

EAST HERTS COUNCIL

AUDIT COMMITTEE – 24 SEPTEMBER 2014

REPORT BY EXECUTIVE MEMBER FOR FINANCE

TREASURY MANAGEMENT STRATEGY STATEMENT – 2013/14
OUTTURN

WARD(S) AFFECTED: NONE SPECIFIC

Purpose/Summary of Report

- This report reviews the Council’s treasury management activities for 2013/14 and identifies the associated impact on the 2014/15 treasury management strategy.

<u>RECOMMENDATIONS FOR AUDIT COMMITTEE:</u>	
That:	
(A)	the 2013/14 Treasury management activity and prudential Indicators be approved; and
(B)	remedial action detailed at paragraph 5.5 to ensure that the Group limit of £20 million for NatWest is consistently maintained be noted.

1.0 Background

1.1 Treasury Management is the activity of managing the council’s cash flows, bank accounts, deposits, investments and borrowing.

1.2 The key objective is to manage treasury operational risk to ensure that funds are secure, sufficient liquidity is available to meet the Council’s financial commitments, income generated is maximised in relation to risk and costs are minimised.

1.3 This report meets the requirements of the Treasury Management Strategy for 2013/14 and CIPFA’s Treasury Management Code of Practice by reporting to those charged with governance an annual

treasury management report within six months of the end of the financial year.

1.4 The Council is supported in its treasury management activities by independent advisers – Capita Asset Services.

2.0 Report

2.1 This treasury report covers:

- the treasury position as at 31 March 2014;
- the in year borrowing position for 2013/14;
- the in year investment position for 2013/14; and
- Prudential Indicators for 2013/14 compared to those reported in the Council's Treasury Management Strategy for 2013/14.

3.0 Treasury Position for the financial year ending 31 March 2014

3.1 The table below summarises the Council's treasury management portfolio as at 31 March 2014. The prior year position is included for information and trend information.

Balance as at 31st March 2013	Narrative	Balance as at 31st March 2014
£'000		£'000
7,500	Long Term Borrowing	7,500
0	Short Term Borrowing	0
2,324	Other Long Term Liabilities	1,288
9,824	Total External Debt	8,788
15,007	Long Term Investments	10,000
40,592	Short Term Investments	41,571
12,204	Cash and Funds on Call	17,360
67,803	Total Investments	68,931

Note: The figures detailed above vary from the Council's Statement of Accounts as accrued interest is required to be included in the Council's balance sheet in line with accounting arrangements.

3.2 No new short or long term borrowing was taken out by the Council

during the financial year. This is in line with the treasury management strategy recommendation of financing the capital programme from internal funds whilst short term interest rates are low. This method of financing will continue in for the foreseeable future; the sustainability of the approach will be kept under review.

3.3 Other long term liabilities reflect the cost of finance leases which reduced due to the return of 10 refuse vehicles under the revised arrangements for the refuse collection contract.

3.4 Investment balances increased in 2013/14 by 1.7% as a result of revenue budget underspend and slippage in the 2013/14 capital programme.

4.0 Borrowing

4.1 The annual revenue cost to the Council of outstanding long term debt totalling £7.5 million was £702k approximately for 2013/14.

4.2 The Council's borrowing portfolio as at 31 March is detailed below:

Loan Details	Maturity details	Principal Outstanding as at 31 March 2014
		£'000
PWLB Loan – 8.875%	01.02.2055	1,500
LGS Bond – 8.785%	22.05.2020	6,000
TOTAL		<u>7,500</u>

Note; the balances detailed above exclude accrued interest.

4.3 No change to the 2014/15 Strategy is required as a result of borrowing activity for 2013/14.

5.0 Investments

5.1 The Councils Investment portfolio for 2013/14 by type of counterparty is reported at **Essential Reference Paper “B”**.

5.2 In placing investments the Council continues to prioritise security and liquidity of funds over yield.

5.3 The Council operates a NatWest Special Interest Bearing Account to sweep up any daily balances on the Council's operational bank accounts (for example the payments and income accounts).

5.4 Due to higher than expected cashflows and minimal notice on

payment of material government grants (for example Section 31 Grants for small business relief, flood relief, etc), the account exceeded a balance of £15 million. Resulting in the group investment maximum threshold for NatWest being over the maximum limit of £20 million on 17 daily occasions in 2013/14. For 2014/15 there have been 19 daily occasions where the limit has been exceeded.

- 5.5 With effect from 12 August 2014 £5 million has been placed with Goldman/Sachs International Bank over a six month period to resolve the higher than expected balances on the Account.
- 5.6 For 2013/14 interest income was £954,768.89 an improvement on the forecast position reported in the Healthcheck. The average rate of return was 1.24%; lower than that anticipated within the treasury management strategy (1.98%). This compares to the average 7 day LIBID rate of 0.3542% and the 1 year LIBID rate of 0.78% over the year.
- 5.7 The Council maintains an 'Interest Equalisation Reserve' to assist in managing the financial implications of adverse interest rate fluctuations. The reserve was not utilised in 2013/14, as at 31st March 2014 the balance on the reserve was £2.257 million.
- 5.8 Creditworthiness and a trend of low stagnant interest rates are likely to be the norm for 2014/15 and the impact of these factors has been taken into account in the following treasury and financial management reports:
- Revision to Treasury Management Arrangements – Minute Ref 154
 - Financial Strategy and Medium Term Financial Plan from 2014/15 to 2018/19 – Minute Ref 212
 - Monthly Corporate Healthcheck – April to July 2014 – Minute Ref 219

6.0 Prudential Indicators

- 6.1 Under the Treasury Management Code of Practice the Council is required to calculate and approve a set of statutory prudential indicators, which enable Members to ensure that the Council's treasury management arrangements are prudent, sustainable and affordable.
- 6.2 The prudential indicators are reported at **Essential Reference**

Paper “C” to this report.

6.3 There are no concerns or issues to highlight for Member’s attention.

7.0 Governance

7.1 An internal audit review of treasury management arrangements undertaken in November 2013, reported an overall assurance opinion of ‘Full Assurance’.

8.0 Implications/Consultations

8.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper ‘A’**.

Background Papers

Treasury Management Strategy Statement 2013/14 and Annual Investment Strategy 2013/14 – Minute 604.

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