REPORT TO:	**CABINET**
DATE:	**11 SEPTEMBER 2014**
TITLE:	**ANNUAL TREASURY MANAGEMENT REPORT FOR 2013/14**
PORTFOLIO HOLDER):	**COUNCILLOR MIKE DANVERS**
LEAD OFFICER:	**SIMON FREEMAN, HEAD OF FINANCE (01279) 446228**
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This is not a Key Decision
This decision is not subject to Call-in procedures for the following reasons:
The decision is a recommendation to Council.
This decision will affect no ward specifically.

RECOMMENDED that the annual Treasury Management Report for 2013/14 is recommended to Full Council for approval.

REASON FOR DECISION

A Accounting Codes of Practice require that Full Council receives an annual report on the Council's treasury management functions, which should also be reviewed by the Cabinet.

B The Prudential Indicators are also required to be reported to Full Council. These are included within the Annual Treasury Management Report.

BACKGROUND

1. Treasury management is defined as "the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2. On 10 February 2010, Full Council adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management (as revised November 2009) – "the Code".

3. During 2013/14 the minimum reporting requirements were that Full Council

should receive the following reports:

- An annual treasury strategy in advance of the year (Full Council, 7 February 2013)
- A mid-year treasury update report (Full Council, 19 December 2013)
- An annual review following the end of the year describing the activity compared to the strategy (this report).

4. The annual report for 2013/14 has been produced in compliance with the Code and is set out in Appendix A to this report. The regulatory environment governing treasury management places greater onus on Councillors for the review and scrutiny of treasury management policies and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Councillors.

ISSUES

5. As a steward of public finance, the Council will continue to take all practical steps to protect its investment portfolio. In this respect, emphasis remains in this order of priority: security, liquidity and yield.

6. Security is defined as "reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments". In practice this means placing investments with organisations which have a high quality credit rating, i.e. banks and other bodies which have a Fitch rating of A(-) and above. Particularly noticeable, during 2013/14, although the Cooperative Bank continued to provide banking services to the Council, its financial situation (see Appendix A paragraphs 6 and 33 - 35) caused the Council to cease holding more than minimal amounts with the Bank overnight and making contingency plans in the event of bank failure. In addition, following alerts by its treasury management advisors, Arlingclose, the Council reduced and subsequently ceased to invest with the RBS Group last summer when its credit rating slipped below the Council's threshold.

7. Liquidity means "ensuring that investments are not committed for excessive time-periods in order to facilitate the Council's cashflow requirements and to reflect the risk of not having immediate access to funds". Councils are discouraged from investing disproportionate sums of money for long periods of time at what seem attractive rates of return. The Council has extended its cash flow forecasting over the past year so is able to make better judgements on investments (see Appendix A, paragraphs 36 and 37).

8. Yield is defined as "obtaining a reasonable return on investments". Once again 2013/14 has been a year of continued low and declining interest rates. The Bank of England's Base Rate remained at 0.5% whilst inter-bank lending

fell slightly. The new Governor of the Bank of England announced in August 2013 an expectation that rates would not rise until 2016 (Appendix A, paragraph 11). This was a signal for continued suppressed rates of return. The Council has attempted to gain the best yields without compromising security and liquidity (see Appendix A, paragraphs 38 – 40).

IMPLICATIONS

Regeneration (includes Sustainability)
None specific.
Author: **Graeme Bloomer, Head of Regeneration**

Finance (Includes ICT)
As contained in the report.
Author: **Simon Freeman, Head of Finance**

Housing
None specific.
Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)
None specific.
Author: **Lynn Seward, Head of Community Wellbeing**

Governance (includes HR)
None specific.
Author: **Brian Keane, Interim Head of Governance**

Appendices
Appendix A – Annual Treasury Management Report 2013/14

Background Papers
Treasury Management Strategy 2013/14

Glossary of terms/abbreviations used
CIPFA - Chartered Institute of Public Finance and Accountancy

A full glossary of terms used in the Treasury Management Report is included at Annex C (page 16) of the Report.