

**Governance, Audit and Scrutiny Committee**  
**16 June 2017**

**Report by the Finance Manager**

## **TREASURY MANAGEMENT ANNUAL REPORT 2016/17**

### **REPORT EXECUTIVE SUMMARY**

This report provides Members with a review of the Authority's treasury management activity and Prudential Indicators for the year 2016/17.

The report shows full compliance with the Authority's Prudential Indicators for 2016/17.

## RECOMMENDATIONS

1. That Members take assurance from the treasury management activities undertaken during 2016/17 and the Prudential Indicators as outlined in paragraphs 12 and 13 and detailed in Appendix 1.

## BACKGROUND

2. Treasury Management, as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice 2009 is:

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

3. One of the main requirements of the CIPFA Code is that Members receive an annual report detailing treasury management activities within the year and compliance with the annual Treasury Management Policy.
4. This report provides Members with details of the Authority’s treasury management activities and Prudential Indicators for the 2016/17 financial year in line with the requirements of the Code.

## INVESTMENT ACTIVITY

5. The Authority’s temporary investments totalled £7.0m as at 31 March 2017 with a further £0.5m in the Authority’s Special Interest Bearing Account (SIBA).

Table 1 – Investment income earned 2016/17

Interest Earned 2016/17	Rate of return 2016/17	Benchmark return 2016/17*	Difference (+ favourable)
£69,181	0.222%	0.200%	0.022%

\* Benchmark set as 7 day compounded LIBID

6. Interest earned during 2016/17 was £11k lower than originally budgeted for in respect of investment activity for the year, partly as a result of lower balances due to the transfer of the remaining East Coast and Hertfordshire Control Project grant to Hertfordshire County Council as part of their role to take on the lead for the project. Pleasingly, the overall rate of return was above the benchmark rate of return.

## BORROWING

### Short-Term Borrowing

7. The Authority seeks to minimise the use of short-term borrowing to fund temporary cash shortfalls. The Authority did not undertake any short-term borrowing during the course of the year.

### Long-Term Borrowing

8. Long-term loans are taken out either to replace existing loans which have matured or to fund capital expenditure. Under the Prudential Regime there are no longer centrally imposed limits on borrowing, but individual Authorities are required to determine themselves what is a sustainable and affordable level of borrowing as an integral part of their Medium-Term Financial Planning processes.
9. The Authority's average level of borrowing was £14.8m for 2016/17, on which £656k of interest was payable. The Authority repaid £0.9m of PWLB debt upon maturity. Closing PWLB debt at 31 March 2017 was £14.4m.

### PRUDENTIAL INDICATORS

10. Appendix 1 details the agreed Prudential Indicators for 2016/17 and the actual figures for 2016/17.
11. During the financial year the Authority operated wholly within the limits approved.

### Capital Expenditure

12. The S.151 Officer considers the current capital programme to be affordable and sustainable with the revenue effects of capital investment built into the Medium-Term Financial Plan. Through the Medium-Term Financial Planning Process, the Authority has aligned its resources to key strategic priorities.

### Treasury Management

13. Based on the Operational Boundary definition, external debt at 31 March 2017 was £7.5m below the agreed Operational Boundary for 2016/17 and the maturity structure for both borrowing and investments remain within the approved upper and lower limits. Subsequent borrowing or re-scheduling during 2017/18 will take in to account prevailing interest rates on offer from the Public Works Loans Board, the current maturity structure of loans, balanced with the need to reduce capital risk by keeping down cash-balances.

### STRATEGIC PLAN COMPATIBILITY

14. Treasury management is an integral part of the financial management of the Authority. Utilising approved borrowing and investment strategies will maximise investment income whilst minimising exposure to liquidity and market risks.

### FINANCIAL/RESOURCES/VALUE FOR MONEY IMPLICATIONS

15. The continued approach to investment of surplus funds is designed to further mitigate against potential losses as a consequence of counterparty failure and reflects a prudent approach to treasury management activity.

### LEGAL IMPLICATIONS

16. The Authority must comply with the requirements of the CIPFA Code of Practice on Treasury Management and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. This report ensures such compliance.

### EQUALITY IMPACT ASSESSMENT/HR IMPLICATIONS

17. No direct issues arise from this report.

## CORPORATE RISK MANAGEMENT IMPLICATIONS

18. The application of and regular monitoring thereafter of a prudent Treasury Management Policy and related Prudential Indicators ensures that the Authority effectively manages financial risks whilst minimising borrowing costs and maximising investment income. It is therefore key to good financial management and an important element of the Medium Term Financial Planning Process.

## HEALTH AND SAFETY IMPLICATIONS

19. No issues arising.

## COMMUNICATIONS ACTIONS ARISING

20. No direct issues arising.

## DETAILS OF CONSULTATION AND/OR COLLABORATION

21. The Authority's treasury management strategy has been developed using market information and specialist advice supplied by the Authority's treasury management advisors.

## BACKGROUND PAPERS

22. 'Treasury Management and Capital Expenditure Prudential Indicators, Treasury Management Policy Statement 2016/17 and Minimum Revenue Provision (MRP) for 2016/17' – Report to Fire Authority March 2016.  
CIPFA Code of Practice on Treasury Management 2009

## RECOMMENDATION RESTATED

23. That Members take assurance from the treasury management activities undertaken during 2016/17 and the Prudential Indicators as outlined in paragraphs 14 and 15 and detailed in Appendix 1.

**M RANSOM**

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