TO:	Audit Committee
FROM:	Director of Finance
DATE:	23rd September 2014

TITLE OF BRIEFING PAPER:	**Treasury management annual report 2013-14 and mid-year review for 2014-15**

1. PURPOSE

1.1 To allow the Audit Committee, as the body responsible for scrutiny of the Treasury Management function, to consider the draft Treasury Management Annual (Outturn) Report for 2013-14 and Mid-Year Strategy Review for 2014-15, ahead of consideration by Council.

2. RECOMMENDATIONS

2.1 Members are recommended to consider the draft Treasury Management Outturn for 2013-14 and Mid-Year Strategy Review for 2014-15 as set out in the appended report, prior to it being submitted to the Council for approval on 6th November 2014.

3. BACKGROUND

3.1 The Council has previously adopted CIPFA's *Code of Practice on Treasury Management in the Public Services*.

3.2 Under the Council's Financial Regulations, the Council both sets a Treasury Management Strategy in advance of the financial year, and receives a combined mid-year review of the current year and annual report in respect of the outcome of the previous year, after its close.

3.3 The Council's investment priorities remain security and liquidity, ahead of yield.

4. RATIONALE

4.1 The CIPFA *Code of Practice on Treasury Management in the Public Services* requires the Council to receive a report on the Treasury Management Outturn each year, and a Mid-Year Treasury Management Strategy Review. This Council combines these two in a single report. Audit Committee is the body responsible for scrutiny of the Treasury Management function.

5. KEY ISSUES

5.1 Recent and current Treasury Management Strategies have been set at a time of considerable uncertainty in the financial markets. Furthermore, the Council is aware that further pressure will be applied to public finances over the next few years. Both of these issues heighten the importance of maintaining sound and prudent treasury practices. Though, over the last few years, it is has been possible to make savings on interest costs and deliberately manage down credit risk (the risk of losing some or all of funds invested externally) by covering a large part of recent capital programme borrowing needs from revenue cash balances, it may be necessary to take up more borrowing if interest rates look likely to increase significantly, and to ensure that cash balances remain sufficient.

5.2 As it is likely that the turmoil in financial markets will continue for some time, the returns made on investments will continue to be low. Though returns on investments have fallen away dramatically over the last few years, this has been offset by interest savings arising from deferring borrowing. The current Revenue Budget reflects projected costs associated with taking up new borrowing, and, as the extent to which this will be necessary (to maintain liquidity) or judged financially advantageous (depending on actual and projected interest rates) is uncertain, there remains some uncertainty as to the timing and costs of borrowing to be taken, and this will continue to be a key item for consideration on revenue monitoring.

5.3 The Council is aware of the limitations of credit ratings, and that they are relative, rather than absolute measures of credit risk. Nonetheless a key control for investment security remains the setting of limits with reference to credit ratings. These have remained tightly controlled over recent years and this stance will continue. We will continue to seek to place funds across a range of counterparties, as this is another aspect of managing credit risk. Furthermore, we will continue to monitor other current indicators of credit risk, such as the price of Credit Default Swaps.

5.4 There are no major issues over the Treasury Outturn for 2013/14, with the savings made on borrowing costs previously reported. The council operated within the Approved Strategy and there were no significant issues regarding performance against the Indicators and Limits set for the year.

5.5 It is proposed that the Mid-Year Review of the Treasury Strategy for 2014/15 leaves the current investment limits unchanged. We will continue to actively manage risks in the light of challenging conditions in the financial markets.

5.6 Over and above the limits approved as part of the Treasury Management Strategy, the Council's Treasury Management Group will continue to review all the individual counterparties included on the operational Investment List.

5.7 The Borrowing Strategy will also remain unchanged, with the Council looking to take new borrowing as determined by cash flow requirements and by reference to movements in long term interest rates.

6. POLICY IMPLICATIONS

6.1 None.

7. FINANCIAL IMPLICATIONS

7.1 There are no immediate new financial implications. As new revenue implications arise they will be reflected both in Corporate Budget Monitoring and in the Medium Term Financial Strategy.

8. LEGAL IMPLICATIONS

8.1 The review of the Treasury Management Strategy fulfils the Council's obligations under the guidance on local authority investments, issued by the Department for Communities and Local Government.

9. RESOURCE IMPLICATIONS

9.1 None.

10. EQUALITY IMPLICATIONS

10.1 None.

11. CONSULTATIONS

11.1 The issues raised in this report have been discussed previously with the Treasury Management Group.

Contact officer:	Ron Turvey, Deputy Finance Manager – Ext. 5303
Date:	8th September 2014
Background papers:	Treasury Management strategies for 2013-14 and 2014-15 approved at Council 4th March 2013 and 3rd March 2014 respectively.