanisms dovetail with the Policy.
12. This is, in essence, a mid-year review of the policy that was approved by Full Council at its meeting of 2 February 2017 alongside the budget. The amendments being made by this review of the policy remain neutral in relation to both capital and revenue budgets.

IMPLICATIONS

Place Services

None specific.

Author: **Graeme Bloomer, Head of Regeneration**

Finance (Includes ICT)

As contained in the report.

Author: **Simon Freeman, Head of Finance**

Housing

None 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**

Background Papers

Treasury Management Strategy 2016/17

Glossary of terms/abbreviations used

A full glossary of terms is included in Annex B to Appendix A.

Appendices

Appendix A – Treasury Management Report 2016/17

Appendix B – Annual Minimum Revenue Provision Statement 2017/18 (Revised)