

**ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY
2017/18 AND ANNUAL INVESTMENT STRATEGY 2018/19**

Presented by the Director of Finance & Resources

EXECUTIVE SUMMARY

This report provides a summary of treasury management activity during 2017/18 and seeks approval to the investment strategy and target rate of return for (2018/19).

RECOMMENDATIONS

- Members Note: (1) treasury management activity during 2017/18;
- Members Approve : (2) the Annual Investment Strategy set out in Appendix A to this report;
- (3) a target rate of return of 0.75% on investments in 2018/19, as detailed in paragraph 20 of this report; and
- (4) that the Levy Strategy Working Group review the existing Treasury Management Policy in terms of investment risk and related returns.

BACKGROUND

- 1 Treasury management is the management of the Authority's cash flows, banking and investment decisions and the effective control of the risks associated with those activities; with the aim of optimising performance/returns whilst minimising the associated risks.
- 2 This report looks at the Authority's performance over the past year and proposes an Annual Investment Strategy and a target rate of return for investments for 2018/19.

ANNUAL PERFORMANCE

- 3 Treasury management activity is governed by the Authority's Treasury Management Policy which has the aim of managing risk, avoiding volatility and optimising returns, while maintaining a high degree of accessibility from the

accounts to enable the cash requirements of the Authority to be met. Members of the Authority last reviewed and approved the Treasury Management Policy in July 2015 (Paper A/4214/15).

- 4 Capital investment in the current year has been funded from the Authority's accumulated cash balances and, as a result, no new external long term borrowing has been undertaken.
- 5 External borrowing at 31 March 2018 totalled £0.
- 6 The Authority's cash position is reviewed on a daily basis and funds are invested or withdrawn as necessary in order to minimise the level of un-invested cash/bank overdraft.
- 7 During the course of this year around 260 transactions have been completed, mainly through the Special Interest Bearing Account (SIBA) of the Authority's current bankers (Nat West).
- 8 No short term borrowing has been required during 2017/18. Short term investments have ranged in size from £10,000 to £3 million; and from periods of one day to 12 months. Interest earned in 2017/18 will total £66,811.

ANNUAL INVESTMENT STRATEGY 2018/19

- 9 In 2004 the Department of Communities and Local Government issued Guidance on Local Government Investments for local authorities in England and this was updated in 2010. The Local Government Act 2003 requires the Authority to have regard to this guidance and any subsequent guidance received from the Secretary of State.
- 10 Central to the guidance is an Annual Investment Strategy (AIS) that each authority must produce and approve. Key to that strategy should be the principal of security, liquidity and then yield.
- 11 The AIS sets out the general policy objective for investments, the procedures for determining which investments in the specified and non-specified categories the Authority will use in the forthcoming financial year, and the maximum periods for which funds may be committed in each asset class.
- 12 Attached at Appendix A to this report is the Annual Investment Strategy for 2018/19 for Members consideration and approval. Definitions for specified and non-specified investments are also set out in Appendix A.

2016/17 INVESTMENT PORTFOLIO

13 Short to Medium Term Investments

The Authority uses an investment firm (Tullet Prebon) to invest funds, in line with the Treasury Management Policy in the short to medium term (up to 2 years) at the best achievable rate. The sums currently invested are:

- Skipton Building Society (4th largest) £2.0m @ 0.53% for 6 months;
- Skipton Building Society (4th largest) £2.2m @ 0.80% for 1 year;
- Principality Building Society (6th largest) £3.1m @ 0.75% for 9 months;
- West Bromwich Building Society (7th largest) £1.1m @ 0.66% for 6 months.

14 Day to Day Investments

These are managed on a day to day basis with the Authority's bankers, Nat West. Surplus funds are moved on a day to day basis between the current account and a SIBA, currently achieving a rate of 0.15%. Funds currently stand at approximately £3.0 million.

2017/18 INVESTMENT PERFORMANCE

- 15 At this time last year (Paper E/497/17) Members of this Committee agreed to a target return on investments of 0.6% for 2017/18. The main accounts achieved the following:

| Account | Period of Investment | Average Interest Rate Achieved During 2016/17 | Average Interest Rate Achieved During 2017/18 |
|------------------|----------------------|---|---|
| | | % | % |
| Nat West SIBA | On-Call | 0.25 | 0.05 |
| Principality BS | 9 months | 0.93 | 0.73 |
| Skipton BS | 6 – 12 months | 1.05 | 0.65 |
| West Bromwich BS | 1 – 9 months | 0.75 | 0.56 |
| Weighted Average | | 0.81 | 0.56 |

- 17 The Authority's average rate of investment return for 2017/18 was 0.56% (0.6% target rate). The Bank of England base rate increased by 0.25% to 0.50% in November 2017 and had previously been 0.25% (August 2016 to October 2017) and remained unchanged (since 2009) at 0.5%.
- 18 Comparison of published statistics show the Authority has performed consistently compared to the range for Inner/Outer London Boroughs and Hertfordshire and Essex, who generally have significantly larger funds to invest (see below).

Average Interest Earned on all External Investments

| | 11/12 | 12/13 | 13/14 | 14/15 | 15/16 | 16/17 | 17/18 |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | % | % | % | % | % | % | % |
| Herts | 0.90 | 0.70 | No Data | No Data | No Data | No Data | TBC |
| Essex | 1.10 | 1.00 | 0.7 | 0.6 | 0.7 | 0.8 | TBC |
| Outer London | 0.6-2.5 | 0.4-2.5 | 0.3-1.6 | 0.6-1.4 | 0.6-1.5 | 0.3-1.6 | TBC |
| Inner London | 0.1-1.8 | 0.3-1.5 | 0.3-1.0 | 0.5-1.0 | 0.5-0.8 | 0.4-0.8 | TBC |
| LVRPA | 1.23 | 2.14 | 2.18 | 1.51 | 0.86 | 0.81 | 0.56 |

- 19 The Price Waterhouse Coopers economic forecast published in March 2018 predicts interest rates could rise once or twice in 2018, although the pace of increase will remain limited and gradual - with inflation (as measured by CPI), reducing from its 3% level in January 2018 to 2.3%.
- 20 Following analysis of the 2017/18 annual investment performance; use of resources required to fund the capital programme activity in 2018/19 (which requires relatively instant access to monies); and the lack of (or small) potential

interest rate movements over the next twelve months; the proposed target figure for investment returns for 2018/19 is **0.75%**.

ENVIRONMENTAL IMPLICATIONS

- 21 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 22 These are dealt with in the main body of the report.

HUMAN RESOURCE IMPLICATIONS

- 23 There are no human resource implications arising directly from the recommendations in this report.

LEGAL IMPLICATIONS

- 24 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

- 25 The risk of investment is considered within the existing Treasury Management Policy. The Authority tries to minimise risk by capping the total investment with any one financial institution to £5 million and limiting investments to UK clearing banks and the top seven building societies or where the building society assets exceed £10 billion.

Other investments may provide better returns but these may come with higher risks. It may be appropriate that as part of the overall strategy to reduce the levy, provide for future capital investment in new projects as well as maintain current assets that Members consider other deposit/investment opportunities and the associated risks attached to those options. It is therefore proposed that the Levy Strategy Working Group considers these investment opportunities within the context of the existing Treasury Management Policy.

- 26 Treasury Management is audited by the internal auditors to ensure procedures and investment decisions comply with the Policy and Investment Strategy approved by Members. For the last eight years the auditors have provided a "full assurance" rating to the Authority which is the highest level of assurance that can be achieved. The work carried out by the internal auditors is also tested by the external auditors.

EQUALITY IMPLICATIONS

- 27 There are no equality implications arising directly from the recommendations in this report.

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BACKGROUND REPORTS

CIPFA "Treasury Management in the Public Services Code of Practice & 2011 Cross Sectoral Guidance Notes"

PREVIOUS COMMITTEE REPORTS

| | | | |
|-----------|-----------|--|--------------|
| Executive | E/497/17 | Annual Report on Treasury Management Activity 2016/17 & Annual Investment Strategy 2017/18 | 25 May 2017 |
| Executive | E/448/16 | Annual Report on Treasury Management Activity 2015/16 & Annual Investment Strategy 2016/17 | 26 May 2016 |
| Executive | E/405/15 | Annual Report on Treasury Management Activity 2014/15 & Annual Investment Strategy 2015/16 | 21 May 2015 |
| Authority | A/4214/15 | Treasury Management Policy & Annual Investment Strategy 2015/16 2014 | 09 July 2015 |

APPENDIX ATTACHED

Appendix A Annual Investment Strategy 2018/19

LIST OF ABBREVIATIONS

| | |
|-------|---|
| CIPFA | Chartered Institute of Public Finance and Accountancy |
| DCLG | Department of Communities and Local Government |
| SIBA | Special Interest Bearing Account |
| AI | Annual Investment Strategy |
| LVRPA | Lee Valley Regional Park Authority |

LEE VALLEY REGIONAL PARK AUTHORITY

Annual Investment Strategy 2018/19

1. This Authority has regard to the DCLG's Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sector Guidance Notes 2017.
2. This Annual Investment Strategy states which investments the Authority may use for the prudent management of its treasury balances during the financial year. In short these will only be specified investments.
3. This strategy sets out this Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

Investment Objectives

4. All investments will be in sterling. The general objective, as set out in the Treasury Management Policy for this Authority, is the prudent investment of its treasury balances. The Authority's investment priorities are the security of capital and liquidity of its investments. The Authority will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.
5. The DCLG maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

Specified Investments

6. The idea of specified investments is to identify investments offering high security and high liquidity. These investments can be made with minimal procedural formalities. All these investments should be in sterling and normally with a maturity of no more than two years.

Non – Specified Investments

7. The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies which do not have a "high" credit rating. Such investments are not proposed for this Authority for 2018/19 and where such investments were to be made they would require the prior approval of Members.
8. Based upon its cash flow forecasts, the Authority anticipates its fund balances in 2018/19 to range between £11m and £15m. A prime consideration in the investment of fund balances is liquidity and the Authority's forecast cash flow. Any in-house investment of more than three months needs the approval of the Director of Finance & Resources and in his absence the Chief Executive Officer.

Provisions for Credit – related losses

9. If any of the Authority's investments appeared at risk of loss due to default the Authority will make revenue provision of an appropriate amount.

End of year Investment Report

10. At the end of the financial year, the Director of Finance & Resources will prepare a report on the Authority's investment activity as part of its treasury management activity report and report this to Executive Committee by the end of June. The Annual Investment Strategy will need approval by Executive Committee.