*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. **15**

TITLE OF REPORT: ANNUAL TREASURY MANAGEMENT REVIEW 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 during 2015/16.

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 2016.

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

1) Approve the actual 2015/16 prudential and treasury indicators
2) Note the annual Treasury Report for 2015/16.

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 £0.452M of interest in the financial year against a budgeted investment figure of £0.451M. 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 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). The Portfolio holder for Finance and Asset Management is also regularly briefed.

6. FORWARD PLAN

6.1 This Report does contain a recommendation on a key decision that was first included in the Forward Plan on 5 February 2016.

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 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.

7.3 Members received updates on treasury activity at quarterly intervals during 2015/16, 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.

8.3 The Council generated £0.452M of interest during 2015/16. The average interest rate agreed on new deals during the year by Tradition was 1.15%. The average interest rate on all outstanding investments at the 31^{st} March was 1.22%.

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.

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 15/16, with the latest predictions signalling the first increase to the base rate around quarter 2 of 2018. 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 the Cash Manager, Tradition and the In-House team. The In-House investments cover the day to day cash flow activity of the Council whilst the Cash Manager’s investments take advantage of higher long term interest rates when they become available.

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 40% of outstanding investments to be invested for longer than 364 days at any one time. At the end of the year the Council had £7.75M (18.5%) 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 £0.452M and was inline with the working budget of £0.451M. Investment interest is expected to be lower in 2016/17 as investment rates have fallen. As maturing investments are being renewed at a lower rate, the budgeted investment interest for 2016/17 is expected to be in the region of £0.37M.

10.2 The investments outstanding at the 31 March 2016 were £41.93million. This compares to a balance of £35.72million at 31 March 2015. The increased balance reflects the asset disposal income received in June.

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, which will be captured and reported alongside any investment proposal.

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 2015/16.

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

17. BACKGROUND PAPERS

Treasury Strategy 2015/16.
CIPFA Prudential Code for Capital Finance in Local Authorities.