

CHESHIRE EAST COUNCIL

REPORT TO: AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 29th September 2016
Report of: Chief Operating Officer
Subject/Title: Treasury Management Annual Report 2015/16
Portfolio Holder: Councillor Peter Groves

1.0 Report Summary

1.1 The Treasury Management Policy requires regular reporting on the performance of the Council's treasury management operation.

1.2 This report contains:

- The Annual Report for 2015/16 which was considered by Cabinet on 12th July 2016 (Appendix A).

2.0 Decision Requested

2.1 To note the Treasury Management Annual Report for 2015/16 as detailed in Appendix A.

3.0 Reasons for Recommendations

3.1 To meet the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities.

4.0 Wards Affected

4.1 Not applicable

5.0 Local Ward Members

5.1 Not applicable

6.0 Policy Implications

6.1 None

7.0 Implications for Rural Communities

7.1 None

8.0 Financial Implications

8.1 Contained within the report.

9.0 Legal Implications

9.1 As noted in paragraph C47 of the Finance and Contract Procedure Rules in the Council's Constitution, the Council has adopted CIPFA's *Code of Practice for Treasury Management in Local Authorities* as this is recognised as the accepted standard for this area. C47 to C52 provide further information relating to treasury management practice, and the Code itself will have been developed and based upon relevant legislation and best practice. This report is presented to Cabinet under rule C52.

10.0 Risk Management

10.1 The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.

10.2 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy as no treasury management activity is without risk. The aim is to operate in an environment where risk is clearly identified and managed.

10.3 To reduce the risk that the Council will suffer a loss as a result of its treasury management activities down to an acceptable level a number of risk management procedures have been put in place. The procedures cover liquidity risk, credit and counterparty risk, re-financing risk, legal and regulatory risk, and fraud, error and corruption risk. These are referred to within the borrowing and investment strategies, prudential indicators and the Treasury Management Practices Principles and Schedules.

10.4 The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

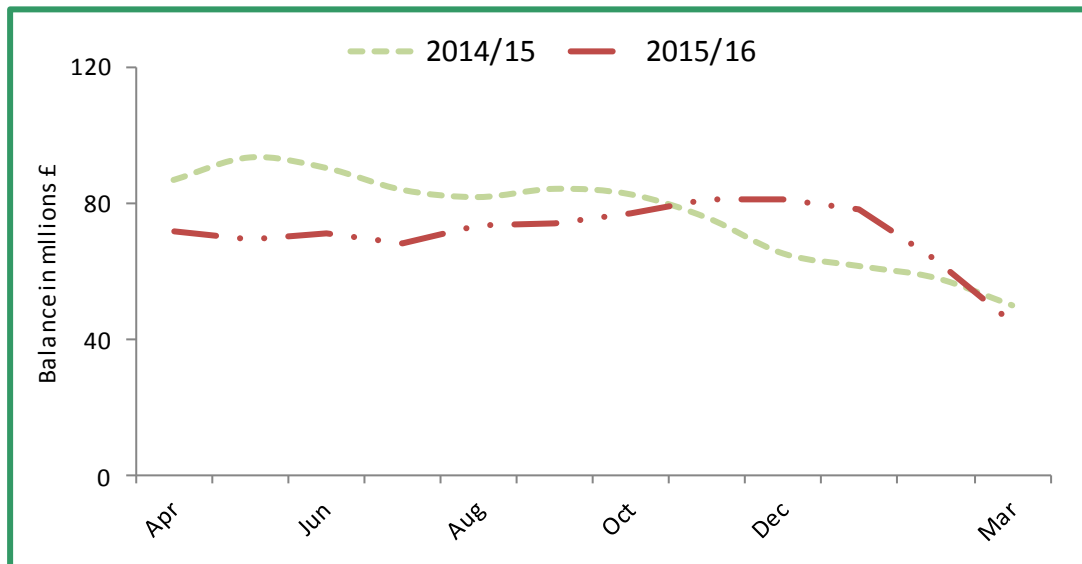
11.0 Background and Options

11.1 The Treasury Management Strategy for 2015/16 was approved by Council on 26th February 2015. Progress reports have been provided to Cabinet throughout the year as part of the Quarterly Financial and Performance Update Reports.

11.2 The Council complied with its legislative and regulatory requirements and remained within all of its Prudential Indicators during the year, further details are provided in Annex 1.

- 11.3 With current interest rates offering low investment returns relative to the cost of raising new long term loans the Council has maintained its overall strategy of using existing cash balances to fund the 2015/16 capital programme.
- 11.4 Cash balances remained stable throughout the year. The average lend position (the 'cash balance') for 2015/16 was £71m, (£76.3m in 2014/15).

Chart 1 – Average monthly cash balances available for investment



Source: Cheshire East Finance

- 11.5 Actual capital expenditure totalled £90.6m compared to the revised in-year budget of £122.8m. Some of the planned spending for 2015/16 has been re-profiled into 2016/17 and future years to ensure the Council maximises external investment and capital receipts opportunities; thereby reducing the level of the borrowing requirement in the future and the impact on the revenue budget.
- 11.6 The Council continues to reduce its overall level of external debt as no new external borrowing was undertaken and PWLB loans of £8.5m were repaid in year. Three interest free loans amounting to £3.3m were received from Salix for specific highway projects.
- 11.7 Other key points to note for 2015/16 are:
- The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at consistently low levels.
 - During 2015/16 the Council invested a further £2.5m in the CCLA property fund bringing the total amount invested up to £7.5m.
 - The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Council, therefore,

increasingly favoured secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits. Of the £34.0m invested at 31st March 2016, £19.1m was placed in these type of investments. These tend to be of a medium to longer term nature so these types of investments are limited by liquidity requirements bearing in mind predicted future cash flows and market availability.

11.8 This annual treasury report, detailed in Appendix A covers the:

- Council's capital expenditure and financing during the year;
- Impact of this activity on the Council's underlying Capital Financing Requirement (CFR);
- Treasury position at 31st March 2016 identifying how the Council has borrowed in relation to the CFR and the impact on investment balances;
- Economic factors;
- Detailed investment and debt activity;
- Reporting of the required prudential and treasury indicators.

12.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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