AGENDA ITEM NO 12

2015/16 TREASURY OPERATIONS ANNUAL PERFORMANCE REVIEW

Committee: Corporate Governance and Finance Committee

Date: 30th June 2016

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[R48]

1. ISSUE

1.1 To report on the Council's treasury operations during 2015/16.

1.2 The report reviews the treasury management activity during the financial year 2015/16 and reports on the prudential indicators as required by CIPFA's Treasury Management Code of Practice.

1.3 Investments totalled £19.691 million as at 31 March 2016, an increase of £4.251 million on the previous year. The Council's cash investments are all for periods of less than one year.

1.4 Interest received during the financial year was £110,145, which was £10,145 above the budget of £100,000. This equated to an average interest rate of 0.50% across the year.

1.5 The rate of return on cash investments held as at 31st March 2016 was 0.68%. This was above the benchmark three month LIBID (London Inter-bank Bid Rate), which was 0.46% on that day.

2. RECOMMENDATIONS

2.1 Members are asked to note the contents of the report and recommend to Full Council the report on the Council's treasury operations during 2015-16, including the prudential and treasury indicators as set out in Appendix 1, be approved.

2.2 That Members note that a revised Treasury Management Strategy for 2016-17 was presented to Full Council on the 28th June 2016, detailing the implications of the Leisure Centre development on the Strategy moving forward.

3. BACKGROUND / INTRODUCTION

3.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury

Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

3.2 During 2015/16 the minimum reporting requirements were that Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (received by Council on the 26th February 2015);
- a mid-year treasury update report (7th January 2016);
- an annual review following the end of the year describing the activity compared to the strategy (this report).

3.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, 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 members.

3.4 This Council confirms that it has complied with the requirement under the Code, to give prior scrutiny to all of the above treasury management reports by the Corporate Governance and Finance Committee, before they were reported to the full Council.

3.5 No Member training on treasury management was undertaken during the year.

4. THE ECONOMY AND INTEREST RATES

4.1 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

4.2 These concerns have caused sharp market volatility in equity prices during the year, with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

4.3 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced a negative interest rate as a measure to stimulate the creation of credit and hence economic growth.

4.4 The ECB commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

4.5 As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

4.6 The UK elected a majority Conservative Government in May 2015, with the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

5. OVERALL TREASURY POSITION AS AT 31 MARCH 2016

5.1 At the beginning and the end of 2015/16 the Council's treasury position was as follows:

TABLE 1	31 March 2015 Actual		31 March 2016 Actual
Total debt	***£0.0m***		***£0.0m***
CFR	***£20k***		***-£2k***
Over / (under) borrowing	***-£86k***		***-£24k***
Total investments	***£15.440m***		***£19.691m***

6. THE STRATEGY FOR 2015/16

6.1 The expectation for interest rates within the treasury management strategy for 2015/16 anticipated low but rising Bank Rate, (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

6.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

6.3 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back.

7. THE BORROWING REQUIREMENT AND DEBT

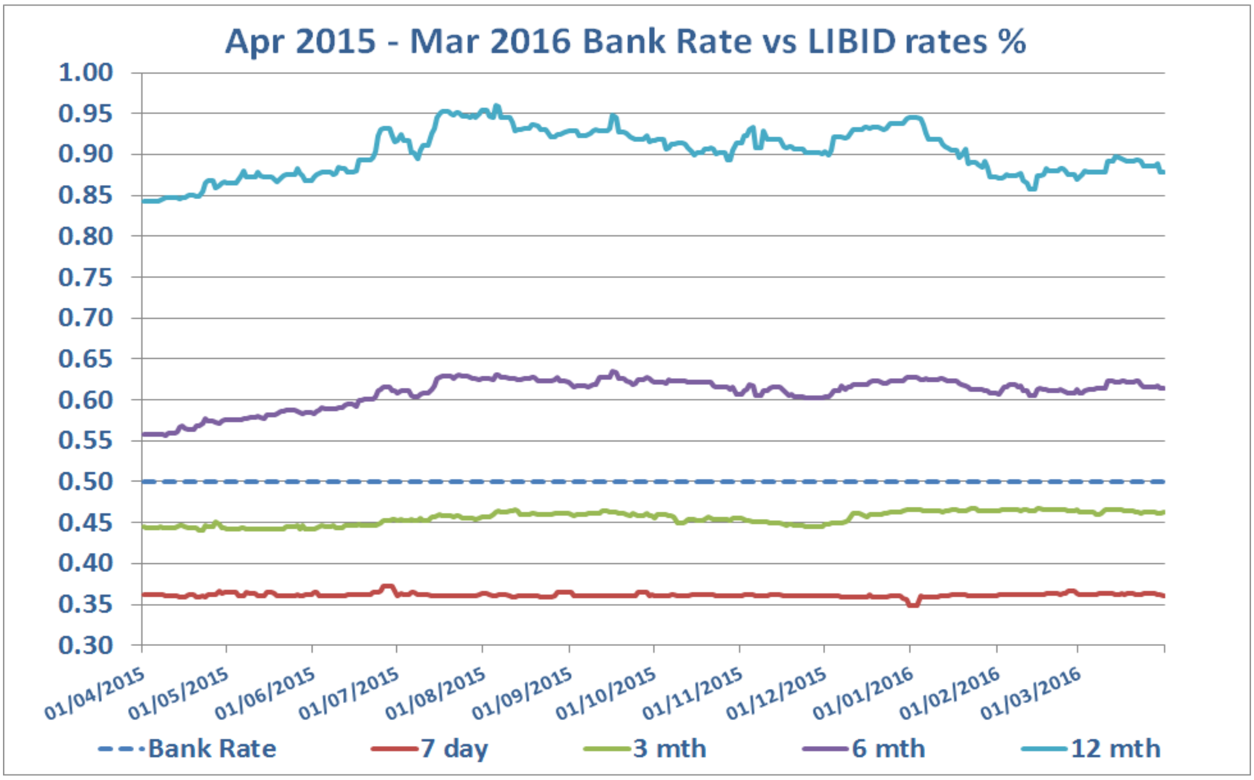
7.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
Total CFR (thousands)	20	(47)	(2)

8. BORROWING OUTTURN FOR 2015/16

8.1 No borrowing was undertaken during 2015-16.

9. INVESTMENT RATES IN 2015/16



9.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.

10. INVESTMENT OUTTURN FOR 2015/16

10.1 **Investment Policy** – the Council's investment policy is governed by DCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 26th February 2015. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

10.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

10.3 **Investments held by the Council** - the Council maintained an average balance of £21,953,438 of internally managed funds. The internally managed funds earned an average rate of return of 0.50%. The comparable performance indicator is the average 7-day LIBID rate*,* which was 0.458% during the year.

10.4 The 2015-16 budget assumption was a cash return of £100,000 on investment balances. Performance during the year resulted in actual interest receipts of £110,145, therefore generating a surplus over budget of £10,145.

11. CONCLUSIONS

11.1 The size of the Council's investment portfolio is relatively small meaning that investment decisions have to be made primarily to accommodate cash flow requirements as opposed to optimising investment returns. Despite these pressures, opportunities for some proactive investment decisions were taken when available, with a move to more fixed term investments and away from overnight accounts.

11.2 During the financial year the Council operated within its approved treasury limits and Prudential Indicators.

12. FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

12.1 An Equality Impact Assessment (INRA) is not required.

13. APPENDIX

13.1 Prudential and Treasury Management Indicators

Background Documents	**Location**	**Contact Officer**
Corporate Governance & Finance Committee Treasury Management Strategy January 2015	Room 204 The Grange Ely	Ian Smith Principal Accountant (01353) 616470 E-mail: ian.smith@eastcambs.gov.uk

Appendix 1: Prudential and treasury indicators

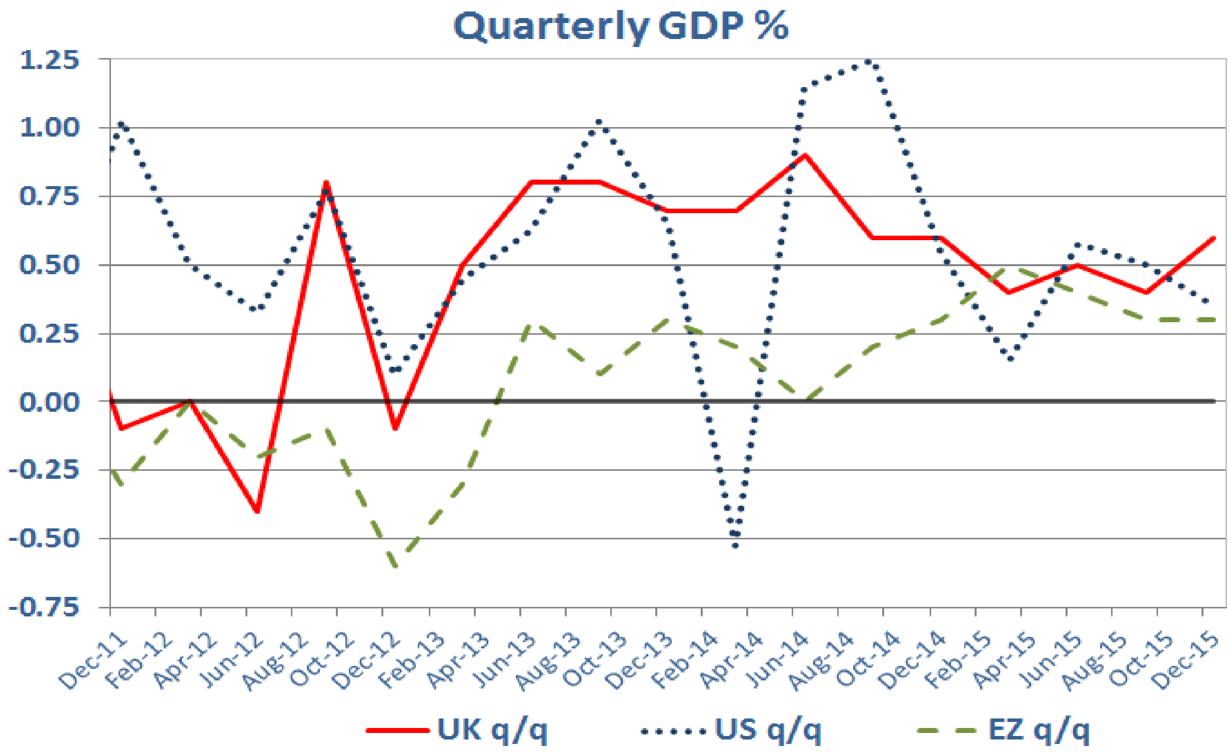
1. PRUDENTIAL INDICATORS	2014/15	2015/16	2015/16
Extract from budget and rent setting report	**actual**	**original**	**actual**
	£'000	**£'000**	**£'000**
Capital Expenditure Non - HRA	£789	£1,310	£1,051
Ratio of financing costs to net revenue stream Non - HRA	0.9%	1.23%	0.27%
Gross debt	£106	£0	£0
Capital Financing Requirement Non – HRA	£20	£(47)	£(2)
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum	£2.86	£4.64	£3.72

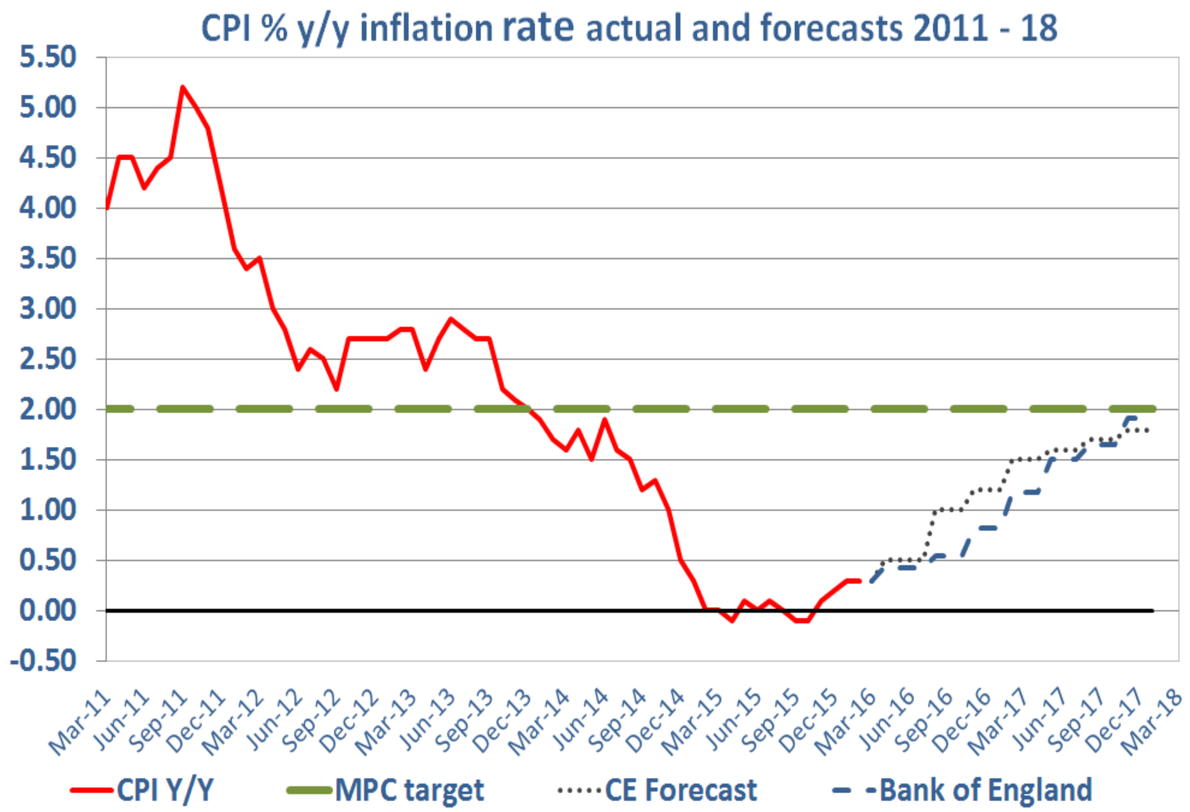
Housing authorities operating two pools will need to show separate General Fund and HRA figures

2. TREASURY MANAGEMENT INDICATORS	**2014/15**	**2015/16**	**2015/16**
	actual	**original**	**actual**
	£'000	**£'000**	**£'000**
Authorised Limit for external debt -			
Borro`wing	£4,980	£4,978	£5,000
other long term liabilities	£20	£22	£(2)
TOTAL	£5,000	£5,000	£4,998
Operational Boundary for external debt -			
borrowing	£0	£0	£0
other long term liabilities	£20	£22	£(2)
TOTAL	£20	£22	£(2)
Actual external debt	£20	£0	£0
Upper limit for fixed interest rate exposure Net interest re fixed rate borrowing / investments	£25million	£25million	£25million
Upper limit for variable rate exposure Net interest re variable rate borrowing / investments	£25million	£25million	£25millon
Upper limit for total principal sums invested for over 364 days (per maturity date)	£2million	£2million	£2million

Maturity structure of fixed rate borrowing during 2015/16	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and within 50 years	100%	0%

Appendix 3: Graphs





The graph below is intended for use by clients who need the graph in paragraph 6 to be printable in black and white.