TREASURY MANAGEMENT ANNUAL REVIEW 2015/16

1.1 This item of business was referred by the Review Committee on 5 June 2016 to Full Council with recommendations on the Treasury Management Annual Review 2015/16. An extract of the key elements of the report of the Section 151 Officer is appended.

1.2 Members were advised that following the result of the European Referendum and the immediate effect this has had upon the UK economy there was one update to the report. Paragraph 4, Investment Performance for 2015/16, stated that current forecasts were for the Bank of England base rate to remain at 0.50% until April 2017, and then rise to 0.75%. This forecast had since been changed. The base rate is now expected to drop to 0.25% in July 2016 and not rise until April 2018.

1.3 It was noted that Council approved the 2016/17 Treasury Management Strategy on 19 April 2016, following the recommendation of the Review Committee on 12 April 2016. This strategy stated that Rochford District Council would only invest in counterparties with a sovereign rating of AA+ or better. Following the European Referendum and the vote in favour of leaving the European Union, the United Kingdom's credit rating has been reduced to AA, from AAA.

1.4 Upon discussion with our Treasury Management advisers, Capita Treasury Services Ltd, the S151 Officer seeks approval to remove the United Kingdom from this stipulation of credit rating criteria. Capita has advised that it would be very unlikely for a UK institution to be allowed to default, given the Government's robust financial backing and the consequences this might have on the industry as a whole.

2 RECOMMENDATION

2.1 It is proposed that Council **RESOLVES**

(1) That the treasury management annual review report 2015/16 be approved.

(2) That it be agreed that Rochford District Council can continue to invest in UK institutions despite the sovereign rating downgrade from AAA to AA.

(3) That the change in the Bank of England Base rate forecast be noted.

TREASURY MANAGEMENT ANNUAL REVIEW 2015/16

1 SUMMARY

1.1 This report sets out a summary of the Council's Treasury Management activity for the year 1 April 2015 to 31 March 2016 (2015/16). The report seeks the approval of Full Council on the information presented in this report.

1.2 The treasury management activities have been conducted during a year that continued to provide national and international economic uncertainty. Concerns that China's economic growth could be heading towards a hard landing and the potential destabilisation of some emerging market countries particularly those exposed to the Chinese economic slowdown; combined with fluctuating oil prices, has seen continued uncertainty in the global financial markets. Bank rate therefore remained unchanged at 0.50% for the 7th successive year.

1.3 Income from investment was down against the £40,000 revised budget set for 2015/16, with actual income from treasury management activities being £34,537.

2 INTRODUCTION AND BACKGROUND

2.1 Treasury management is defined as "The management of the local authority's investments, 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."

2.2 For 2015/16, the primary requirements of the code, together with how the Council complies, 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. This is contained within the Financial Regulations of the Council's Constitution. The Financial Regulations are reviewed annually.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives. The Practices were last reviewed and updated in December 2015
- The Council should receive an Annual Treasury Management Strategy Report (including the Annual Investment Strategy Report) for the year

ahead and an Annual Review Report of the previous year. The Strategy for 2015/16 was agreed by Council in February 2015 and this report is the Annual Review Report.

- A mid year treasury report is required detailing the position to date, and any changes in practices. This was reported to the Executive in December 2015
- All Executive decisions on borrowing, investment or financing are delegated to the Section 151 Officer as the Chief Finance Officer and this delegation is documented in the Financial Regulations.

2.3 The Council uses the services of treasury management advisors, Capita Asset Services, to provide advice and expert analysis.

3 TREASURY POSITION AS AT 31 MARCH 2016

3.1 The Council's investment position at the beginning and the end of the year, as shown on the Council's Balance Sheet, was as follows:-

Balance as at 31 March 2015 £1.508m

Balance as at 31 March 2016 £0

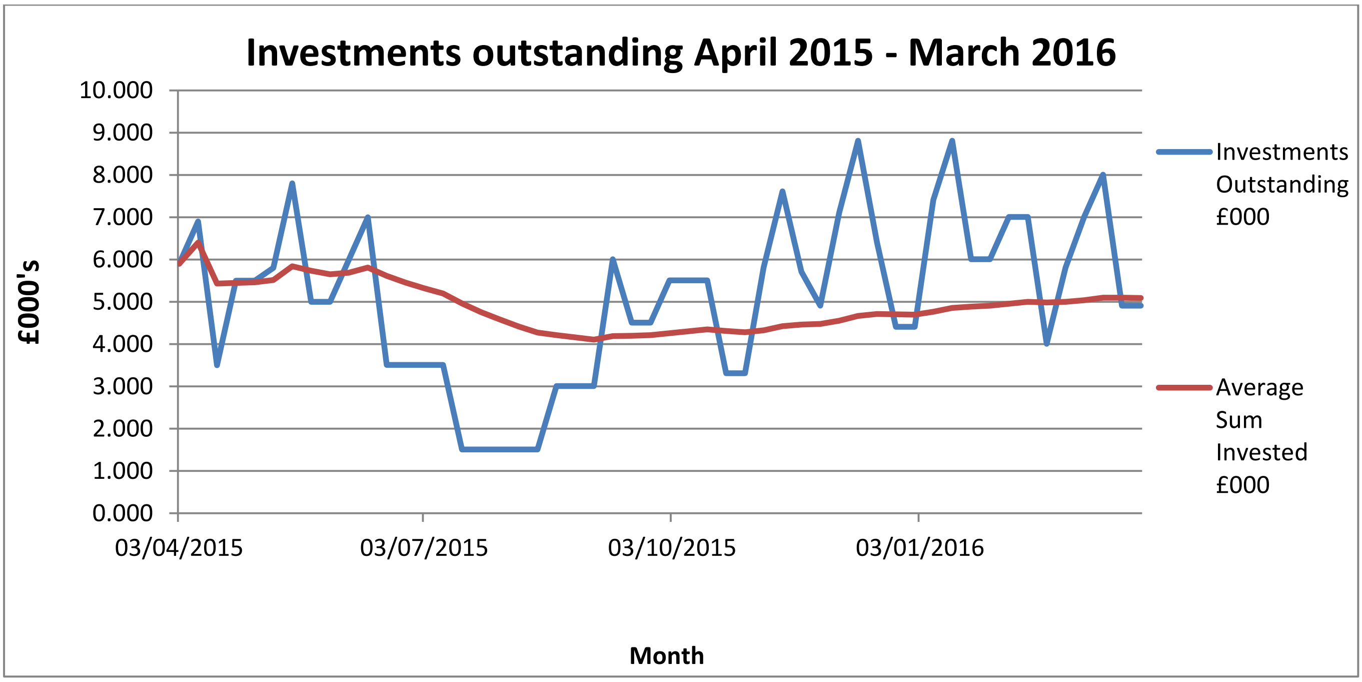
The authority had no fixed rate investments placed as at 31st March 2016. All investments were in instant access reserve accounts, treated as cash and cash equivalents on the Council's Balance Sheet

4 INVESTMENT PERFORMANCE FOR 2015/16

4.1 The Investment Strategy for 2015/16 was based on expectations that the bank rate would increase to 0.75% during the year, this did not materialise and the base rate remained at 0.50%. Current forecasts are for the bank rate to remain at 0.50% until April 2017 when a rise to 0.75% is forecast.

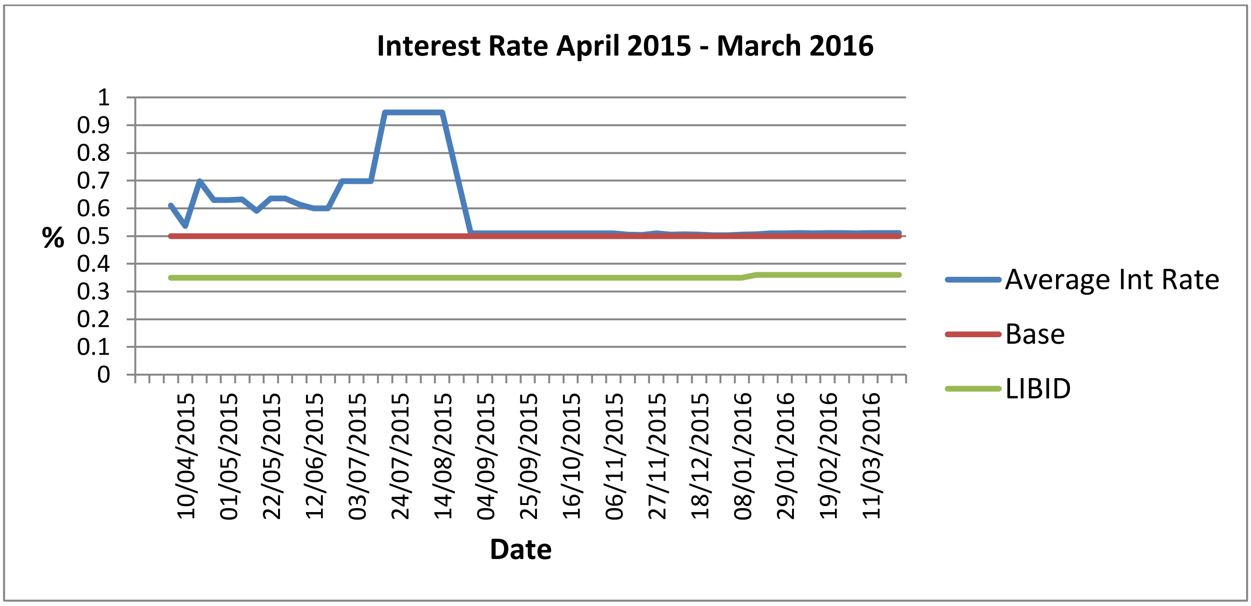
4.2 The majority of investments have been made for cash flow requirements but, where the market has given slightly higher rates in anticipation at the time of future rate increases, the opportunity was also taken to benefit from these.

The graph below shows a decrease in average balances from £5.9m to £4.9m at the end of the year.



4.3 Total external interest earned was £34,537, compared to £38,400 in 2014/15. The revised estimate for 2015/16 was £40,000 so this represents a 14% under achievement.

4.4 The following graph shows a comparison of average rate of interest earned, Bank base rate and the benchmark (7-day London Interbank Bid Rate):-



From the beginning of 2015/16 until the end of August 2015, £1.5m was invested in a fixed rate investment at Lloyds Bank at 0.95%. When this matured it left all available cash to be held short term in overnight reserve accounts. This explains the sharp drop in 'Average Interest Rate' in August on the graph above.

4.5 The Authority uses a combination of credit ratings, credit default swaps and market intelligence to decide which banks and financial institutions it will deposit funds with. During 2015/16, there were a number of credit rating changes, resulting in the amount we could deposit with any one counterparty changing quite regularly. These changes were actioned as notification was received.

5 COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators, compared to the estimates made in January 2015, are shown below

PRUDENTIAL INDICATOR	**2014/15**	**2015/16**	**2015/16**
	Actual	Estimate	Actual outturn
Capital Expenditure £000s	1,262	3,958	3,048
Ratio of Financing Costs to Net Revenue Stream	(0.25%)	(0.37%)	(0.34%)
Capital Financing Requirement as at 31 March £000s	687	687	687
Incremental Impact of Capital Investment Decisions - (Reduction) in Council Tax (band D) per annum £	(0.21)	0.43	(0.14)

6 RESOURCE IMPLICATIONS

6.1 Investment income used to be an important source of income to the General Fund but that is no longer the case and is unlikely to recover in the medium term. The Capita contract costs £6,000 per year. This represents good value for money for the Authority as we have achieved better returns than we might have. The advice service frees up officer time from researching the money markets and means that investment decisions are made in a timely fashion.

6.2 All interest received is accounted for within the General Fund. The Authority had no borrowings during the year, so no interest was paid out. An overdraft facility was agreed between June and October 2015. This was set at a limit of £2m, with an implementation fee of £5,000. This temporary agreement was put in place to ensure the Authority could manage its day to day cash flow whilst internally financing the cost of the Authorities new Waste Vehicles.

7 RISK IMPLICATIONS

7.1 The Treasury Management Strategy discusses in detail the risks involved in making investments and in particular the risk that a building society or bank may fail during the duration of an investment. The Authority is responsible for managing the investment of public funds and must be seen to be adopting a prudent approach. No institutions, in which investments were made during 2015/16, had any difficulty in repaying investments and interest in full during the year.