

Title of meeting:	Governance and Audit and Standards Committee
Date of meeting:	3 February 2017
Subject:	Treasury Management Monitoring Report for the Third Quarter of 2016/17
Report by:	Chris Ward, Director of Finance and Information Services (Section 151 Officer)
Wards affected:	All
Key decision:	No
Full Council decision:	No

1. Executive Summary

This report outlines the Council's performance against the treasury management indicators approved by the Council on 22 March and 11 October 2016. This report highlights two areas where treasury management activities were at variance with the policy. In all other aspects the policy was complied with.

2. Purpose of report

The purpose of the report is to inform members and the wider community of the Council's Treasury Management position at 31 December 2016 and of the risks attached to that position.

In March 2009 the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Panel issued a bulletin on Treasury Management in Local Authorities. The bulletin states that "in order to enshrine best practice it is suggested that authorities report formally on Treasury Management activities at least twice yearly and preferably quarterly". The report in Appendix A covers the first nine months of 2016/17.

3. Recommendations

That the following actual treasury management indicators for the third quarter of 2016/17 be noted:

(a) The Council's debt at 31 December:

Prudential Indicator	Limit £m	Actual £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	618	563
Operational Boundary - the maximum amount of borrowing that is expected	600	563

(b) The maturity structure of the Council's borrowing was

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Lower Limit	0%	0%	0%	0%	0%	0%	0%	0%
Upper Limit	10%	10%	10%	20%	30%	30%	30%	40%
Actual	4%	1%	4%	7%	22%	11%	18%	33%

(c) The Council's sums invested for periods longer than 364 days at 31 December 2016 were:

	Limit £m	Quarter 3 Actual £m
Maturing after 31/3/2017	196	189
Maturing after 31/3/2018	123	98
Maturing after 31/3/2019	90	10

- (d) The Council's fixed interest rate exposure at 31 December 2016 was £286m, ie. the Council had net fixed interest rate borrowing of £286m. This is within the Council's approved limit of £358m.
- (e) The Council's variable interest rate exposure at 31 December 2016 was (£278m), ie. the Council had net variable interest rate investments of £278m. This is within the Council's approved limit of (£444m).
- (f) The investment counterparty limit for Places for People of £20m was exceeded by £20m as a consequence of its acquisition of Derwent Housing Association (since prior to acquisition the Council had investments in accordance with the Council's policy of £20m in each).
- (g) Between 7 October and 15 November the Council invested £5m in an enhanced money market fund managed by Royal London Asset Management with a single AAA credit rating. To comply with the Treasury Management Policy two credit ratings of at least AA are required.

4. Background

The Council's treasury management operations cover the following:

- Cash flow forecasting (both daily balances and longer term forecasting)
- Investing surplus funds in approved investments
- Borrowing to finance short term cash deficits and capital payments
- Management of debt (including rescheduling and ensuring an even maturity profile)
- Interest rate exposure management

The key risks associated with the Council's treasury management operations are:

- Credit risk - ie. that the Council is not repaid, with due interest in full, on the day repayment is due
- Liquidity risk - ie. that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs
- Interest rate risk - that the Council fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are in excess of those for which the Council has budgeted
- Maturity (or refinancing risk) - this relates to the Council's borrowing or capital financing activities, and is the risk that the Council is unable to repay or replace its maturing funding arrangements on appropriate terms

- Procedures (or systems) risk - ie. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud, error or corruption

The total borrowings of the Council are £563m. The Council has investments lodged with 58 institutions that amount to £474m. The cost of the Council's borrowings and the income derived from the Council's investments are included within the Council's treasury management budget of £23m per annum. The Council's treasury management activities account for a significant proportion of the Council's overall budget. As a consequence the Council's Treasury Management Policy aims to manage risk whilst optimizing costs and returns. The Council monitors and measures its treasury management position against the indicators described in this report. Treasury management monitoring reports are brought to the Governance and Audit and Standards Committee for scrutiny.

5. Reasons for Recommendations

To highlight any variance from the approved Treasury Management Policy and to note any subsequent actions.

To provide assurance that the Council's treasury management activities are effectively managed.

6. Equality impact assessment (EIA)

The contents of this report do not have any relevant equalities impact and therefore an equalities impact assessment is not required.

7. Legal Implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

8. Director of Finance and Information Services (Section 151 Officer) comments

All financial considerations are contained within the body of the report and the attached appendices.

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Signed by Director of Finance and Information Services (Section 151 Officer)

Appendices:

Appendix A: Treasury Management Monitoring Report

Appendix B: PWLB Certainty Rates April 2008 to December 2016

Appendix C: Debt Maturity Profile

Appendix D: Libor rates 2016/17

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

<u>Title of document</u>	Location
1 Treasury Management Records	Financial Services