

Cabinet

Date of Meeting: 11 September 2018

Report Title: Treasury Management Annual Report 2017/18

Portfolio Holder: Councillor Paul Bates, Finance and Communication

Senior Officer: Jan Willis, Interim Executive Director of Corporate Services

1. 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 2017/18 for Cheshire East Council.

2. Recommendation

- 2.1. To receive the Treasury Management Annual Report for 2017/18 as detailed in Appendix A.

3. Reason for Recommendation

- 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. Other Options Considered

- 4.1. None

5. Background

- 5.1. The Treasury Management Strategy for 2017/18 was approved by Council on 23rd February 2017. 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 with the

exception of borrowings maturing in under 12 months, further details are provided in Annex 1.

5.3. Investment income for 2017/18 is £320,000 in line with the original budget.

- The average lend position (the 'investment cash balance') including managed funds during 2017/18 is £28.2m
- The average annualised interest rate received on in-house investments during 2017/18 is 0.37%.
- The average annualised interest rate received on the externally managed property fund during 2017/18 is 4.84%.
- The average temporary borrowing position during 2017/18 is £40.2m.
- The average annualised interest rate paid on temporary borrowing during 2017/18 is 0.46%

5.4. The Council's total average interest rate for 2017/18 is 1.55%. The returns continue to exceed our benchmark, the London Inter-bank Bid Rate for 7 days at 0.48%, and our own performance target of 1.00% (Base Rate + 0.50%).

Table 1 – Interest Rate Comparison

| Comparator | Average Rate to 31/03/2018 |
|--------------------|----------------------------|
| Cheshire East | 1.55% |
| LIBID 7 Day Rate | 0.31% |
| LIBID 3 Month rate | 0.39% |
| Base Rate | 0.50% |
| Target Rate | 1.00% |

5.5. As a result of a change in the Minimum Revenue Provision (MRP) policy to the use of the annuity method, the Council was able to take a MRP holiday and make a saving in the capital financing budget. Overall there was a £4.1m underspend on the capital financing budget of £14m.

5.6. A reduction in the level of cash balances and the need for temporary borrowing has arisen from the decision to pay past service pension deficit contributions for the next three years in one advance payment of £45m in April 2017. The discount available from early payment more than offsets the costs of temporary borrowing. The forecast benefit over the three year period is around £2m which will support mitigation of future service costs as appropriate.

5.7. Temporary borrowing is currently being met from other Local Authorities which is considerably cheaper than other sources of borrowing. If the

predicted interest environment changes or the availability of temporary borrowing reduces then this strategy will be re-assessed.

- 5.8. The Council has maintained the £7.5m investment in the CCLA managed property fund. The underlying value of this fund had been devalued following the 'Brexit' referendum but has since been increasing in value. The current value of the units in the fund if sold is £7.9m. The fund also generated income of 4.88% in 2017/18.
- 5.9. Most other investments currently held are short term for liquidity purposes. Following the base rate increase on 2nd November 2017 some of the funds which were achieving higher returns than temporary borrowing were no longer yielding the same results. Cash was, therefore, withdrawn to reduce borrowing and, from December, to invest £2.5 in a Royal London Enhanced Cash Plus Fund.

6. Implications of the Recommendations

6.1. Legal Implications

- 6.1.1. As noted in paragraph 4.54 of the Finance 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. Paragraphs 4.55 – 4.61 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 4.60.

6.2. Finance Implications

- 6.2.1. Contained within the report.

6.3. Policy Implications

- 6.3.1. The treasury management activity reported for the period 1st April 2017 - 31st March 2018 has been carried out in accordance with the Treasury Management Policy Statement and Treasury Management Practices (TMPs).

6.4. Equality Implications

- 6.4.1. None

6.5. Human Resources Implications

- 6.5.1. None

6.6. Risk Management Implications

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

6.6.2. 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.

6.6.3. 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.

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

6.7. Rural Communities Implications

6.7.1. None

6.8. Implications for Children & Young People

6.8.1. None

6.9. Public Health Implications

6.9.1. None

7. Ward Members Affected

7.1. Not applicable

8. Access to Information

- 8.1. The background papers relating to this report can be inspected by contacting the report writer.

9. Contact Information

- 9.1. Any questions relating to this report should be directed to the following officer:

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