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| Non-Executive Report of the:<br><br>**Audit Committee**<br>28 June 2016 | TOWER HAMLETS |
| **Report of:** Zena Cooke, Corporate Director of Resources | **Classification:**<br>Unrestricted |
| **Treasury Management Outturn Report for 2015/16** | |

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| **Originating Officer(s)** | Bola Tobun, Investment & Treasury Manager |
| **Wards affected** | [All wards] |


**Summary**

This report advises the Committee of the Council's treasury management activities for the financial year ended 31 March 2016 as required under the Local Government Act 2003.

The report details the treasury management outturn position based on the credit criteria adopted by the Corporate Director, Resources and the investment strategy for the financial year as approved by the Council and the investment returns.

The Council has complied with its legislative and regulatory requirements as set out in the legal comments at paragraph 5 of this report. The key actual prudential and treasury management indicators detailing the impact of capital expenditure activities during the year, with comparators are also addressed in this report.

The Corporate Director, Resources confirms:

- That all treasury management activities were executed by authorised officers within the parameters agreed by the Council.
- All investments were made to counterparties on the Council's approved lending list and within limit.
- No short-term or long-term borrowing was undertaken during the year to 31 March 2016. Note, £145k of a corporate capital scheme was financed internally without the need to raise new borrowing.

Long term debt reduced from £88.893m to £87.825m (excluding accrued interest shown in Statement of Accounts) as a result of loans maturing during the financial year.

The investment portfolio stood at £379.761m (excluding accrued interest shown on the balance sheet) at 31 March 2016 with £25m being investments longer than one year. The Council earned 0.78% on short term lending, outperforming the benchmark of rolling average 7 Day LIBID rate of 0.35%.

This update ensures that the Council is delivering its Treasury Management service in an open and transparent manner and that the Council is fulfilling its obligations under the Local Government Act 2003 to produce an annual review of activities. The report is being submitted to the Audit Committee to enable Members to fulfil their scrutiny role of the treasury management function as per CIPFA's Treasury Management Code of

Practice. The report also provides information on the economic conditions prevailing in the final quarter of 2015-16.

**Recommendations**

Members are recommended to:

- Note the Treasury Management activities and performance against targets for the twelve months to 31 March 2016.
- Note the Pension Fund investments balance (set out in section 9 of Annex A).
- Note the Council's investments as at 31 March 2016 (as in Appendix 2).
- Note the Prudential indicators outturn for 2015/16 (set out in Appendix 1).

## 1. REASONS FOR DECISIONS

1.1 This Council is required by Regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 The minimum reporting requirements stipulated by the Code are that Full Council should receive the following reports:

- an annual treasury strategy in advance of the year(Council;26 February 2015)
- a mid-year treasury update report (Council; November 2015)
- an annual report following the year describing the activity compared to the strategy (this report)

1.3 In addition, the Audit Committee received treasury management activity update reports on 21 July 2015, 23 September, 8 December 2015 and 22 March 2016.

1.4 The Code requires Members to review and scrutinise treasury management policy 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 Members.

1.5 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council.

## 2. ALTERNATIVE OPTIONS

2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council should receive an annual report on treasury management activities.

2.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council.

## 3. THE STRATEGY

3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council should receive an annual report on treasury management activities.

3.2 The Council approved the Treasury Management Strategy Statement on 25 February 2015, which included the Investment Strategy, Minimum Revenue Provision and prudential indicators for 2015/16. These reports set out the parameters within which Treasury Management officers should operate when executing their roles. In line with the requirement of the Code, this report should assist Members in discharging their responsibilities relating to the review and scrutiny of Treasury Management policies and activities in 2015/16. Detailed report is attached as Annex 1 of this report.

3.3 The Council complied with its legislative and regulatory requirements in 2015/16 and was not in breach of any of the prudential and treasury management indicators. The table below summarises the key indicators relating to capital expenditure activities in the year. A more detailed report of the indicators is attached as Annex 1 and Appendix 1.

3.4 The Corporate Director of Resources also confirms that the Council did not undertake any external borrowing during the year, thus operating within the Authorised borrowing limit in the financial year.

3.5 The Council actual capital expenditure was less than the budgeted figure of £171.972m by £73m. This was not an underspent against the total programme; any resources not used in this reporting year will be used in future years of the programme.

3.6 The HRA (Housing Revenue Account) CFR (Capital Financing Requirements) increased from £69.675 to £74.691 for the year and GF (General Fund) CFR decreased from £157.698m to £151.797m before historic PFI schemes were added to bring the GF CFR up to 187.897m.

3.7 The HRA does not charge MRP (Minimum Revenue Provision) but there is application of the existing statutory calculation of MRP to GF, which is 4% of the aggregate assumed borrowing for general fund investment – termed CFR and also for unsupported borrowing which is based on repaying the borrowing over the estimated life of the asset and this provision is based on equal instalment payments. MRP applied for GF CFR for this financial year was £7.022m (excluding PFI and finance lease MRP).

3.8 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

3.9 **Summary of debt transactions** – management of the debt portfolio resulted in a fall in the average interest rate of 0.06%, representing in a reduction in the charge to the General Fund of £80,000 p.a.

3.10 The Council has continued with its conservative approach of prioritising security and liquidity over yield, Investments would therefore continue to be dominated by low counterparty risk considerations though, this results in a high cost of carry as investment returns are relatively low compared to borrowing rate.

3.11 The council's treasury adviser has removed Lloyds banking group as part nationalised bank as the government stake with the group is now less than 10%. Consequently the council revised the monetary and duration limits for this group to be in line with its credit worthiness policy. Based on the group credit ratings and the council credit worthiness policy, the current monetary limit is £20m for a maximum duration of 6 months.

3.12 The council has £40m of investment outstanding with the Lloyds group as at 31st March 2016. The investments were undertaken prior to the change, that is, they were transacted when the bank met the council's treasury adviser classification criteria of a part nationalised bank, with monetary limit of £70m and duration of 2 years.

3.13 No more transactions are being carried out with the group. All outstanding deposits are less than one year to maturity; the outstanding investments would be run down to the council's monetary and time limits for the group, which is currently £20m and 6 months duration. As of today, the outstanding investment with this group is £5m to mature 12th August 2016.

3.14 The current institutions the Council can currently lend to, is as set in Appendix 3.

## 4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The comments of the Corporate Director of Resources are incorporated in the report.

## 5. LEGAL COMMENTS

5.1 The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

5.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

5.3 It is a key principle of the Treasury Management Code that an authority should put in place "comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities". Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to review performance against the strategies and policies it has adopted.

5.4 The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council's Constitution, the audit committee has the functions of monitoring the Council's risk management arrangements and making arrangements for the proper administration of the Council's affairs and for the proper stewardship of public funds.

5.5 When discharging its treasury management functions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. Information is contained in section 6 of the report relevant to these considerations.

## 6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 Interest income on the Council's cash flows has historically contributed significantly towards the budget. This Council's ability to deliver its various functions, to meet its Community Plan targets and to do so in accordance with its obligations under the Equality Act 2010 may thus be enhanced by sound treasury management.

## 7. BEST VALUE (BV) IMPLICATIONS

7.1 Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

7.2 For example, investment returns exceeded the LIBID benchmark up to the end of March 2016 and the treasury function operated within budget for financial year 2015/16.

## 8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There are no Sustainable Actions for A Greener Environment implications.

## 9. RISK MANAGEMENT IMPLICATIONS

9.1 Any form of investment inevitably involves a degree of risk. To minimise risk the investment strategy has restricted exposure of council cash balances to UK backed banks or institutions with the highest short term rating or strong long term rating.

## 10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**
[None]

**Appendices**
Appendix 1: Prudential and Treasury Indicators
Appendix 2: Investments Outstanding as at 31st March 2016
Appendix 3: Counterparty List for London Borough of Tower Hamlets
Appendix 4: Glossary

**Local Government Act, 1972 Section 100D (As amended)**
**List of "Background Papers" used in the preparation of this report**

Capita Treasury Advisory Services - Investment Reports & Benchmarking club report

**Officer contact details for documents:**

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