

Executive Committee

13 September 2016

Treasury Outturn Report 2015/16

For Decision

Portfolio Holder(s)

Corporate – Cllr Peter Barrowcliff

Senior Leadership Team Contact:

J Vaughan, Strategic Director

Report Author:

John Symes – Financial Resources Manager

Statutory Authority

s.151 of the Local Government Act 1972

1. Purpose of Report

- 1.1 To present an update on treasury management activity and performance for the 2015/16 financial year in accordance with the Council's treasury strategy.

2. Officer Recommendations

- 2.1 That Members note changes to the treasury portfolio.

3. Reasons for Recommendation

- 3.1 To ensure that Members are aware of developments within their remit.

4. Background Information

- 4.1 The Treasury Management Strategy has been underpinned by the adoption of the CIPFA Code of Practice on Treasury Management in Public Services. The Council is supported in this area by Arlingclose, its Treasury Management advisors, who provide expertise which the Council would not be able to resource itself.
- 4.2 The Code also recommends that members are informed of treasury management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.
- 4.3 The Treasury Management Strategy Statement for the year commencing 1st April 2015 was adopted by Council on 24th February 2015.

5. Report

5.1 Governance Structure

- 5.2 The annual Treasury Management Strategy Statement (TMSS) and annual report are considered and approved by Members. Other treasury management reporting includes a quarterly update as part of the Council's Business Review report to Executive Committee and also through the treasury management briefings which are open to all members.
- 5.3 Treasury management responsibility is delegated to Jason Vaughan, Strategic Director, in his capacity as s.151 officer in order to be able to make reasoned and timely decisions with the objective of minimising risk to Council assets and to ensure compliance with statutory requirements.
- 5.4 The latest treasury management briefings took place in July 2015, January 2016 and most recently in August 2016 to update Members on treasury management activity and will continue to meet on a regular basis. The next treasury management briefing is due to meet in January 2017 which is open to all members.

5.5 Debt Management

	Balance on 01/04/2015 £000s	Debt Repaid £000s	New Borrowing £000s	Balance on 31/03/2016 £000s	Incr/(Decr) in Borrowing £000s
Short Term Borrowing	1,350	1,350	0	0	(1,350)
Long Term Borrowing	3,525	0	0	3,525	0
TOTAL BORROWING	4,875	1,350	0	3,525	(1,350)
Average Rate %	2.78%			2.78%	

- 5.6 As at 31st March 2016 the Council's external debt stood at £3,525,000 following scheduled debt repayments of £1,350,000 in the year. Repayments in the 2016/17 financial year will total a further £1,350,000. Any early repayment of debt would incur a premium to be paid over and above the principal outstanding.
- 5.7 Interest paid in the last financial year totalled £116,147 against a budget of £117,308. Since the 1st April interest payments of £19,533 have been made.

5.8 Investment Activity

- 5.9 Both the CIPFA and DCLGs investment guidance requires the Authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.

- 5.10 The Council’s strategy for investments was based upon minimising risk and safeguarding capital. This was maintained by following the Authority’s counterparty policy as set out in its Treasury Management Strategy Statement 2015/16 which defined “high credit quality” organisations as those having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.
- 5.11 The Authority has adopted a voluntary measure in its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio, which is supplied by our advisors. This is calculated by applying a score to each investment (AAA = 1, AA+ = 2, etc) and taking an arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A-	AA

5.12 The Council held investments of £34,812,964 as at 01/04/15 with holdings of £40,762,533 by the year end. Current investments total £54,238,230 as at 31st July 2016.

5.13 Investment activity for the year included the following transactions having received external assessment and advice from the Authority’s Treasury Management adviser, Arlingclose:

- Investing £2,500,000 in the City Financial Multi Asset Diversified Fixed Interest Fund. The investment objective of the Fund is to achieve consistent long-term returns from both capital and income by investing across a diversified global portfolio of assets.
- Investing £2,500,000 in the M&G Global Dividend Fund. The fund invests globally in the shares of companies with the potential to grow their dividends over the long term. The fund manager aims to create a diversified portfolio with exposure to a broad range of countries and sectors.
- The opening and investment of £2,500,000 in Handelbanken Liquidity Account. This provides the Authority with an additional counterparty whilst providing overnight liquidity of funds.
- In the year two supranational bonds matured (IADB & CoE) totalling £2,800,000. The Authority had previously invested in further covered bonds in preparation of the maturity of these bonds.
- In March the Councils holding in the City Financial Defensive Global Bond Fund (1,312,680 shares at £989,719) was transferred to the City Financial Diversified Fixed Interest Fund having followed advice from Arlingclose. The indicative income distribution for the fund is around 3%.
- The continued use of several Money Market Funds (MMFs) in order to provide diversification of exposure and also high liquidity which helps maintain our foremost priority of capital security.
- As an indication of the level of activity investment purchases in the year totalled £119,125,000 with corresponding receipts of £113,678,000.

5.14 For the financial year ending 31st March 2016 the Council received £1,104,876 interest at an average income return of 2.34% (see appendix 1).

5.15 Further detail of the comparative treasury position as at 31st March 2016 is available at appendix 2.

5.16 Under International Accounting Standard 39 (IAS39) the Authority's investment in the WAY Charteris Gold Portfolio Fund is considered to be impaired at year end to the value of £636,609 which has been charged to external interest & other charges within the Comprehensive Income and Expenditure Statement. It is deemed impaired due to its significant fall in its price below its initial purchase price and also because the fall has been over a number of consecutive year-ends. The nominal value is £363,391.

5.17 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating of A- across rating agencies Fitch, S&P and Moody's); credit default swap prices; financial statements; information on potential government support and reports in the quality financial press.

5.18 Maturities for new unsecured investments with UK financial institutions on the Council's list are currently as follows:

UK Institutions

- Bank of Scotland, HSBC Bank and Lloyds Bank for a maximum period of **13 months**;
- Close Brothers Limited, Santander UK PLC and Abbey National Treasury Services PLC for a maximum period of **6 months**;
- Barclays Bank and Goldman Sachs International Bank for a maximum period of **100 days**;
- National Westminster Bank and Royal bank of Scotland for a maximum period of **35 days**;
- Coventry Building Society (BS) and Nationwide BS for a maximum period of **6 months**;
- Darlington BS, Furness BS, Hinckley & Rugby BS, Leek United BS, Loughborough BS, Mansfield BS, Market Harborough BS, Marsden BS, Melton Mowbray BS, National Counties BS, Newbury BS, Scottish BS, Stafford Railway BS, Tipton & Coseley BS and Leeds BS for a maximum period of **100 days**
- Standard Chartered Bank - **suspended**

5.19 Further economic background, as provided by our treasury advisor, is available at appendix 3.

5.20 Compliance with Prudential Indicators

5.21 The Council can confirm that it has complied with its Prudential Indicators for 2015/16, which were set in February 2015 as part of the Council's Treasury Management Strategy Statement.

5.22 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2015/16. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to

investment activity with priority being given to security and liquidity over yield.

6. Corporate Plan

6.1 Performance aim

7. Risk Management

7.1 Risk that ineffective governance arrangements will expose the council to significant financial or reputational risk and to the risk of non-compliance with statutory requirements.

8. Appendices

8.1 Appendix 1 – Income Return on Total Investments 2015/16

8.2 Appendix 2 – Treasury Investments: portfolio as at 31st March 2016

8.3 Appendix 3 – Arlingclose Economic Commentary

9. Background Documents (including relevant policy documents)

9.1 Treasury Management Strategy Statement and Investment Strategy 2015/16 - Full Council Agenda 24th February 2015.

<https://www.dorsetforyou.com/article/417893/Full-Council-agenda---24-February-2015>

10. Footnote

10.1 Issues relating to financial, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

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