

Cherwell District Council

Council

17 July 2017

2016/17 Treasury Management Annual Report

Report of Chief Finance Officer

This report is public

Purpose of report

This report presents information on treasury management performance and compliance with treasury management policy during 2016/17 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of this report in line with the Treasury Management Strategy.

2.0 Introduction

- 2.1 The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity during 2016/17 and the actual performance against Prudential Indicators for 2016/17.
- 2.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. During 2016/17 the reporting requirements were that members receive an annual treasury strategy in advance of the year, a mid-year treasury report and an annual report describing the activity compared to the strategy. The Accounts, Audit and Risk Committee has been nominated to scrutinise the treasury activity of the Council and they receive regular reports on compliance with strategy and a comprehensive overview of investments made.
- 2.3 The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 2.4 Councils invest money from the sale of assets and invest Government revenue grant paid to councils in regular intervals, before they have to spend it. This is with the aim of earning interest to support services and keep council tax down. All investments are placed to ensure security of investments firstly, followed by liquidity and the final consideration is yield.

- 2.5 Cherwell District Council sold its housing stock in 2004 and this generated a substantial capital receipt. It is the Council's capital receipts and useable reserves that are being invested. As the Council continues to invest in infrastructure throughout the District, these balances are reducing.

3.0 Report Details

- 3.1 The Treasury Management Strategy for 2016/17, which includes the Annual Investment strategy, was approved by Council in February 2016. It sets out the Council's ranked investment priorities in the order: security of capital, liquidity and yield.
- 3.2 In 2016/17 the Council aimed to achieve the optimum return (yield) from investments but always within the context of proper levels of security of the monies and liquidity.

Annual Treasury Performance 2016/17

- 3.3 The financial year continued the challenging investment environment of previous years, namely lower investment returns and continuing heightened levels of counterparty risk.
- 3.4 The average level of funds available for investment purposes during was £44.0m. The funds were available on a temporary basis, and amount available was dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The closing balance is significantly lower the previous year (£37.6m) primarily due to utilisation of funds for Graven Hill.
- 3.5 Investment performance at 31 March 2017 was as follows:-

| Amount at 31 March 2017 £ | Interest Budget £ | Actual Interest £ | Variance £ | *Average Rate of Return % |
|---------------------------------|-------------------------|-------------------------|---------------|---------------------------------|
| 17,952,000 | 175,000 | 230,000 | 55,000 | 0.52 |

** Rate of Return is shown on annualised basis*

- 3.6 Appendix 1 provides details of the treasury management and prudential indicators for 2016/17.

3.7 Other Investment Activity

Although not classed as treasury management activities and therefore not covered by the CIPFA Code, the Council also holds £32.3m of investments with Graven Hill (£12.9m equity and £19.3m loans). This non-treasury investment accrued £528k loan interest for the Council 2016/17, representing an average rate of 5.5%. This is higher than the return earned on treasury investments, but reflects the additional risks to the Council of holding such investments.

3.8 Icelandic Investments

As previously reported, the final tranche of Icelandic investments held by the Council were repaid, with associated interest, in June 2016.

4.0 Conclusion and Reasons for Recommendations

- 4.1 The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity during 2016/17 and the actual performance against Prudential Indicators for 2016/17. Members are recommended to note the contents of this report accordingly.

5.0 Consultation

This report was presented to the Accounts, Audit and Risk Committee on 28 June 2017, and its contents were noted in line with the Treasury Management Strategy.

6.0 Alternative Options and Reasons for Rejection

- 6.1 This report illustrates the Council's Treasury performance for 2016/17 against budget and includes the Annual Treasury Report 2016/17.
- 6.2 The following options have been identified. The approach in the recommendations is believed to be the best way forward:

Option One To review current performance levels and treasury management and prudential indicators.

Option Two To request that Officers provide additional information. However, Members should note that further updates will continue to be provided to the Accounts, Audit and Risk Committee at regular intervals.

7.0 Implications

Financial and Resource Implications

- 7.1 There are no specific financial effects arising directly from this report other than the impact on reserves as outlined in paragraphs 2.5 and 3.4 above.

Comments checked by:

Sanjay Sharma – Interim Head of Finance, 01295 221564

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Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:

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Risk management

7.3 There are no risk implications arising directly from any outcome of this report. All projects maintain their own risk registers and these are monitored corporately.

Comments checked by:

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Equality and Diversity

7.4 There are no equality and diversity implications arising directly from any outcome of this report.

Comments checked by:

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8.0 Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

All

Lead Councillor

Councillor Tony Ilott – Lead Member for Financial Management

Document Information

| Annex No | Title |
|----------------------------|--|
| Appendix 1 | 2016-17 Treasury Management and Prudential Borrowing Indicators |
| Background Papers | |
| None | |
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