

**ANNUAL REPORT ON
TREASURY MANAGEMENT ACTIVITY 2015/16
AND ANNUAL INVESTMENT STRATEGY 2016/17**

Presented by the Director of Finance & Resources

EXECUTIVE SUMMARY

This report provides a summary of treasury management activity during 2015/16; seeks approval to an investment strategy and a target rate of return for the year ahead (2016/17).

RECOMMENDATIONS

- Members Note: (1) treasury management activity during 2015/16;
- Members Approve : (2) the Annual Investment Strategy set out in Appendix A to this report; and
- (3) a target rate of return of 0.9% on investments in 2016/17, as detailed in paragraph 25 of this report.

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 (AIS) and a target rate of return for investments for 2016/17.

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 After taking account of scheduled loan repayments of £658,476 (including interest of £31,522), outstanding external borrowing at 31 March 2016 totalled £0. This means the full amount relating to external borrowing has been repaid within 2015/16.
- 6 The Authority's cash position is reviewed on a daily basis and funds are invested or withdrawn as necessary in order to minimise the level of un-invested cash/bank overdraft.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 2015/16. Short term investments have ranged in size from £10,000 to £5 million; and from periods of one day to 12 months. Interest earned in 2015/16 will total £139,431.

ANNUAL INVESTMENT STRATEGY 2016/17

- 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 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 AIS for 2016/17 for Members consideration and approval. Definitions for specified and non-specified investments are also set out in Appendix A.

2015/16 INVESTMENT PORTFOLIO

13 Fixed Term Investments

The Authority had one deposit with a financial institution for longer term fixed rate deposits. These investments are in accordance with the Authority's Treasury Management Policy and it's current investment strategy.

- 14 In 2015/16 the Authority had one Fixed Rate Deposit with the Nat West Bank

(it's own bankers):

- (i) the investment was originally made in April 2012 in a Fixed Rate Deposit (Issue 26) from its bankers (Nat West) which matured on 7 April 2015. The value of this investment was £3.0 million and attracted an interest rate of 3% (Year 1), 4% (Year 2) and 5% (Year 3). The interest received from this bond was £360,575. The majority of interest was accrued into 2014/15 with a small sum attributable to 2015/16 (£2,876.71).

15 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) £5.1m @ 1.05% for 1 year;
- Principality Building Society (6th largest) £3m @ 1.07% for 1 year;
- West Bromwich Building Society (7th largest) £4.1m @ 0.90% for 9 months;
- West Bromwich Building Society (7th largest) £1m @ 0.5% for 1 month.

16 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 0.4%. Funds currently stand at approximately £2.0 million.

2015/16 INVESTMENT PERFORMANCE

- 17 At this time last year (Paper E/405/15) Members of this Committee agreed to a target return on investments of 1.0% for 2015/16. The main accounts achieved the following:

Account	Period of Investment	Average Interest Rate Achieved During 2014/15	Average Interest Rate Achieved During 2015/16
		%	%
Abbey Santander Business Reserve	On-Call	0.75	0.40
Nat West SIBA	On-Call	0.50	0.41
Nat West Bond (26)	3 Year Fixed	4.98	5.00
Co-oP Bank	2 Year Fixed	3.00	0.00
Principality BS	2 Year Fixed	3.20	0.00
Principality BS	1 Year Fixed	1.30	1.19
Skipton BS	1 Year Fixed	0.95	1.00
West Bromwich BS	1 – 9 months	0.52	0.63
Weighted Average		1.51	0.86

- 19 The Authority's average rate of investment return for 2015/16 was 0.86% (1.0% target rate). The Bank of England base rate has remained unchanged (since 2009) and stayed at 0.5% for the whole of 2015/16.
- 20 Comparison of recent years 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

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	%	%	%	%	%	%
Herts	0.80	0.90	0.70	No Data	No Data	TBC
Essex	1.30	1.10	1.00	0.7	0.6	TBC
Outer London	1.20	0.6 - 2.5	0.4 - 2.5	0.3 – 1.6	0.6-1.4	TBC
Inner London	1.00	0.1 - 1.8	0.3 - 1.5	0.3 - 1.0	0.5-1.0	TBC
LVRPA	0.80	1.23	2.14	2.18	1.51	0.86

- 21 The Price Waterhouse Coopers economic forecast published in March 2016 predicts interest rates are likely to remain at 0.5% throughout most of 2016 with a gradual upward trend, however the Monetary Policy Committee appears to want to proceed cautiously on this, so official interest rates could still be only around 2% by 2020. Inflation will remain low this year but could be close to its target of 2% by the end of 2017.
- 22 Following analysis of the 2015/16 annual investment performance; use of resources required to fund the capital programme activity in 2016/17 (which requires relatively instant access to monies); and the lack of potential in interest rate movements over the next twelve months; the proposed target figure for investment returns for 2016/17 is **0.9%**.

ENVIRONMENTAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

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

HUMAN RESOURCE IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

- 27 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.

- 28 Each year 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 seven 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 reviewed by the external auditors.

EQUALITY IMPLICATIONS

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

Author: Simon Sheldon 01992 709 859, ssheldon@leevalleypark.org.uk

BACKGROUND REPORTS

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

PREVIOUS COMMITTEE REPORTS

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 2016/17

LIST OF ABBREVIATIONS

CIPFA	Chartered Institute of Public Finance and Accountancy
SIBA	Special Interest Bearing Account
AI	Annual Investment Strategy
LVRPA	Lee Valley Regional Park Authority

LEE VALLEY REGIONAL PARK AUTHORITY

Annual Investment Strategy 2016/17

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 2011.
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 2016/17 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 2016/17 to range between £15m and £17m. 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.