

Report for: Corporate Committee 26th November 2015

Item number: 9

Title: Treasury Management September 2015 mid year Activity & Performance update

Report authorised by : Tracie Evans, Chief Operating Officer (CFO)

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key Decision

1. Describe the issue under consideration

- 1.1 This report updates the Committee on the Council's treasury management activities and performance in the six months to 30th September 2015 in accordance with the CIPFA Treasury Management Code of Practice. It is a requirement of the Code for the report also to be considered by Council. A first draft of the proposed investment strategy for 2016-17 is also discussed.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

- 3.1 That members' note:
- a) the Treasury Management activity undertaken during the six months to 30th September 2015 and the performance achieved, and
 - b) the investment strategy for 2016-17 to be incorporated into the Treasury Management Strategy Statement

4. Other options considered

- 4.1 None.

5. Background information

Mid year review

- 5.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement. CIPFA has defined Treasury management 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."
- 5.2 The Code recommends that members are informed of treasury management activities at least twice a year. Formulation of treasury policy, strategy and activity is delegated to the Corporate Committee and this Committee receives reports quarterly.
- 5.3 However, overall responsibility for treasury management remains with the Council and the Council approved the Treasury Management Strategy Statement and set the Prudential Indicators for 2015/16 on 23rd February 2015. The Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. **Appendix 1** is the 2nd quarterly monitoring report for 2015/16.
- 5.4 Government guidance on local authority treasury management states that local authorities should consider the following factors in the order they are stated:

Security - Liquidity - Yield

The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds. However, no treasury activity is without risk and the effective identification and management of risk are integral to the Council's treasury management activities.

- 5.5 The quarterly reports during 2015/16 are structured to cover borrowing first and then investments according to these factors, so that members can see how they are being addressed operationally.

Investment Strategy 2016-17

- 5.6 Corporate Committee is responsible for formulating the Council's treasury strategy, which it does so annually in the form of a Treasury Management Strategy Statement (TMSS). The TMSS is agreed at the January meeting and after scrutiny is approved by Full Council. The TMSS contains two main elements, the borrowing and investment strategies.
- 5.7 At the current time capital plans for 2016-17 and beyond are being developed and it is too early to present a borrowing strategy for 2016-17 and beyond.

- 5.8 However, in consultation with the Council's treasury advisors, the investment strategy has been updated and the proposed changes are included for discussion prior to inclusion in the TMSS.
- 5.9 The main consideration behind the revised investment strategy is the insistence of Governments that deposits from local authorities and financial institutions will be used to support banks at risk of failure. Known as bail in risk, this process will increase losses in the event of a bank failing or being at risk of failure. To counter this risk, the revised strategy (**appendix 2**) incorporates the following changed from the current TMSS:
- Inclusion of four highly rated supra-national banks and increased number of overseas banks all with high (AA- or better) credit ratings.
 - Recorded covered (secured) deposits as a separate category of investments.
 - Reduced the maximum unsecured deposit with weakly rated banks from £20 million to £5 million per counterparty.
- 5.10 The above changes will result in a more diversified portfolio of investments, with less reliance on weaker UK banks. The Council has commenced using certificates of deposits to invest, which allows a wider range of counterparties.
- 5.11 The proposed changed will be implemented gradually. The expectation is that cash balances will be minimised and the investment portfolio will continue to rely heavily on UK government deposits and money market funds.
- 5.12 Should the Committee be content with the revised investment strategy, it will be incorporated into the TMSS that will be discussed at the January meeting.
- 5.13 Should the Committee wish, a training session will be provided in advance of the January meeting.

6. Comments of the Chief Financial Officer and financial implications

- 6.1 Interest rates earned on investments remain low and significantly less than the cost of new borrowing and therefore the strategy of minimising cash balances is continuing in 2015-16. Borrowing will be taken only when required for liquidity purposes with the preference being short term local authorities loans at very low rates on short term bases. However longer term interest rates continue to be carefully monitored. The ability to take advantage of low interest rates in this way has resulted in anticipated saving on the treasury management budget.
- 6.2 The risk of bank deposits being bailed in to support failing banks has reduced the attractiveness of these types of deposits. Ensuring that security lies at the heart of the investment strategy supports greater diversification and using stronger overseas banks and secured / covered deposits.

7. Head of Legal Services and Legal Implications

- 7.1 The Council must make arrangements for the proper administration of its financial affairs and its power of borrowing is set out in legislations.
- 7.2 The Council is required to determine and keep under review its borrowing and in complying with this requirement it must have regard to the code of practice entitled the “Prudential Code for Capital Finance in Local Authorities” as published by CIPFA from time to time. In addition, the Council adopted the CIPFA Treasury Management Code of Practice in May 2002.
- 7.3 As mentioned in this report the Code of Practice requires the Council to agree a Treasury Management Strategy Statement (TMSS) (including an Investment Strategy).
- 7.4 Members should note the proposed changes to the investment strategy in particular the matters referred to in paragraph 5.9 of this report.

8. Equalities and Community Cohesion Comments

- 8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

- 9.1 Not applicable.

10. Policy Implications

- 10.1 None applicable.

11. Use of Appendices

- 11.1 Appendix 1: Mid Year Treasury Report
- 11.2 Appendix 2: Investment Strategy 2016-17

12. Local Government (Access to Information) Act 1985

- 12.1 Not applicable.