



**LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW**

*(papers relied on to write the report but which are not published and do not contain exempt information –*

1. Medium Term Financial Plan – Council 24 February 2016.
2. Treasury Management Performance 2016/17 - Council 23 November 2016/ Audit and Governance 13 December 2016.
3. Medium Term Financial Plan – Council 22 February 2017.

**OTHER HELPFUL PAPERS**

*(papers which the report author considers might be helpful – this might include published material)*

- 1.
- 2.
- 3.

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## **1. INTRODUCTION**

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- 1.1 The treasury management service is an important part of the overall financial management of the Council's affairs, is strictly regulated by statutory requirements which leans on a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities (the Code), at Council on 25 February 2015.
- 1.2 The code requires the setting out of responsibilities and duties of the members and officers, allowing a framework for reporting and decision making on all aspects of Treasury Management. This information is held in a Treasury Management Systems Document, which is a requirement of the above Code of Practice. It is held in Financial Services and is an up to date record of the Treasury Management Systems and Operations.
- 1.3 The Section 151 Officer reports to Executive as part of the quarterly budgetary control report on treasury management activities.
- 1.4 Council approved the Treasury Management Policy Statement, Borrowing Limits and Annual Investment Strategy 2016/17 as part of the Medium Term Financial Plan on 24 February 2016.
- 1.5 The approved activities of the Treasury Management operation are as follows:
  - 1.4.1 Borrowing funds and interest rate exposure management
  - 1.4.2 Debt repayment and rescheduling
  - 1.4.3 Investing surplus funds
  - 1.4.4 Use of external managers for temporary investment of funds
- 1.6 This report outlines what happened in relation to each of these four elements of the approved strategy for the period 1 April 2016 to 31 March 2017.
- 1.7 Following a review of the borrowing requirement the report also requests an increase to the Authorised Borrowing limit for 2017/18.

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## **2. BACKGROUND**

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- 2.1 Executive on 13 March 2012 agreed that the Council would have two borrowing pools, one for General Fund (GF) and one for the Housing Revenue Account (HRA) and that all the Council's current debt as at 31 March 2012 would be allocated to the HRA. All future borrowing will be ringfenced to the GF or HRA as appropriate.
- 2.2 Over the last six years the Council has had a risk averse strategy to investments with most funds being held in instant access accounts. With the rates on these accounts falling and more confidence in the market, the Council has undertaken a number of fixed term investments. These fixed term investments have been spread out, to further minimise risk and so they do not all mature at once. All fixed term investments are approved by the Section 151 Officer in consultation with the Finance Portfolio holder before they are undertaken.

- 2.3 Council sets the investment limits for individual organisations as part of the Medium Term Financial Plan for the year. The Section 151 Officer sets operational limits within these parameters.

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### **3. POLICY CONTEXT**

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- 3.1 The Treasury Management Policy Statement, Borrowing Limits and Annual Investment Strategy was approved for 2016/17 on 24 February 2016 and set the parameters the Council can work within for certain items, such as the authorised limit for borrowing and the counterparties the Council can invest with and the maximum amount that can be invested with one counterparty.

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### **4. RISK MANAGEMENT**

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- 4.1 The security and return of investments is the biggest priority due to the current economic circumstances. As a general rule the more security an investment, the lower the interest rate. All investments in 2016/17 have been returned when they have been due.

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### **5. PERFORMANCE MONITORING**

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- 5.1 For the first time in seven years on 3 August 2016, there was a movement in the base rate, when the Monetary Policy Committee (MPC) cut the rate from 0.50% to 0.25%. On the back of this interest rate cut, the Council has seen the interest rate on two of its instant access accounts and its notice accounts reduced. Also the levels for new fixed term investments have fallen and economists have revised their forecasts downwards for short term interest rate levels.
- 5.2 The GF had a Capital Financing Budget of £2,189,470 for 2016/17 and actual expenditure was £2,189,547.
- 5.3 The HRA had a Capital Financing Budget of £6,817,700 for 2016/17 and actual expenditure was £6,667,075. The main reason was the Council using internal balances rather than borrowing.
- 5.4 Investment income of £302,360 was budgeted for in 2016/17 and actual income was £327,388. The main reason for this was higher cash balances than expected.
- 5.5 The Council has undertaken a risk reduction strategy since the beginning of 2009, by repaying high rate borrowing and thereby reducing low income investments. The Council did not undertake any further borrowing during 2016/17, but has repaid a further £3.216m of debt. An analysis of the Council debt movements between 1 April 2016 and 31 March 2017 is shown at **Appendix A**.
- 5.6 The Council had a more proactive approach during 2016/17 and looked to place more fixed term investments to take advantage of higher rates. As at 31 March 2017, the Council had £23m of fixed term investments. An analysis of the Council's fixed term investments as at 31 March 2017 is shown at **Appendix B**.
- 5.7 For working capital, the Council uses Instant access accounts and Money Market Funds (MMF's). As at 31 March 2017, the Council had £1.690m of investments spread over these types of Investments. The Council only started using MMF's during 2015/16, and the interest rates obtained are slightly higher than on the Council's Instant access accounts. The other advantage of using MMF's is that it gives the Council more scope to place investments with other counterparties on the Council's approved investment list.

- 5.8 The Council also has two notice accounts with Santander. As at 31 March 2017, the Council had £7m in the 180 day notice account. An analysis of the Council's Instant access accounts, MMF investments and notice accounts is shown at **Appendix C**.
- 5.9 Temporary lending to Ipswich Borough Assets (IBA) Ltd is being made from balances, instead of incurring external borrowing costs, as this maximises the financial benefit to IBC of the transactions. As at 31 March 2017 the Council had made loans to IBA of £10.348m.
- 5.10 Councillors and Senior Officers continue to review the Council's Investment Strategy to see if further value can be gained.

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## **6. 2017/18 BORROWING LIMITS**

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- 6.1 The Council is still looking to generate investment income and promote economic activity in Ipswich through the Council's capital programme and the Council's arms length companies.
- 6.2 As part of the 2017/18 Medium Term Financial plan agreed by Council in February 2017 a borrowing limit of £195m was agreed for 2017/18 as this is a requirement under the 2003 Local Government Act. Any changes to the limit need to be agreed by Council.
- 6.3 To ensure further activity can take place when opportunities arise, it is proposed that the Council's authorised borrowing limit is increased to £350m for 2017/18, to ensure the Council has the necessary headroom to act during 2017/18. The limit will be reviewed as part of the preparation for the 2018/19 Medium Term Financial plan.
- 6.4 The actual decision to borrow will only be taken by the Section 151 officer after a thorough financial evaluation and proper appraisal of risk. Lending to Ipswich Borough Assets for example is conditional on a "charge" being placed on the property being acquired providing the Council with appropriate security for its lending. Where a wholly owned Council company such as Ipswich Borough Assets asks the Council for funding this will only be agreed by the Section 151 Officer in consultation with the Leader and the Portfolio Holder for Resources (as per Executive authorisations) and will only be considered if:
- The borrowing is secured against assets
  - There will be a net investment return to the Council

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## **7. CONCLUSIONS**

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- 7.1 The economic conditions are still volatile and security of the Council's assets should continue to be the Council's prime objective.
- 7.2 All future quarterly budgetary control reports will include wider performance monitoring information on Treasury Management activities in line with the information included within this report.

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## **8. RECOMMENDED: -**

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- 8.1 **that the Treasury Management Operations for the period 1 April 2016 to 31 March 2017 be noted.**
- 8.2 **that the Authorised Borrowing Limit be increased from £195m to £350m for 2017/8.**