

**TREASURY MANAGEMENT : YEAR END PERFORMANCE 2016/17**

<u>Report of the:</u>	Head of Financial Services
<u>Contact:</u>	Lee Duffy
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
<u>Annexes/Appendices</u> (attached):	<b>Annexe 1</b> – Treasury Management Review 2016/17 <b>Annexe 2</b> – Prudential Indicators 2016/17
<u>Other available papers</u> (not attached):	Fund Manager Performance Reports 2016/17 and Final Accounts Working Papers 2016/17.

**REPORT SUMMARY**

**This report reviews the performance of the council's treasury management function in 2016/17**

**RECOMMENDATION (S)**

**That the Committee:-**

- (1) receives the report on the Council's treasury management investment performance 2016/17;**
- (2) approves the actual 2016/17 prudential indicators.**

**1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy**

- 1.1 Income earned from investments is used to help finance Council's services. The Treasury Management Statement sets out the strategy and procedures that are adopted by the Council to manage the investment of reserves and provisions and cash flow.

**2 Introduction**

- 2.1 A review of treasury management performance and activity is prepared on an annual basis. This is completed in line with Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Sector and the Treasury Policy Statement and Procedures approved by this Committee.

- 2.2 The reporting requirements of the annual performance review meet the requirements of the CIPFA Prudential Code.

### **3 Background**

- 3.1 The Council, as part of its financial strategy, maintains revenue reserves and provisions. It also retains cash balances from other sources such as S106 funds and creditors which are available for investment. Therefore, the level of funds available for investment will be in excess of the amounts held in reserves and balances (as set in the table in paragraph 11.4 of the Final Accounts report).
- 3.2 For several years the main part of the Council's cash balances have been invested with external fund managers who use their expertise to invest on the money market to achieve maximum returns within defined risk parameters. The Council currently uses one external fund manager, Aberdeen Asset Management and at the end of March 2017 the Council had £12.5 million invested with this fund manager.
- 3.3 Internally managed balances (managed by the Finance Team) can be invested in long term gilts or deposits with a balance retained to meet short term cash flows invested in temporary loans or Money Market Funds. At the end of March 2017 the Council had £16.4 million held in short term deposits of less than one year duration remaining.
- 3.4 As a result at the end of 2016/17 the Council had a total of £28.9 million invested.
- 3.5 The Council as at the end of 2016/17 had external debt of £19.1 million. The funding acquired from PWLB was used to finance the acquisition of two commercial properties.
- 3.6 The Committee will note that the Pension Fund does not form part of the Council's investments and is managed on our behalf by Surrey County Council.
- 3.7 The aim of treasury management is to ensure that funds are invested with institutions that balance the need to maximise investment returns with that of minimising risk on the monies invested. This means not investing in banks/building societies that are offering high investment returns but are at high risk of defaulting.

### **4 Performance Review**

- 4.1 A report on Treasury Management performance for 2016/17 is attached to this report at Annexe 1.
- 4.2 No temporary borrowings were required in 2016/17 except use of the Council's bank overdraft facility.

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- 4.3 The average return achieved for 2016/17 of 1.02% compares favourably with the benchmark seven day London Interbank Bid (LIBID) rate of 0.20%. This amounted to total income for the year of £347,000, generated on reserves, working balances and cash flow.
- 4.4 The final outturn position shows an increase in income by £52,000 on what was reported in the half year report which went to Financial Policy Panel in October 2016, at this stage where it was anticipated that income from investments would be £295,000 at the end of the year.
- 4.5 The performance for 2016/17 on the Council's investments was as follows:

	Average Investment	Interest Received	Average Rate of Return
Internally Managed Funds	£'m	£'000	%
Money Market Funds	3.7	17	0.47
Interest Bearing Account	0.4	1	0.26
Fixed Rate Deposits	14.2	164	1.16

Externally Managed Funds			
Aberdeen Asset Management	15.7	165	1.05
<b>Total</b>	<b>34.0</b>	<b>347</b>	<b>1.02</b>

- 4.6 Returns on investments for 2016/17 were £127,000 more than the budgeted income for the year and the average annualised return on investments was 1.02%.
- 4.7 Epsom and Ewell Borough Council has achieved this performance by following the strategy of investing its long to medium term funds in 1 year fixed term deposits and with its external fund manager, Aberdeen Asset Management and keeping its short term funds mainly in money market funds or in an interest bearing instant access account.

## 5 Internally Managed Funds

### Money Market Funds

- 5.1 Money market funds are pooled investments that allow instant access to withdraw monies. The benefit of MMFs is that the risk on the investment is very low as the money invested in the fund is spread across a range of counterparties, which limits the exposure of a significant sum be invested with a defaulting counterparty.

- 5.2 The return made on money market funds of 0.47% compared favourably to the benchmark of 0.20%. Investment in money market funds has been limited to short term investments from surplus funds which can be called back with no notice required.

#### **Interest Bearing Account**

- 5.3 Interest bearing accounts offer the same instant access as the money market funds and deliver a rate of return linked to base rate set by the Bank of England.
- 5.4 The risk on these investments is higher than the money market funds as money is deposited with one counterparty. Funds invested in this type of investment tend to be surpluses of daily cash flows which need to be called back at short notice.
- 5.5 The return made on interest bearing accounts of 0.26% compared to the benchmark of 0.20%.

#### **Fixed Interest Investments**

- 5.6 The Council currently has five fixed term deposits of £2,500,000 all in 1 year fixed rate deposits and maturing during 2017/18.
- 5.7 The current strategy and guidance obtained from our independent advisors is to limit fixed term investments to a period of one year.
- 5.8 The return made on these investments is 1.16% compared to the benchmark of 0.20%.

### **6 Externally Managed Funds**

- 6.1 Our external fund manager delivered returns of 1.05% for 2016/17 which compares to 0.76% for 2015/16. Returns have remained at historically low levels since October 2009 as opportunities for delivering significant returns have become very limited.
- 6.2 The Council continues to invest a significant element of its medium to long term funds with Aberdeen Asset Management. The main benefit to the Council of using external fund managers is it minimises the Council's risk, as the funds invested with Aberdeen Asset Management are spread across a wide portfolio of financial institutions. This results in the overall exposure to a potential defaulting bank being limited to a small percentage of the overall holding.

### **7 Financial and Manpower Implications**

- 7.1 In line with previously agreed policy, income is credited to revenue reserves, trust funds and other accounts based on the total return for the year. In summary, income was credited to the following accounts:

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	£'000	Purpose
General Fund Revenue Account	268	Used to maintain low Council Tax and finance services
Hospital Cluster Interest Reserve	2	Contingency for funding Hospital Cluster works
Repairs and Renewals Fund	5	Used to fund the replacement of equipment
Insurance Reserve	5	Used to fund self-insured losses (sums below excess)
Hospital Cluster Commuted Sums	39	Used to fund maintenance costs
Property Maintenance Reserve	2	Used to fund backlog property repairs
Corporate Project Reserve	18	Provision for any high priority projects
Community Safety Partnership Fund	1	Used to finance community safety projects
Other Reserves / Accounts	7	Nonsuch Park Joint Management Committee and Epsom, Walton Downs Conservators, trust funds and bonds held.
<b>Total Interest Applied</b>	<b>347</b>	
<b>Funded by :</b>		
Interest from investments	347	
<b>Total Funding</b>	<b>347</b>	

## 8 Interest Equalisation Reserve

- 8.1 The interest equalisation reserve was set up to enable variations in investment returns to be accommodated within the general fund budget without having an adverse effect on the levels of funds available for the delivery of services in year.
- 8.2 With base rates and investment returns remaining at historically low levels for a prolonged period and with no immediate sign of these increasing, the funds in this reserve are under increasing pressure.
- 8.3 The overall balance on this reserve as at the end of the financial year remains at £631,000. However, the budget for 2017/18 agreed a drawdown of £52,000 from this reserve to fund services.

## 9 Prudential Indicators

- 9.1 In accordance with the requirements of the Prudential Code, the end of year indicators for 2016/17 are supplied in Annexe 2.

## **10 Legal Implications (including implications for matters relating to equality)**

- 10.1 ***Monitoring Officer's comments:** The legal issues around Treasury Management have been picked up in the body of the report. The key issue is to appropriately manage the risks around investment, and to ensure that all decisions are taken in accordance with the established governance arrangements.*

## **11 Risk Assessment and Conclusion**

- 11.1 Investment performance exceeded the benchmark level in 2016/17. The appointed external fund manager, Aberdeen Asset Management, performed well against the benchmark.
- 11.2 The Strategy and Resources Committee approved the Treasury Management Strategy for 2016/17, which includes a risk management approach to investment of funds and returns.
- 11.3 Interest rates continue to remain at historically low levels and are not expected to rise until at least the end of next year. The Council is still following a policy of restricting the length of investments, which reduces the risk of loss of capital invested and investments being tied in at lower rates when interest rates start to increase. However, this reduces the level of return that can be achieved on investments.
- 11.4 The Council's externally managed investments of approximately £12 million are held within a pooled fund, valued at around £1 billion, in contrast to previous holdings in specific institutions. This spreads the risk across a much wider number of holdings and reduces the level of fluctuation of the fund throughout the year.
- 11.5 It is currently envisaged that the fund manager will be able to achieve investment returns at around 0.9% for 2017/18; this compares to an anticipated return built into the budget of 1.25%.
- 11.6 Any Councillors who have any questions on the treasury management performance for 2016/17 are requested to contact the Head of Financial Services prior to the meeting.

**WARD(S) AFFECTED: (All Wards);**