*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No.
	9

TITLE OF REPORT: THIRD QUARTER TREASURY MANAGEMENT MONITORING 2016/17

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE
EXECUTIVE MEMBER: COUNCILLOR T.W. HONE

1. SUMMARY

1.1 To inform Cabinet of the Treasury Management activities in the third quarter of 2016/17 to the end of December. The current forecast is that the amount of investment interest expected to be generated during the year is £0.440 million. This is an increase of £0.013 million on the estimate reported at the second quarter.

1.2 To inform Cabinet of the performance against the Prudential and Treasury indicators detailed in the appendix to this report. During the third quarter the Council has operated within the treasury and prudential indicators as set out in the Treasury Management Strategy Statement and in compliance with the Council's approved Treasury Management Practices.

2. RECOMMENDATIONS

2.1 Cabinet is asked to note the position of Treasury Management activity as at the end of December 2016.

3. REASONS FOR RECOMMENDATIONS

3.1 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 The primary principle governing the Council's investment criteria is the security of its investments, which includes credit, liquidity and market risk (see section 8 below). After this the return (or yield) is then considered, which provides an income source for the Council. The Council's appetite for risk is determined by the Treasury Strategy, which is reviewed each year. In general, greater returns can be achieved by taking on greater risk. Our current strategy is relatively low risk, but we have still been able to achieve a yield that is above the average achieved by the Capita Hertfordshire and Buckinghamshire Investment Benchmarking Group.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 There is ongoing dialogue with the Council's Cash Manager (Tradition) and regular meetings with Treasury advisors (Capita Asset Services).

6. FORWARD PLAN

6.1 This Report contains a recommendation on a key decision that was first included in the Forward Plan on 16 December 2016.

7. BACKGROUND

7.1 Members adopted the 2016/17 Treasury Strategy at the meeting of full Council on the 11 February 2016.

7.2 Capita Asset Services Ltd were first contracted to provide Treasury advice for the financial year 2012/13 and this arrangement has been extended until 2017/18, taking advantage of a reduced annual contract cost. The service includes:

- Regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies
- Information on investment counterparty creditworthiness
- Technical updates
- Access to the Technical Advisory Group.

8. ISSUES

8.1 Appendix A provides the Treasury Management update at the end of the third quarter. This document contains economic background, an interest rate forecast and summary outlook provided by Capita for background context to Treasury activities. The remainder of the document contains an update on the Council's investment strategy.

8.2 In summary, during the third quarter the Council has operated within the treasury and prudential indicators as set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices.

8.3 The Council generated £0.346 million of interest during the first nine months of 2016/17. There were no new Tradition deals during the third quarter. The average interest rate agreed on new in house deals during the quarter was 0.36%.The average interest rate on all outstanding investments at 31 December was 1.12%.

8.4 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.

8.5 **Credit Risk** is the possibility that other parties fail to pay back amounts that have been invested by the Council. This risk is mitigated by assessing the counterparties with whom the Council invests. For banks and building societies that are credit rated by Fitch, they must have a rating greater than BBB. Where building societies do not have a credit rating, then the level of investment is assessed against the overall assets of the institution. Due to the different risks that they are exposed to, the Council splits its investments between banks and building societies and can have a maximum of 75% invested in each.

8.6 The Council also invests with other Local Authorities and Public Corporations (when appropriate opportunities are available) and in Money Market Funds. Money Market Funds are limited to 25% of total investments.

8.7 As at 31 December the split of investments was:

Banks	41%
Building Societies	54%
Money Market Funds	5%

8.8 **Liquidity Risk** is the possibility that the Authority may not have funds available to meet its commitments to make payments.

8.9 Cash flow forecasts are prepared to determine the level of funds required to meet the day to day commitments with investments split between the Cash Manager and the In-House team. The In-House investments cover the day to day cash flow activity of the Council whilst the Cash Managers' investments take advantage of higher interest rates for longer term investments when they become available. The level of funds made available to the Cash Manager, currently a total balance of £28.5 million, is primarily determined by the level of expenditure on the Council's Capital programme. The average In-House balance of investments for the first nine months was £15.5 million.

8.10 **Market Risk** is the possibility that financial loss might arise as a result of changes in interest rates.

8.11 Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risk of long term deals are two fold:

(i) The longer the time period the longer the investment is exposed to default.
(ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.

8.12 Members have indicated that they are prepared to accept the market risk within the limits expressed in the Treasury Strategy, which allows up to 40% of investments to be invested for longer than 364 days at any one time. At the end of the third quarter the Council had 14% (£7 million) invested for longer than 364 days. During the third quarter, no investments were placed for longer than a year.

8.13 The **return (or yield)** that the Council achieves is affected by both the level of risk as well as general market conditions. It continues to prove challenging to find acceptable counterparties willing to pay a reasonable return on cash investments, either long or short term. This issue is expected to continue during 2016/17 and beyond. This is emphasised by the Bank of England decision to reduce the base rate to 0.25% at the beginning of August, which has resulted in a further down turn in the level of return offered on cash investments

9. LEGAL IMPLICATIONS

9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.

9.2 Section 151 of the Local Government Act 1972 states that:
".every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

9.3 The Prudential Indicators must comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

10.1 The amount of investment interest expected to be generated during the year is £0.440 million.

10.2 Potential options for inclusion in the Treasury Strategy are considered as and when identified. Any proposals to amend the Strategy are reported to Full Council, via Cabinet, for approval.

11. RISK IMPLICATIONS

11.1 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependant on banks and building societies need for borrowing. The introduction of the Funding for Lending Scheme, which allows financial institutions access to low cost funding from Government for an extended period, has impacted on their need to borrow and the rates at which they are prepared to borrow.

12. EQUALITIES IMPLICATIONS

12.1 The Equality Act 2010 came into force on the 1 October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5 April 2011. There is a General duty, described in 12.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.

12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.3 There are no direct equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

13.1 As the recommendations made in this report do not constitute a public service contract, a supply of goods or works contract, with a value in excess of the relevant threshold (£172,514, aggregated), the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied.

13.2 Any future investment opportunity that arises will require the capture of social value benefits alongside any financial gains.

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resource implications.

15. APPENDICES

15.1 Appendix A - Treasury Management Third Quarter Monitoring - December 2016.

16. CONTACT OFFICERS

Author

16.1 Dean Fury, Corporate Support Accountant, Tel 474509, email, dean.fury@north-herts.gov.uk

Contributors

16.2 Norma Atlay, Strategic Director of Finance, Policy & Governance, Tel 474297, email, norma.atlay@north-herts.gov.uk

16.3 Ian Couper, Head of Finance, Performance and Asset Management, Tel 474243, email ian.couper@north-herts.gov.uk

16.4 Antonio Ciampa, Accountancy Manager, Tel 474566, email, antonio.ciampa@north-herts.gov.uk

16.5 Reuben Ayavoo, Policy Officer, Tel 474212, email reuben.ayavoo@north-herts.gov.uk

17. BACKGROUND PAPERS

Treasury Strategy 2016/17
CIPFA Prudential Code for Capital Finance in Local Authorities