

TITLE OF REPORT: ANNUAL TREASURY MANAGEMENT REVIEW 2014/15

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 2014/15.
- 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 2015.
- 2.2 Cabinet is asked to recommend this report to Council and ask Council to:
 - 1) Approve the actual 2014/15 prudential and treasury indicators
 - 2) Note the annual Treasury Report for 2014/15.

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 a yield of approximately £0.489M of interest in the financial year against a budgeted investment figure of £0.484M. Our Treasury advisors from Capita Asset Services promote a more risk averse 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 Manager, Tradition (Sterling gave notice to terminate their arrangement with the Council in December 2014) and regular meetings with Treasury advisors (Capita).

6. FORWARD PLAN

- 6.1 This Report does contain a recommendation on a key decision that was first included in the Forward Plan on 27 February 2015.

7. BACKGROUND

- 7.1 Members adopted the 2014/15 Treasury Strategy at the meeting of full Council on the 13 February 2014. The Treasury Strategy Statement contained no major changes from the 2013/14 strategy.
- 7.2 Capita Asset Services were contracted to provide Treasury advice for the financial year 2014/15 and this arrangement has been continued for 2015/16. 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 2014/15, 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 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, 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 investment limit with the Council's general banking provider, Lloyds Banking Group, for a small number of days. This will not occur again as Members approved a change to the 2015/16 Treasury Strategy where by balances held in the Council's current account are not subject to counter party limits.
- 8.3 The Council generated £0.489M of interest during 2014/15. The average interest rate agreed on new deals during the year by the cash managers was 1.03% for Sterling and 1.20% for Tradition. The average interest rate on all outstanding investments at the 31st March was 1.24%.
- 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. £3.5M of Cash Manager Investments that matured in the final quarter of 2014/15 were used to fund capital expenditure and not reinvested.
- 8.6 This year has continued to prove challenging to find counterparties willing to pay a reasonable return on cash investments, either long or short term. The uncertainty around interest rate changes has continued in 14/15, with the latest predictions signalling the first increase to the base rate around quarter 3 of 2016. Interest continues to be earned at a reasonable 0.4% on our Lloyds current account.
- 8.7 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.

- 8.8 Investments were 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 £0.57M on 14th April for 1 day to cover an overnight shortfall in cashflow.
- 8.9 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.
- 8.10 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.
- 8.11 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 £35.72M) 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 £0.489M and was inline with the working budget of £0.485M. Investment interest is expected to be lower in 2015/16 as investment rates have fallen. As maturing investments are being renewed at a lower rate, the budgeted investment interest for 2015/16 is expected to be in the region of £0.36M.
- 10.2 The investments outstanding at the 31 March 2015 were £35.72million. This compares to a balance of £37.53million at 31 March 2014. The reduced balance reflects the use of maturing investments to fund capital expenditure.

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 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 - Annual Treasury Management Review 2014/15.

16. CONTACT OFFICERS

Author

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

Contributors

- 16.2 Andy Cavanagh, Head of Finance, Performance and Asset Management, Tel 474243 andrew.cavanagh@north-herts.gov.uk

17. BACKGROUND PAPERS

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