FULL COUNCIL

14 DECEMBER 2016

REPORT OF HEAD OF CENTRAL SERVICES

MID YEAR REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND PRUDENTIAL INDICATORS 2016-17

1.0 PURPOSE OF REPORT

1.1 Revisions to the regulatory framework of Treasury Management during 2009 introduced a requirement that the Council receive a mid year treasury review in addition to the annual report and strategy on treasury management. The CIPFA Treasury Management Panel promotes the view that Council's monitor performance at least half yearly. In addition to this, a report by the Audit Commission entitled 'Risk and Return' identifies the need for Local Authorities to report regularly to members in addition to the annual review

1.2 The report meets the above requirement and incorporates the needs of the Prudential Code to ensure adequate monitoring of capital expenditure and the Councils prudential indicators (PI's). The treasury strategy and PI's were previously reported to Council on 10 February 2016. Revisions to future years are provided where required.

2.0 RECOMMENDATIONS

The Budget and Strategic Planning Working Group recommends to the Council that:

2.1 The mid-year position on treasury activity for 2016-17 be noted;

2.2 The mid-year position on prudential indicators be noted and approved;

2.3 The Treasury Management Strategy Statement (TMSS) be updated to include Property Funds, as detailed in 3.6 below;

2.4 Investments can be placed with maturity limits of up to 1 year if an institution has a colour coding, as identified by the Capita Asset Services creditworthiness service, as detailed in 3.7 below; and

2.5 The description on specified investments be updated to Pooled Investment Vehicles, to include Money Market Funds and Enhanced Cash Funds be noted, as detailed in 3.8 below.

3.0 KEY ISSUES

3.1 The Treasury Management & Prudential Indicators mid-year report for 2016-17 is attached at Appendix A.

3.2 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Department for Communities & Local Government (DCLG) Investment Guidance/Investment regulations. These state that Members receive and adequately scrutinise the Treasury Management services.

3.3 The underlying economic environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments relatively short term (ie less than one year) and with high quality counterparties. The downside of such a policy is that investment returns remain low.

3.4 The report shows that the basis of the treasury management strategy, the investment strategy and the PI's have not materially changed, except where shown.

3.5 The report is structured to highlight the key changes to the Councils capital activity (the prudential indicators), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).

3.6 It is proposed that the TMSS to be updated to include Property Funds. This will enable the diversification of the portfolio to maximise investment returns whilst maintaining security.

Fund performance (net) 30.06.16	Best Performing Fund	Worst Performing Fund
3 month %	2.9	-2
1 year %	11.6	5.9
3 Year % (annualised)	17.3	10.0
5 Year % (annualised)	11.1	6.4
10 Year % (annualised)	10.5	0.1

Further detail is outlined in Section 4 of Appendix A on Treasury Management Strategy Statement and Annual Investment Strategy update.

3.7 The current criteria for selecting counterparties is provided by Capita Asset Services. It utilises credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's, in addition to credit watches and credit outlooks from credit rating agencies, CDS spreads to give early warning of likely changes in credit ratings and Sovereign ratings to select counterparties from only the most creditworthy countries

The main rating agencies have, through much of the financial crisis period from 2008 – 2015, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies began removing these "uplifts. It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. It mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the financial crisis when they had higher ratings than now.

It is therefore recommended that any financial institutions with a colour coding should be considered for investment of up to 1 year.

3.8 Specified investment criteria to be re-worded from Money Market Funds to Pooled Investment Vehicles; this will include Money Market Funds and Enhanced Cash Funds. The rating required for investment in these instruments remains at AAA by Standard and Poor's, Moody's and / or Fitch rating agencies. Further detail is outlined in Section 4 of Appendix A on Investment Portfolio.

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 The Treasury Management Strategy and Policy is a corporate document which links to the Medium Term Financial Strategy. The mid-year and annual report provides details of all Treasury Management activities. The Council's budgeted gross investment return for 2016/17 is £102k, and the performance for the year end is forecast to be in line with the budget.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 The Local Government Act 2003 provides powers to invest and borrow as well as providing controls and limits on the activity.

7.0 COMMUNITY SAFETY

7.1 There are no direct links to community safety arising from this report.

8.0 EQUALITIES

8.1 There are no direct equality issues arising from this report.

9.0 RISKS

9.1 In order to minimise risk the TMSS ensures the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk, whilst also seeking to maximising returns.

10.0 CLIMATE CHANGE

10.1 There are no climate change issues arising from this report.

11.0 CONSULTATION

11.1 Consultation takes place with the Council's treasury consultants at regular intervals throughout the year.

12.0 WARDS AFFECTED

12.1 To varying degrees, all wards are affected indirectly.

Contact Officer	Claire Burgess, Senior Management Accountant
Date:	9 November 2016
Appendices :	Appendix A – Mid Year Report on Treasury Management & Prudential Indicators
Background Papers:	Statement of Accounts Final Accounts Working Papers
Reference :	X : Committees/Council/2016-17/14-12-16/Treasury Management Mid Year Report 2016-17