

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting: 13th June 2017
Report of: Director of Finance & Procurement (Section 151 Officer)
Subject/Title: Treasury Management Annual Report 2016/17
Portfolio Holder: Councillor Paul Bates, Finance and Communities

1.0 Report Summary

- 1.1 The Treasury Management Policy requires an annual report on the performance of the Council's treasury management operation. This report contains details of the activities in 2016/17 for Cheshire East Borough Council.

2.0 Recommendation

- 2.1 To receive the Treasury Management Annual Report for 2016/17 as detailed in Appendix A.

3.0 Other Options Considered

- 3.1 None.

4.0 Reasons for Recommendation

- 4.1 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.

5.0 Background

- 5.1 The Treasury Management Strategy for 2016/17 was approved by Council on 25th February 2016. Progress reports have been provided to Cabinet throughout the year as part of the Quarterly Financial and Performance Update Reports.
- 5.2 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.
- 5.3 Investment income for 2016/17 is £516,000 which is higher than the budgeted income of £320,000 for the period. Cash balances remained high during the year, although market interest rates have reduced since the Bank of England Base Rate was reduced in July. Investments in the CCLA Investment Management Ltd property fund and use of corporate bonds and fixed term investments prior to the base rate reduction has contributed to higher rates of

interest earned on investments. Rates achievable on Investments have now reduced as the fixed rate investments have matured.

- The average lend position (the 'cash balance') including managed funds during 2016/17 is £69.1m.
- The average annualised interest rate received on in-house investments during 2016/17 is 0.62%.
- The average annualised interest rate received on the externally managed property fund in 2016/17 is 4.66%.

- 5.4 The Council's total average interest rate for 2016/17 is 1.06%. The returns continue to exceed our benchmark, the London Inter-bank Bid Rate for 7 days at 0.30%, and our own performance target of 0.75% (Base Rate + 0.50%).

Table 1 – Interest Rate Comparison

Comparator	Average Rate 2016/2017
Cheshire East	1.06%
LIBID 7 Day Rate	0.30%
LIBID 3 Month Rate	0.47%
Base Rate	0.25%
Target Rate	0.75%

- 5.5 As a result of lower debt repayments, due to slippage in the capital programme, there was a £1.2m underspend on the capital financing budget of £14m.
- 5.6 The Council has £7.5m invested in the CCLA managed property fund. Following the referendum decision to leave the EU (Brexit) the capital value of the fund decreased by 4%. Since then the value has started to recover. The current value of the units in the fund if sold is just over £7.5m. Although this indicates no growth, the fund continues to generate income of 4.6% per annum which exceeds the levels achievable from our own investment activities.
- 5.7 Cash balances reduced as expected at year end. In order to avoid withdrawing higher earning investments, temporary borrowing of £12m was taken for a short period at a rate of 0.40%. Lower cash balances are predicted throughout 2017/18 as Local Enterprise Partnership funds held by the Council are spent and advance pension fund deficit payments are made. This meant that further fixed investments including use of bonds could not be made towards the end of 2016/17.

5.8 Full details of investments as at 31st March 2017 are shown in Section 3 of Appendix A. This annual treasury report, detailed in Appendix A also 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 2017 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.

6.0 Wards Affected and Local Ward Members

6.1 Not applicable

7.0 Implications of Recommendation

7.1 Policy Implications

7.1.1 None

7.2 Legal Implications

7.2.1 As noted in paragraph C48 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. C48 to C53 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 C53.

7.3 Financial Implications

7.3.1 Contained within the report.

7.4 Equality Implications

7.4.1 None.

7.5 Rural Community Implications

7.5.1 None.

7.6 Human Resources Implications

7.6.1 None.

7.7 Public Health Implications

7.7.1 None.

7.8 Other Implications

7.8.1 None.

8.0 Risk Management

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

8.2 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.

8.3 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.

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

9.0 Access to Information

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

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10.0 Contact Information

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