



PAPER C

Purpose: For Noting

Committee report

Committee	AUDIT COMMITTEE
Date	25 JUNE 2015
Title	TREASURY MANAGEMENT ANNUAL REPORT 2014-15
Report of	HEAD OF FINANCE AND SECTION 151 OFFICER

EXECUTIVE SUMMARY

1. In accordance with the council's Treasury Management Strategy 2014-15, this report presents the committee with the annual report on treasury management policies, practices and activities for the financial year 2014-15.
2. In December 2014, the committee received the half-year progress report on treasury management activities. This report updates the previous report, and includes additional information required for the annual report.
3. The council's activities have fallen within the boundaries of the prudential indicators set for the year:
 - (a) Due to continuing low interest rates, and the strategy to undertake short-term borrowing, the council has incurred lower than forecast costs of borrowing for the year, contributing positively to the overall out-turn.
 - (b) Due to continuing low interest rates, a prudent investment strategy and reduced surplus funds for investment, the council has attracted lower than average returns on its investments, against the Arlingclose client universe.
4. The council undertook one investment which falls under the definition of a non-scheduled investment in accordance with the 2014-15 treasury management strategy, and hence needs reporting to the committee:
5. During the period between Christmas 2014 and New Year 2015, when council offices are closed for business, the council deposited £6,025,000 in an instant access account with National Westminster Bank (its main banker) for a period of two days. This was outside the parameters for a scheduled investment, as defined within the treasury management strategy as follows:

- (a) Paragraph 4.1.3.2 states that the council may invest with institutions with a minimum credit rating of A-. At the time of the investment National Westminster Bank had a credit rating of BBB+, and was suspended from the approved investment counterparty list of Arlingclose Limited, the council's treasury management advisers.
 - (b) Paragraph 9.1.2 of Schedule 9.1 *Approved Investment Counterparties* specifies that the council may invest with its current account bank if it fails to meet the minimum credit rating criteria, up to a maximum of £5 million.
6. The decision to invest this sum for this period was discussed with, and approved by, the head of finance and section 151 officer in advance of the Christmas break, having sought advice from Arlingclose Limited, the council's treasury management advisers.
7. The committee is asked to consider the report and highlight any areas which may need to be addressed in the forthcoming year.

BACKGROUND

8. The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management ("the code"), which requires authorities to produce annually prudential indicators and a treasury management strategy statement on the likely financing and investment activity. The code also recommends that members are informed of treasury management activities at least twice a year.
9. This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA code and the Department for Communities and Local Government's (CLG's) Investment Guidance.
10. The code of practice defines treasury management 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.
11. The code of practice requires that a report be provided on the actual performance of the council against the following prudential indicators at the end of each financial year:
 - Ratio of financing costs to net revenue stream.
 - Actual capital expenditure.
 - Actual capital financing requirement.
 - Actual external debt.

12. Detailed information on the council's performance against all of these indicators is set out in Appendix B to this report.

STRATEGIC CONTEXT

13. The council's arrangements for treasury management support effective service and project delivery across the authority, in turn supporting the key priorities set out in the [Corporate Plan 2015-17](#).
14. There is a need for regular review of the Treasury Management Strategy, in line with the Corporate Plan and Medium Term Financial Strategy, to ensure the key priorities of the council continue to be deliverable within the reduced resources available to the council.

CONSULTATION

15. There has been no external consultation in respect of this document, nor is it considered necessary.
16. This report has been discussed with the treasury management group which meets on a monthly basis, to review treasury management issues arising. The group comprises the head of finance and section 151 Officer, the finance manager – resources, the technical finance officer and three principal accountants.

FINANCIAL / BUDGET IMPLICATIONS

17. The council's current treasury management arrangements are conducted by council staff within existing budgets.
18. The treasury management strategy includes the overall management of the council's cash flow and borrowing strategy. With interest rates low, the strategy has been to avoid long-term external loans (with interest rates at in excess of four per cent) and take short-term loans when needed (with interest rates of below one per cent). This has generated significant savings as part of the budget strategies over recent years.
19. At the December 2014 meeting, the committee received a report which showed savings in borrowing costs for the half year to 30 September 2014 of £129,000.
20. As at 31 March 2015, the total savings had increased to £156,000 for the year, which contributed to the overall financial result of the council. This is after taking account of interest on highways PFI project reserves, held to finance the costs of later years' expenditure.

LEGAL IMPLICATIONS

21. Failure to provide this information will mean that the council is in breach of the requirements set out in the CIPFA Code of Practice for Treasury Management 2011, and the council's approved treasury management strategy 2014-15.

22. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 explicitly require English authorities to “have regard” to the code.

EQUALITY AND DIVERSITY

23. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it.
24. Initial screening has indicated that there are no specific equality and diversity issues arising from the content of this report.

RISK MANAGEMENT

25. Treasury management activities have a high level of risk in that they relate to transactions that can amount to several million pounds which are undertaken with external bodies. When the council has surplus monies to invest, there are risks if those organisations to whom it lends default on repayment. The costs to the council of its treasury management activities are dependent on fluctuating interest rates.
26. The overall strategy of borrowing short-term and avoiding long-term debt carries the risk that, if interest rates suddenly rise, when longer term debt is eventually required, it will cost more.
27. The council manages these risks by adopting a treasury management strategy which includes maintaining a limited list of organisations to whom it is authorised to lend, and restricting the maximum amount to be invested with each organisation, based on advice obtained from its external treasury management advisers, Arlingclose Limited. It also operates protocols for maintaining financial controls.
28. There is also a treasury management group which meets on a monthly basis to review activities, and make decisions regarding borrowing requirements, changes to the approved lending and borrowing lists, and any other strategic treasury management decisions. The members of the treasury management group are listed in paragraph 16 of this report.
29. Although there is no statutory requirement to comply with the code, the council is obliged under section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs. Failure to comply with the code could result in adverse comments being raised by the council’s external auditors.
30. The committee’s overview of the council’s treasury management arrangements plays an important part in the council’s overall governance regime. It has an important role to play in the monitoring of treasury management activities, including overview of the risks faced by this function

both internally, which are directly controllable through segregation of duties and reporting arrangements, and externally, controllable through the monitoring of counterparties and lending limits, and also regular monitoring of general economic factors.

EVALUATION

31. The council's treasury management activities for 2014-15 have fallen within the boundaries of the agreed strategy for 2014-15, taking into account the non-specified investment as reported in paragraphs 4-6 above.

RECOMMENDATION

32. That the committee considers the performance for the year ended 31 March 2015 against the prudential indicators and highlights any issues arising that need to be addressed in 2015-16.

APPENDICES ATTACHED

33. [Appendix A](#) – Performance report.
[Appendix B](#) – Prudential indicators.
[Appendix C](#) – External context – overview provided by Arlingclose Limited.
[Appendix D](#) – Glossary of terms.

BACKGROUND PAPERS

34. [Treasury Management Strategy 2014-15](#) (Audit Committee 30 January 2014, Paper F)
35. [Treasury Management 2014-15 – Half year report](#) (Audit Committee 11 December 2014, Paper I)
36. CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)
http://www.tisonline.net/localauthorityaccounting/content/Treasury_Code_2011.pdf

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