*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. **9**

TITLE OF REPORT: ITEM REFERRED FROM CABINET: 24 JUNE 2014 – ANNUAL TREASURY MANAGEMENT REVIEW 2013/14

The following is an extract from the Draft Minutes of the Cabinet meeting held on 24 June 2014.

10. ANNUAL TREASURY MANAGEMENT REVIEW 2013/14

The Portfolio Holder for Finance and IT presented a report of the Strategic Director of Finance, Policy and Governance in respect of the Treasury Management Review 2013/14. The following appendix was submitted with the report:

Appendix A – Annual Treasury Management Review, March 2014.

The Portfolio Holder for Finance and IT advised that Capita Asset Services Ltd were contracted to provide Treasury advice for the financial year 2013/14 and that this arrangement had been continued for 2014/15. The service included regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies, advice on rescheduling, information and prudent parameters in respect of investment counterparty creditworthiness, document templates, access to technical updates and to the Technical Advisory Group.

The Portfolio Holder for Finance and IT explained that the Council had generated £0.668million of interest on its investments during 2013/14. The average interest rate agreed on new deals during the year by the cash managers was 1.14% by Sterling and 1.04% by Tradition. The average interest rate on all outstanding investments at 31 March 2014 was 1.52%.

The Portfolio Holder for Finance and IT commented that the investments outstanding at the 31 March 2014 were £37.53million. This compared to a balance of £47.33million at 31 March 2013. The reduced balance reflected the use of maturing investments to fund capital expenditure.

RESOLVED: That the position of Treasury Management activity, as at the end of March 2014, be noted.

RECOMMENDED TO COUNCIL:

(1) That the actual 2013/14 prudential and treasury indicators be approved; and

(2) That the Annual Treasury Report for 2013/14, as attached at Appendix A to the report, be noted.

REASON FOR DECISION: 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.

The following is the report considered by the Cabinet at its meeting held on 24 June 2014.

TITLE OF REPORT: ANNUAL TREASURY MANAGEMENT REVIEW 2013/14

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

1. SUMMARY

1.1 To inform Cabinet of the Treasury Management activities during 2013/14.

1.2 To inform Cabinet of the performance against the Prudential and Treasury indicators.

2. RECOMMENDATIONS

2.1 Cabinet is asked to note the position of Treasury Management activity as at the end of March 2014.

2.2 Cabinet is asked to recommend this report to Council and ask Council to:

1) Approve the actual 2013/14 prudential and treasury indicators
2) Note the annual Treasury Report for 2013/14

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 Considerations for the Treasury Strategy can be summarised under the headings; Security, Liquidity and Yield. These considerations are listed in order of importance but all have an influence on the adopted Strategy. In particular the yield from investments is an important income stream for the general fund. The current strategy enabled an above average yield compared to other Herts authorities of approximately £0.668M of interest in the financial year. Our Treasury advisors, Capita Asset Services, promote a more risk adverse approach that would not currently allow investment with most Building Societies. This option has been dismissed on the basis of Members' appetite for risk and the impact on the general fund.

5. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

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

6. FORWARD PLAN

6.1 This Report does contain a recommendation on a key decision that was first included in the Forward Plan on 14 March 2014.

7. BACKGROUND

7.1 Members adopted the 2013/14 Treasury Strategy at the meeting of full Council on the 13 February 2013. The Treasury Strategy Statement contained no major changes from the 2012/13 strategy.

7.2 Capita Asset Services were contracted to provide Treasury advice for the financial year 2013/14 and this arrangement has been continued for 2014/15. The service includes regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies, advice on rescheduling, information and prudent parameters in respect of investment counterparty creditworthiness, document templates, access to technical updates and to the Technical Advisory Group.

7.3 Members received updates on treasury activity at quarterly intervals during 2013/14 and this report represents the final quarterly update.

8. ISSUES

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

8.2 In summary, the Council has operated within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices. The Council did exceed its Operational Boundary for external debt by £0.319M for nine days in December. This breach was due to a shortfall in cashflow but the Authorised limit was not exceeded.

8.3 The Council generated £0.668M of interest during 2013/14. The average interest rate agreed on new deals during the year by the cash managers was 1.14% by Sterling and 1.04% by Tradition. The average interest rate on all outstanding investments at the 31st March was 1.52%.

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. Firstly, **Credit Risk** – The possibility that other parties fail to pay amounts due to the Authority.

8.5 The Council's counterparty list comprises mostly UK building societies and UK banks with a Fitch (a credit rating agency) credit rating greater than BBB but also includes other Local Authorities and Public Corporations. Cash Manager Investments that matured in the final quarter of 2013/14 were used to fund capital expenditure and not reinvested.

8.6 It continues to be challenging to find counterparties willing to pay a reasonable return on cash investments, either long or short term. This issue is expected to continue in 2014/15 and will be coupled with a reduction in the rate the Council will receive on the Nat West call account (for short term deposits). The rate of interest on this account for 13/14 was 0.5%. This rate has reduced to 0.25% in May 2014. However, interest will be earned on our Lloyds current account at 0.4%.

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

8.8 Investments are split between two Cash Managers 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 long term interest rates when they become available. The Council borrowed £1M on 28th November for forty six days, £3.61M on 24th December for nine days and £1.4M on 11th March for 31 days to cover a planned short fall in cashflow.

8.9 The introduction of the Business Rates Retention Scheme in 2013/14 changed the pattern of expenditure / income to and from the Authority. The equivalent of 24 payments in 2012/13 to the Secretary of State became 10 larger payments in 2013/14. The effect of this was that payments were made earlier in the financial year compared to previous years. £30.7m was paid prior to February 2014 compared to £28.7m prior to February 2013. This was then partly offset by payments received from the Secretary of State of £1.0m in April 2014 compared to £0.02m in April 2013. A further £1.2m was received towards the end of 2013/14 when in previous years we would not have expected to receive receipts.

8.10 **Market Risk** - 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 this risk within the limits expressed in the Treasury Strategy which allows no more than £20M (out of a total of £37.53M) to be invested for longer than 364 days at any one time. At the end of the year the Council had £7.75M invested for longer than 364 days.

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 comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

10.1 The amount of investment interest generated during the year was £0.668M and was inline with the working budget of £0.667M. Investment interest is expected to be lower in 2014/15 as investment rates have fallen and the balance of available cash to invest has also fallen. As maturing investments are being renewed at a lower rate, the budgeted investment interest for 2014/15 is expected to be in the region of £0.46M.

10.2 The investments outstanding at the 31 March 2014 were £37.53million. This compares to a balance of £47.33million at 31 March 2013. The reduced balance reflects the use of maturing investments to fund capital expenditure. As a result the negative balance of the capital finance requirement (or underlying borrowing need) has reduced from £33.0million at 31 March 2013 to £23.3million at 31 March 2014. When the capital finance requirement rises above zero the Authority will need to consider the requirements to make a annual charge to the general fund for the cost of borrowing (section 2 of Appendix A provides more information.

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. 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 may impact on their need to borrow and the rates at which they are prepared to borrow. This will be monitored throughout 2014/15.

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 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, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at paragraphs 12. Any individual award of a public service contract will be evaluated in terms of its social value through the Council's procurement processes.

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resource or equality implications.

15. APPENDICES

15.1 Appendix A - Annual Treasury Management Review March 2014.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

Treasury Strategy 2013/14
CIPFA Prudential Code for Capital Finance in Local Authorities