

## **Report of the Treasurer**

### **Treasury Management Activities 2016/17**

#### **Purpose of report**

1. To review Treasury Management Activities for 2016/17.
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#### **Recommendation**

***The Treasurer recommends that the Committee agree the Prudential Indicators were within the limits set by the Authority in February 2017 and that there are no matters that require further attention.***

#### **Introduction and Background**

2. The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.
3. The revised guidance issued in November 2011 makes it clear that investment priorities should be security and liquidity, rather than yield and that authorities should not rely solely on credit ratings, but consider other information on risk.
4. In accordance with both the Chartered Institute of Public Finance and Accountancy's Treasury Management Code of Practice, and current Fire Authority Financial Regulations the Treasury Management Activities are reviewed by Members twice a year.

#### **Treasury Management Activities**

5. Treasury Management is about managing the Authority's cash flow and investments to support its finances for the benefit of the Public and the Services that it provides. These activities are structured to manage risk foremost and then optimise performance.
6. The Treasury Management function strives to ensure the stability of the Authority's financial position by sound debt, cash and risk management techniques. The need to minimise risk and volatility is constantly addressed whilst aiming to achieve the treasury management objectives.

7. Banking arrangements and the Treasury Management functions for the Authority, in respect of lending and borrowing, are carried out by Worcestershire County Council under a Service Level Agreement. All Authority funds are invested or borrowed by the County Council in accordance with their Treasury Management Strategy, this means that the Authority is subjected to the same levels of risk and return as the County Council. A copy of the relevant Treasury Management Strategy for 2016/17 is included at Appendix 2.
8. At 31 March 2016 the Authority had long-term debt totalling £13.137m. Of this total £0.500m was repaid during the financial year (2016/17). There has been no additional borrowing requirement during this financial year, so the balance that remains outstanding at the end of March 2017 is £12.637m.
9. Surplus cash is invested on a day-to-day basis under a Service Level Agreement with Worcestershire County Council. The average interest rate achieved for the second half of the period was 0.2614%.
10. As part of the defined investment risk strategy Authority funds are currently deposited with the Bank of England and other organisations deemed to be low risk, such as other Local Authority Bodies, WCC Treasury Management keeps this policy under constant review. With the downgrading of several large financial institutions, to comply with the AA credit rating required by the Treasury Management Strategy, which ensures the continued reduction of risk exposure, there are now fewer financial institutions available where investments can be made which increases reliance upon the Bank of England.
11. Historically performance has been measured against the “7-Day London Inter-bank Bid Rate” (LIBID) as a benchmark. However, the very low risk strategy evolved for Authority investment means that at present this measure is less meaningful. The relevant figure for the second half of 2016/17 was an average of 0.120%.
12. However, with investment rates remaining as low as they currently are, a less prudent risk strategy would not greatly increase the expected yield whilst significantly increasing the associated risk.

### **Prudential Indicators**

13. In considering the budget and precept for the year the Authority approves indicators and limits in respect of capital expenditure, borrowing and revenue consequences.
14. These are set by the Authority, as part of the overall budget setting process, in February prior to the start of the financial year.
15. Appendix 1 sets out the relevant indicators as approved and as they out-turn, and demonstrates that they are within the limits of the Medium Term Financial Plan.

## Conclusion/Summary

16. The SLA with the County Council and the implied use of its Strategy Statement ensures that the Authority invests its resources within a robust and effective framework to deliver a maximum return on investments within a secure environment. The monitoring of the Prudential Indicators has demonstrated that the Authority has complied with its Treasury Management targets.

## Corporate Considerations

<b>Resource Implications</b> (identify any financial, legal, property or human resources issues)	None
<b>Strategic Policy Links</b> (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	None
<b>Risk Management / Health &amp; Safety</b> (identify any risks, the proposed control measures and risk evaluation scores).	None
<b>Consultation</b> (identify any public or other consultation that has been carried out on this matter)	None
<b>Equalities</b> (has an Equalities Impact Assessment been completed? If not, why not?)	None

## Supporting Information

Appendix 1 – Prudential Indicators 2016/17 Outturn

Appendix 2 – Treasury Management Strategy 2016/17 – Worcestershire County Council (relevant extract)

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