

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**4 JULY 2017**

**10**

<b>Report Title</b>	<b>ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2016/2017</b>
<b>Purpose of Report</b>	To advise on the treasury management activities in 2016/2017, in accordance with the Council's Treasury Policy Statement. To report on actual 2016/2017 Prudential Indicators in accordance with the requirements of the Prudential Code.
<b>Decision(s)</b>	<b>The Audit &amp; Standards Committee approves the treasury management activity annual report for 2016/2017 and the actual Prudential Indicators.</b>
<b>Consultation and Feedback</b>	Capita Asset Services Limited.
<b>Financial Implications and Risk Assessment</b>	<p>This report sets out the outturn position on the Council's Treasury Management activities.</p> <p>Paragraph 12 of the report highlights the return achieved on the Council's investments during the year of £223k (0.62%). 2016/17 has been another challenging year for treasury investments given the reduction in interest rates following the EU referendum. The level on investment income gained is a positive outcome and the Council performs well against benchmarked authorities given the level of risk the undertaken.</p> <p>As at 31 March 2017, the Council had external debt of £106.7m, an increase of £2m in the year. The majority of this debt relates to HRA self financing (£97.7m) and is serviced through annual revenue payments from the Housing Revenue Account.</p> <p>Internal borrowing of £4m was undertaken to finance the capital programme, rather than taking-on further external debt.</p> <p>David Stanley, Accountancy Manager Tel: 01453 754100 E-mail: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a></p>

<b>Legal Implications</b>	There do not appear to be any significant legal implications other than those referred to in the report.  Mike Wallbank Solicitor Tel: 01453 754362 E-Mail: <a href="mailto:mike.wallbank@stroud.gov.uk">mike.wallbank@stroud.gov.uk</a>
<b>Report Author</b>	Graham Bailey, Principal Accountant Tel: 01453 754133 Email: <a href="mailto:graham.bailey@stroud.gov.uk">graham.bailey@stroud.gov.uk</a>
<b>Options</b>	None
<b>Performance Management Follow Up</b>	The Committee will receive regular reports on treasury activity throughout the year.
<b>Appendices</b>	A – Temporary investments 2016/2017 B – Actual Prudential Indicators 2016/2017 C – Explanation of Prudential Indicators D – The economy and interest rates 2016/2017 E – Borrowing and investment rates in 2016/2017

## Discussion

1. The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2001 was adopted by this Council on 21 March 2002, and the revised 2009 code was adopted on 21 January 2010. This Council fully complies with its requirements.
2. The primary requirements of the Code are as follows:
  - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
  - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
  - Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a midyear review report and an annual review report of the previous year.
  - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
  - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Audit & Standards Committee.

3. Treasury management in this context is defined as:

*“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. ”*

### Treasury Activity

4. A summary of treasury management activity for 2016/2017 is shown below:

<b>Treasury Activity 2016-17</b>				
	<b>April 2016</b>	<b>Increase</b>	<b>Decrease</b>	<b>March 2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Debt</b>				
<b>Borrowing:</b>				
Long-term	-104,717	-2,000	-	-106,717
Short-term	-	-	-	-
<b>Total debt</b>	<b>-104,717</b>	<b>-2,000</b>	<b>-</b>	<b>-106,717</b>
<b>Investments</b>				
Externally managed	-	-	-	-
Internally managed - Long term	-	-	-	-
Internally managed - Short term	30,939	-	-2,008	28,931
<b>Total investments</b>	<b>30,939</b>	<b>-</b>	<b>-2,008</b>	<b>28,931</b>
<b>Net debt</b>	<b>-73,778</b>	<b>-2,000</b>	<b>-2,008</b>	<b>-77,786</b>

### Investment Strategy

5. Investment strategy for 2016/2017 was to give primary importance to security of capital and liquidity. This was achieved through having regard to government ‘Guidance on Local Government Investment’ issued in March 2004, and our own investment policy which set out permitted specified and non-specified investments. In addition, the Council received and followed weekly investment advice from Capita Asset Services detailing counterparty credit ratings, which were also subjected to a credit default swap overlay. This was supplemented by daily update emails from Capita Asset Services, economic briefings and monitoring the financial press.
6. Investment strategy, set out in the report to Council in January 2016, stated that in 2016-17 the Council would continue to invest for the longest permitted duration with quality counterparties to maximise return without compromising security. All investment options would be subject to the Capita creditworthiness methodology, and the Council’s own limitations as to duration of investment and amount invested.

7. The expectation for interest rates within the strategy for 2016/17 was for Bank Rate to increase to 0.75% in June 2016, and then a further increase to 1% in March 2017 as part of a rising trend reaching 2% in June 2018. However, in fact rates were cut to 0.25% in August 2016 and remained at that rate for the remainder of the financial year. The Council achieved a return of 0.62% in an environment of continued falling interest rates.
8. **Appendix A** has a summary of investments during the year.

#### **Borrowing Outturn for 2016/17**

9. The Council had total borrowing of £106.717m as at 31 March 2017. During the year two £1m PWLB loans were taken at rates of 2.51% and 2.65% for durations in excess of 40 years. With a closing Capital Financing Requirement of £111.457m, the Council has introduced an element of internal borrowing during the year to help offset sharply falling investment returns. As at 31 March there is internal borrowing of £4.740m.

Lender	Principal	Type	Interest Rate	Years to Maturity	Maturity Date	New 16-17
PWLB	£1m	Fixed Interest Rate	2.42%	1 year	28/03/2018	
Hampshire CC	£2m	Fixed Interest Rate	2.40%	2 years	05/02/2019	
PWLB	£1m	Fixed Interest Rate	1.63%	4 years	11/02/2021	
PWLB	£2m	Fixed Interest Rate	1.93%	6 years	11/02/2023	
PWLB	£6m	Fixed Interest Rate	3.32%	15 years	31/03/2032	
PWLB	£10m	Fixed Interest Rate	3.45%	20 years	31/03/2037	
PWLB	£7m	Fixed Interest Rate	3.51%	25 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.51%	25 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.53%	30 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.53%	30 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.52%	35 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.52%	35 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.51%	40 years	31/03/2057	
PWLB	£7m	Fixed Interest Rate	3.51%	40 years	31/03/2057	
PWLB	£10m	Fixed Interest Rate	3.48%	44 years	31/03/2061	
PWLB	£9.717m	Fixed Interest Rate	3.48%	44 years	31/03/2061	
PWLB	£1m	Fixed Interest Rate	2.51%	46 years	21/06/2063	Y
PWLB	£2m	Fixed Interest Rate	3.16%	46 years	20/08/2063	
PWLB	£1m	Fixed Interest Rate	3.55%	48 years	28/11/2064	
PWLB	£2m	Fixed Interest Rate	3.20%	48 years	18/08/2065	
PWLB	£2m	Fixed Interest Rate	2.96%	49 years	11/02/2066	
PWLB	£1m	Fixed Interest Rate	2.65%	49 years	14/06/2066	Y
<b>Total Loans</b>	<b>£106.717m</b>					

## The Economy and Interest Rates

10. An analysis of UK economic performance and interest rates during 2016/2017 is in **Appendix D**.

### Performance Measurement

11. **Appendix A** has details of the investments made during the year. All of these were 'approved investments' with counterparties included on the Council's lending list, and within permitted limits as regards time and amount, with the exception of a breach of the amount limit for the Lloyds Banking Group by £411k during the period 15/06/2016 to 22/07/2016.
12. The average level of investments held was £35.958 million and the average return on these investments was 0.62%, compared with the average un compounded 7-day LIBID rate of 0.20% which is a generally accepted benchmark rate (the 3 month un compounded LIBID rate is given as well for comparative purposes). The interest earned was £223k.

	Average Investment	Rate of Return	Benchmark Return 7 day LIBID un compounded	For comparison 3 month LIBID un compounded
<b>Internally Managed</b>	£35,957,780	0.62%	0.200%	0.315%
<b>Externally Managed</b>	N/A	N/A	N/A	N/A

13. Stroud is a member of a Capita Asset Services Benchmarking group. The group is comprised of North Warwickshire Borough Council, Nuneaton and Bedworth Borough Council, Oxford City Council, Rugby Borough Council, Stratford-on-Avon District Council, Warwick District Council, Warwickshire County Council, Worcester City Council, Worcestershire County Council and Wyre Forest District Council. A primary aim of the group is to evaluate and compare return on investment taking into account the level of risk for the investment portfolio. During 2016/17 Stroud has again compared very favourably with the benchmark group in terms of return achieved, whilst maintaining a low risk portfolio.
14. The above figures exclude interest earned on the £1m invested in the Local Authority Mortgage Scheme. If this investment earning 3.8% is taken into account then the rate of return increases to 0.705% on an average investment balance of £36.958m. Total interest earned including these non-standard investments was £260k.

### Prudential Indicators and Compliance with Borrowing Limits

15. The Council is required by the Prudential Code to report actual prudential indicators after the yearend. These are shown in **Appendix B**.

16. The Council had loans totalling £106.717m during 2016/2017. This amount of borrowing was well within both the authorised and operational borrowing limits of £125m and £130m respectively.

<b>Borrowing limits 2016/2017</b>	<b>Approved Limit</b>	<b>Actual</b>
Authorised limit for external debt (£'million) (Includes deferred liabilities)	£130m	£106,717
Operational boundary for external debt (£'million)	£125m	£106,717

### **Member Training**

17. Member training provided by Capita Asset Services on treasury management issues took place on 6 July 2016 and 25 January 2017. Further training for Members will be scheduled for 2017/18.

### **New contract**

18. The treasury advice service contract was re-tendered through the Eastern Shires Purchasing Organisation (ESPO) Framework Agreement in 2016 and was awarded to Capita Asset Services. This is a contract for two years with an option to extend for a further two years. The contract commenced 1 October 2016.

### **Local Authority Mortgage Scheme update**

Through introducing a Local Authority Mortgage Scheme the Council offered a financial guarantee to enable first time buyers to obtain a mortgage. The total value of the guarantee is £1.2m. The Council invested £1m and the county council £200k with Lloyds bank for 5 years at a market rate of 3.8%. Premium interest of 0.7% is payable in return for the financial guarantee. Premium interest has been set aside to pay for any liability realised as a result of the financial guarantee. This scheme commenced in April 2012 and closed to new loan applications in 2015. A total of £4.7m of loans to 37 first time buyers were issued which utilised £0.9m of the available £1.2m guarantee. As at March 2017 there are no arrears cases, and there have been no repossessions under the scheme since inception. The financial guarantee continues for 5 years from the start date of each mortgage and so should gradually reduce and end in July 2020, unless a mortgage is in arrears during the last six months of its 5 year period. In any such case the financial guarantee for that mortgage will extend for a further 2 years.