

REPORT TO: CABINET

DATE: 15 SEPTEMBER 2016

TITLE: ANNUAL TREASURY MANAGEMENT
REPORT FOR 2015/16

PORTFOLIO HOLDER): COUNCILLOR MIKE DANVERS

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**CONTRIBUTING
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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 stands as a recommendation to Council.**

This decision will affect no ward specifically.

RECOMMENDED that:

- A** Cabinet notes the annual Treasury Management Report for 2015/16 (Appendix A), including that the Council operated within the Treasury Management Strategy Statement during 2015/16, and that the report is recommended to Full Council for approval.
- B** Cabinet notes the issues that the outcome of the EU Referendum is creating and their impact on the Council's treasury management activities.

REASON FOR DECISION

- A** In complying with latest Codes of Practice, Full Council is required to receive an annual report on the prior year's treasury management functions of the Council, which should also receive review by Cabinet in advance of its presentation to Full Council.
- 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 local authority’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 2015/16 the minimum reporting requirements were that Full Council should receive the following reports:
 - An annual treasury strategy in advance of the year (Full Council, 5 February 2015)
 - A mid-year treasury update report (Full Council, 17 December 2015)
 - An annual review following the end of the year describing the activity compared to the strategy (this report).
4. The annual report for 2015/16 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 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 stewards of public funds, 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.
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.

8. Yield is “obtaining a reasonable return on investments”. Once again 2015/16 has been a year of continued low interest rates and The Bank of England’s Base Rate remained at 0.5%. The Council has attempted to gain the best yields without compromising security and liquidity. The average rate achieved was 0.608%.
9. The EU Referendum vote for “Brexit”, together with the recent announcement that the Bank of England has reduced the base rate to 0.25%, is impacting on the Council’s treasury management activities and adding further uncertainty to money market activities during 2016/17. The market experts remain uncertain of the outcomes for long-term interest rates, exchange rates, budget cuts and bank defaults at the current time.
10. In response to this situation, and in order to provide reassurance to Councillors, the Council will proceed in its treasury activity with great caution and will continue to maintain particular emphasis on its key priority of investment security. The Council will continue to operate within the remit of the approved Treasury Management Strategy Statement (TMSS) and will use the lending list of approved institutions provided by the Council’s treasury advisors, Arlingclose. This lending list is regularly updated and amended by Arlingclose in response to changes in the status and ratings of institutions and in response to forecasts and events occurring within the markets. As a result the lending list has suffered reductions in the options available for investing the Council’s cashflow balances, as well as shortening of investment periods and investment limits, particularly following events and market concerns since the “Brexit” result.
11. The advice from Arlingclose is that the Council must aim towards a good investment spread as this is the best defence to protect the Council from a possible capital loss. As a result, the Council now holds investments in Certificates of Deposit (CDs), the CCLA (the Local Authority property fund), Money Market Funds, fixed and variable investments and the Treasury’s DMO. Looking forwards, other investment vehicles will be considered that meet the security requirements of the TMSS whilst offering yet further investment opportunities and flexibility.
12. In order to further protect the Council’s investment options, it may also be necessary to review some of the investment parameters within the TMSS (for example investment limits) if there are indications that future market events may constrict the lending list beyond what is manageable within the Council’s treasury operations. In such an eventuality, this will either be picked up by the routine mid-year review of the TMSS or would necessitate a further interim report to Cabinet and Council, possibly following any necessary decisions required to be made by the Head of Finance in conjunction with the Corporate Management Team and Portfolio Holder to enable the safe deposit of Council Investments. Meanwhile, the treasury management activity

remains controlled by and is forecast to operate within the approved TMSS for 2016/17.

IMPLICATIONS

Place Services

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: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)

None specific.

Author: **Brian Keane, Head of Governance**

Background Papers

Treasury Management Strategy 2015/16

Glossary of terms/abbreviations used

None