*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 13

TITLE OF REPORT: TREASURY MANAGEMENT THIRD QUARTER 2014/15

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY AND GOVERNANCE

Note: This report will be presented to Cabinet on 24 March 2015.

1. SUMMARY

1.1 To inform Cabinet of the Treasury Management activities in the third quarter of 2014 - 2015 to the end of December.

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 December 2014.

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 enables an above average yield compared to other Herts authorities of approximately £0.485M of interest in the financial year.

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 – formerly known as Sector).

5.2 When the housing stock was transferred to North Herts Homes in 2003, the Council employed two Cash Managers (Sterling and Tradition) to arrange investments from the proceeds. This arrangement has continued successfully until December when Sterling gave notice that they would be terminating the contract from 31 December.

6. FORWARD PLAN

6.1 This Report does contain a recommendation on a key decision that was first included in the Forward Plan on 1 August 2014.

7. BACKGROUND

7.1 Members adopted the 2014 - 2015 Treasury Strategy at the meeting of full Council on 13 February 2014. The Treasury Strategy Statement contained no major changes from the 2013 - 2014 Strategy.

7.2 Capita Asset Services Ltd were first contracted to provide Treasury advice for the financial year 2012 - 2013 and this arrangement has been continued for 2014 - 2015. 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 This is the third monitoring report of 2014 - 2015. The first quarter report was considered in September 2014 and the second quarter report (mid year review) was considered in December. There has been just one breach to the treasury limits and prudential indicators set out in the Treasury Strategy reported to date and that was with regard to exceeding the investment limit with the Council's general banking provider, Lloyds Banking Group for a small number of days. Otherwise all treasury activity had operated within the indicators and limits.

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 £0.384M of interest during the first nine months of 2014 - 2015. The average interest rate agreed on new deals during the third quarter by the cash managers (Sterling and Tradition) was 1.0 per cent. The average interest rates on all outstanding investments, (including in house deals) at the 31 December was 1.48 per cent.

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. At the 31 December the Council had 17 per cent of its investments with banks and 83 per cent with building societies.

8.6 It continues to prove challenging to find counterparties willing to pay a reasonable return on cash investments, either long or short term. This issue is expected to continue during 2014 - 2015. The bank rate has remained at 0.5 per cent. Capita expect this rate to hold until December 2015 when they are forecasting a rise to 0.75 per cent..

8.7 The Council's new general current account with Lloyds provides an interest rate of 0.4 per cent (the previous general current account with HSBC did not pay any interest).This rate is very competitive and means it is cost effective to keep a substantial balance in the current account rather than place funds with other institutions.

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

8.9 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 average In-House balance of investments for the third quarter was £5.6M. (The majority of these funds are held on the interest bearing current account and are available for immediate use).

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 the market risk within the limits expressed in the Treasury Strategy which allows no more than £20M (out of a total of just over £39M) to be invested for longer than 364 days at any one time. At the end of the third quarter the Council had £5M invested for longer than 364 days. One new deal of £1M was placed during the quarter for longer than one year.

8.13 As Sterling have terminated their contract, when the funds managed by Sterling reach maturity it is proposed to use some of the funds to increase the amount managed by Tradition with the remainder being managed in house by Officers. Investments totalling £3.5M mature in the final quarter of 2014 - 2015 and will be retained in house to fund Capital spend. This will leave a balance of £13M placed by Sterling. Of this, £8.5M will be allocated to Tradition providing them with a balance of £28.5M with the remaining £4.5M retained in house to fund Capital expenditure in 2015 - 2016.

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 expected to be generated during the year is £0.485M. This is just below the working budget of £0.493M.

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. The Strategy for 2015 - 2016 contains several changes to the 2014 - 2015 Strategy and was approved by Full Council on 12 February 2015.

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 below, 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 The Social Value Act 2012 placed a duty on bodies, such as local authorities, who commission, or buy, public services to consider securing added economic, social or environmental benefits for their local area. That original legislation is currently under review, with a view to strengthening the requirements to capture the general 'benefit' if investment, thus wider than just the financial implications.

13.2 The Council's Treasury Management Strategy will therefore require further review too in due course to reflect any additional requirements. However, it is important to remember that in any opportunity for investment as reflected in this report, there will inevitably be social value benefits alongside the necessary financial gain; for example, Lloyds Bank express their commitment to a 'positive and proactive role in the local community' which includes investment in schemes to support people with Alzheimers, sports events for young people and budding entrepreneurs.

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resource or equality implications.

15. APPENDICES

15.1 Appendix A - Treasury Management Update December 2014.

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17. BACKGROUND PAPERS

Treasury Strategy 2014/15
CIPFA Prudential Code for Capital Finance in Local Authorities