APPENDIX C

2016/17 TREASURY OPERATIONS ANNUAL PERFORMANCE REVIEW

Committee: Resources and Finance Committee

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[S28]

1. ISSUE

1.1 To report on the Council's treasury operations during 2016/17.

1.2 The report reviews the Treasury Management activity during the financial year 2016/17 and reports on the prudential indicators as required by CIPFA's Treasury Management Code of Practice.

1.3 Investments totalled £16,938 million as at 31 March 2017, a decrease of £2.75 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 £179,274, which was £79,274 above the budget of £100,000. This figure is made up of £156,013 from investment in money markets and £23,261 from the Loan to ECTC. This equates to an average interest rate of 0.69% across the year.

1.5 The rate of return on cash investments held as at 31st March 2017 (this excludes the loan to ECTC) was 0.45%. This was above the benchmark three month LIBID (London Inter-bank Bid Rate) which was 0.22% on that day

2. RECOMMENDATION

2.1 Members are asked to note the contents of the report and recommend to Full Council approval of the report on the Council's treasury operations during 2016-17, including the prudential and treasury indicators as set out in Appendix 1.

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 2016/17. 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 2016/17 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 23rd February 2016);

- a mid-year treasury update report, this was approved by Corporate Governance and Finance Committee (on 1st December 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 The two major landmark events that had a significant influence on financial markets in the 2016/17 financial year were the UK EU referendum on the 23rd June and the election of President Trump in the USA on the 9th November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4th August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

4.2 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

5.0 OVERALL TREASURY POSITION AS AT 31ST MARCH

5.1 At the beginning and the end of 2016/17 the Council's treasury position was as follows:

TABLE 1	31 March 2016	31 March 2017
Total debt	***£0.00m***	***£0.00m***
Total investments	***£19.69m***	***£16.94m***

6.0 THE STRATEGY FOR 2016/17

6.1 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated a low but rising Bank Rate (starting in quarter 1 of 2017) 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 invest in fixed longer term loans (six months up to a year) where these offered better returns than shorter term variable loans. Although always ensuring that the security of the investment remained the main priority.

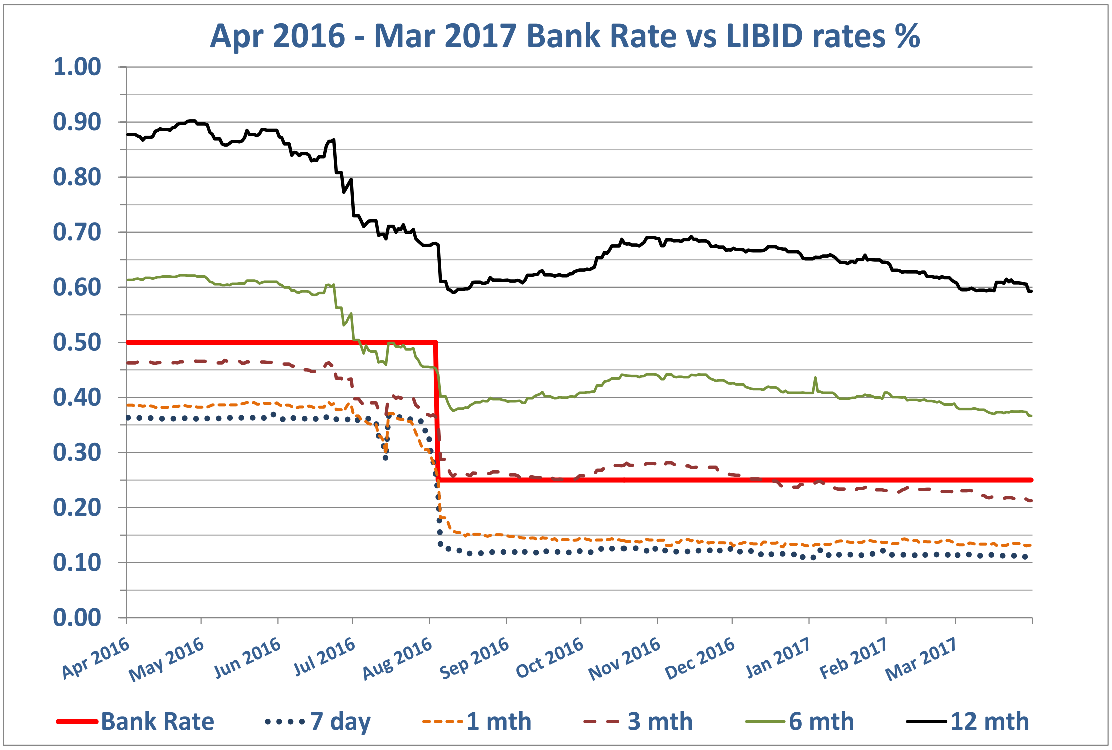
6.3 No external borrowing was planned for 2016/17.

7.0 THE BORROWING OUTTURN 2016/17

7.1 No borrowing was undertaken during 2016/17.

8.0 INVESTMENT RATES IN 2016/17

8.1 After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4th August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4th August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



9.0 INVESTMENT OUTTURN FOR 2016/17

9.1 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 25th February 2016. 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.).

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

9.3 Investments held by the Council - the Council maintained an average balance of £22,643,117 of internally managed funds. The internally managed funds earned an average rate of return of 0.69%. This compares with a budget assumption of an average of £20 million investment balance earning an average rate of 0.5%.

10. CONCLUSIONS

10.1 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 pro-active investment decisions were taken when available, with a move to more fixed term investments and away from overnight accounts.

10.2 During the financial year the council operated within its approved treasury limits and prudential indicators.

11. FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

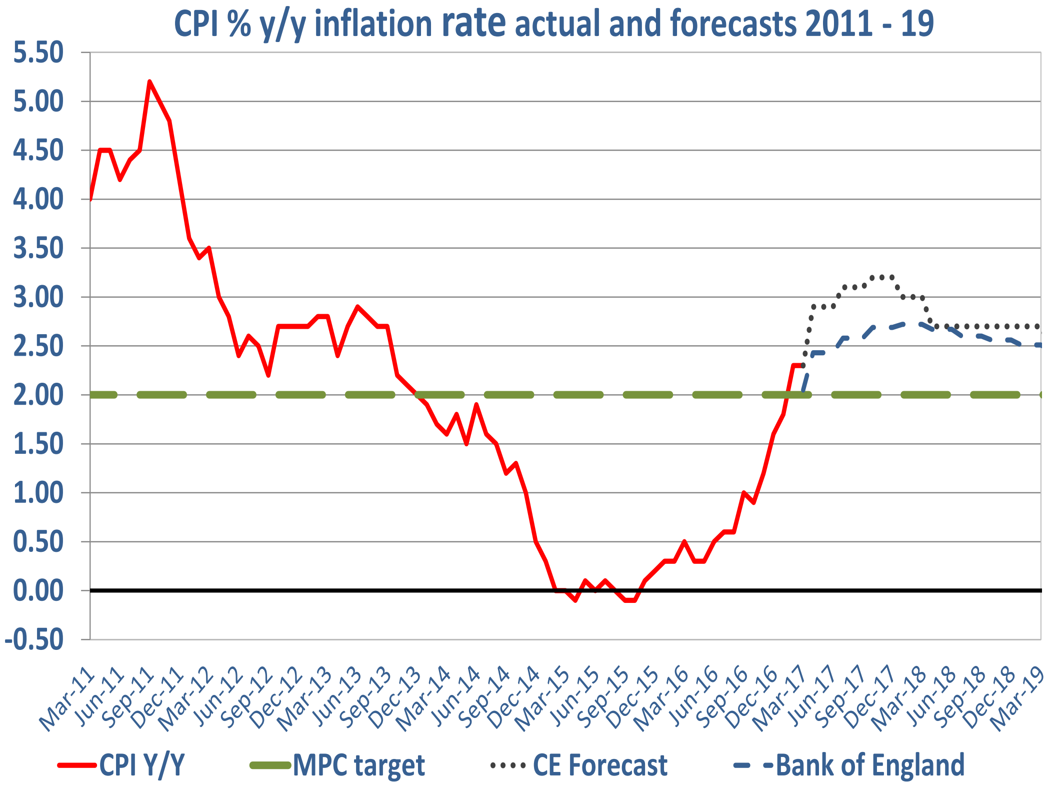
11.1 The Equality Impact Assessment (INRA) is not required.

Background Documents	**Location**	**Contact Officer**
	Room 203 The Grange Ely	Ian Smith Finance Manager (01353) 616470 E-mail: ian.smith@eastcambs.gov.uk

Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2015/16	2016/17	2016/17
Extract from budget report	**actual**	**original**	**actual**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non - HRA	£1,051	£9,554	£4,594
Ratio of financing costs to net revenue stream			
Non - HRA	0.27%	-0.46%	-0.18%
Gross debt	£0	£0	£0
CFR			
Non – HRA	£(2)	£0	£0

2. TREASURY MANAGEMENT INDICATORS	2015/16	2016/17	2016/17
	actual	**original**	**actual**
	£'000	**£'000**	**£'000**
Authorised Limit for external debt			
borrowing	£5,000	£5,000	£5,000
other long term liabilities	£(2)	£0	£0
TOTAL	£4,998	£5,000	£5,000
Operational Boundary for external debt			
borrowing	£0	£0	£0
other long term liabilities	£(2)	£0	£0
TOTAL	£(2)	£0	£0
Actual external debt	£(2)	£0	£0



Money market investment rates 2016/17

	7 day	1 month	3 month	6 month	1 year
1/4/16	0.363	0.386	0.463	0.614	0.877
31/3/17	0.111	0.132	0.212	0.366	0.593
High	0.369	0.391	0.467	0.622	0.902
Low	0.107	0.129	0.212	0.366	0.590
Average	0.200	0.220	0.315	0.462	0.702
Spread	0.262	0.262	0.255	0.256	0.312
High date	27/5/16	21/6/16	10/5/16	22/4/16	26/4/16
Low date	28/12/16	21/12/16	30/3/17	31/3/17	10/8/16