

TITLE OF REPORT: TREASURY MANAGEMENT FIRST QUARTER 2015/16

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 first quarter of 2015/16 to the end of June.
- 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 June 2015.

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 £0.415M of interest in the financial year.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 There is ongoing dialogue with the Authority's Cash Manager (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 27 February 2015.

7. BACKGROUND

7.1 Members adopted the 2015/16 Treasury Strategy at the meeting of full Council on the 12 February 2015. The Treasury Strategy Statement contained several changes and clarifications from the 2014/15 Strategy.

- Increase balance allocated to Tradition
- Removal of the £20M limit for deals longer than 364 days and replace with no more than 40% of investments can be placed for longer than 364 days
- Allow in house deals to be made for longer than 364 days
- Include UK subsidiaries of foreign banks that are subject to the same stress tests as UK banks
- No more than 10% of outstanding investments to be placed with any one counter party.
- Exclude the Council's general banking provider from the restrictive limits
- Limit sector exposure – no more than 75% of investments with Building Societies
- Include Certificates of Deposits

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. 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.

8. ISSUES

8.1 Appendix 1 provides the Treasury Management update at the end of the first 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 first 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 £0.101M of interest during the first three months of 2015/16. The average interest rate agreed on new deals during the first quarter by Tradition was 1.0% and in house was 0.6%. The average interest rate on all outstanding investments at the 30 June was 1.17%.

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 30 June the Council had 33% of its investments with banks, 65% with building societies, 2% with another local authority.

- 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 2015/16. The bank rate has remained at 0.5%. Capita expect this rate to hold until June 2016 when they are forecasting a rise to 0.75%.
- 8.7 The Council's general current account with Lloyds provides an interest rate of 0.4% (the previous general current account with HSBC did not pay any interest). This rate is a very competitive short term rate 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 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 long term interest rates when they become available. The average In-House balance of investments for the first quarter was £10.9M.
- 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 40% of investments to be invested for longer than 364 days at any one time. At the end of the first quarter the Council had 21% (£9.75M) invested for longer than 364 days. One new deal of £4M was placed during the quarter for longer than one year.
- 8.13 As approved in the strategy, maturing Sterling deals have been reinvested by Tradition. £4.5M of Sterling deals that mature in October will be retained in house to fund Capital expenditure.

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 £0.415M. This is an increase on the original budget of £0.05M. The increase is mainly due to in house investments being placed for longer periods. This was possible as the level of balances increased in June when asset disposal income was received.
- 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 The Council's Treasury Management Strategy will therefore require further review too in due course to reflect any additional requirements which may apply. 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.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource or equality implications.

15. APPENDICES

15.1 Appendix A - Treasury Management Update June 2015.

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17. BACKGROUND PAPERS

Treasury Strategy 2015/16.

CIPFA Prudential Code for Capital Finance in Local Authorities.