

EAST HERTS COUNCIL

AUDIT COMMITTEE – 23 SEPTEMBER 2015

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

TREASURY MANAGEMENT STRATEGY STATEMENT – 2014/15 OUTTURN

WARD(S) AFFECTED: NONE SPECIFIC

Purpose/Summary of Report

- This report reviews the Council's treasury management activities for 2014/15 and identifies the associated impact on the 2015/16 treasury management strategy.

<u>RECOMMENDATION FOR AUDIT COMMITTEE:</u>	
That:	
(A)	the 2014/15 Treasury management activity and prudential Indicators be approved.

1.0 Background

- 1.1 Treasury Management is the activity of managing the council's cash flows, bank account balances, deposits, investments and borrowing.
- 1.2 This activity is supported by the council's appointed independent advisors – Capita Asset Services.
- 1.3 The Treasury Management Strategy Statement (TMSS) for 2014/15, which includes the Annual Investment Strategy, was approved by the Council on 19 February 2014. It sets out the Council's investment priorities as being:
- Security of capital;
 - Liquidity; and
 - Yield.

- 1.4 The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our advisors suggested creditworthiness approach including sovereign credit rating and Credit Default Swap (CDS) overlay information.
- 1.5 This report meets the requirements of the Treasury Management Strategy for 2014/15 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.

2.0 Report

2.1 This treasury report covers the:

- treasury position as at 31 March 2015;
- in year borrowing position for 2014/15;
- in year investment position for 2014/15; and
- Prudential Indicators for 2014/15 compared to those reported in the Council's Treasury Management Strategy for 2014/15.

3.0 Treasury Position for the financial year ending 31 March 2015

3.1 The table below summarises the Council's treasury management portfolio as at 31 March 2015. The prior year position is included for information and trend information.

Narrative	Balance as at 31 st March 2014	Balance as at 31 st March 2015
	£'000	£'000
Long Term Borrowing	(7,500)	(7,500)
Short Term Borrowing	0	0
Other Long Term Liabilities	(1,288)	(987)
Total External Debt	(8,788)	(8,487)
Long Term Investments	10,000	0
Short Term Investments	41,571	56,600
Cash and Funds on Call	17,360	13,202

Total Investments	68,931	69,802
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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 lease costs for Council's refuse vehicles and the Causeway Car Park.
- 3.4 Investment balances increased in 2014/15 by £606k as a result of revenue budget underspend and slippage in the 2014/15 capital programme.

4.0 Borrowing

- 4.1 The annual revenue cost to the Council of outstanding long term debt totalling £7.5 million was £660k in 2014/15.
- 4.2 The Council's borrowing portfolio as at 31 March is detailed below:

Loan Details	Interest Rate (p.a.)	Start Date	Maturity details	Annual Interest charge	Principal Outstanding as at 31st March 2015
				£'000	£'000
PWLB Loan	8.875%	03.05.1995	01.02.2055	133	1,500
LGS Bond	8.785%	22.05.1995	22.05.2020	527	6,000
TOTAL				660	7,500

Note: the balances detailed above exclude accrued interest.

- 4.3 The cost of early repayment for both loans has been investigated and details are as follows:
- **PWLB Loan:** Our advisors ran an early repayment valuation

for this loan in February 2015 and quoted a premium of £2.705m to be paid in addition to the principal sum owed (£1.5m), a total of £4.205m. This compares to the total amount repayable if the loan is kept until maturity of £6.820m.

- **LGS Bond:** This bond is what is known as a club loan. It was issued to a number of local authorities at the time and was funded by institutional/private investors. There is no quoted rate for early repayment; an arm's length settlement with the lenders would need to be negotiated, in addition to agreement from the other club members to ensure the Council had no on-going liability. This agreement has not been found to be achievable on past attempts.

4.4 No change to the 2015/16 Strategy is required as a result of borrowing activity for 2014/15.

5.0 **Investments**

5.1 The Council's investment portfolio for 2014/15 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 the payment of material government grants (for example Section 31 Grants for small business relief, flood relief, etc.), the account exceeded a balance of £15m. With £5m also held in a 95 day notice account this resulted in the group investment threshold for NatWest being over the maximum limit of £20m on 23 daily occasions in 2014/15.

5.5 Direct deposit facility arrangements have now been set up with a number of additional approved counterparties, including UK building societies. This will significantly reduce, if not eliminate, the number of days exceeding the maximum limit for NatWest.

5.6 For 2014/15 interest on investment income totalled £741,069.69, this was a reduction on the 2014/15 original budget of £895,000 (a variance of £153,930.31) mainly due to a waiting period being imposed on investment in Property Funds.

- 5.7 The Council maintains an 'Interest Equalisation Reserve' to assist in managing the financial implications of adverse interest rate fluctuations. A total of £153,930.31 was drawn down from the reserve in 2014/15, as at 31 March 2015 the balance on the reserve was £1.503m.
- 5.8 The average rate of return in 2014/15 on the Council's investment portfolio was 1.47%; higher than that anticipated within the Treasury Management Strategy (1.1%). This compares to the average 7 day London Interbank Bid Rate (LIBID) of 0.35% and the 1 year LIBID rate of 0.87% over the year.

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 Members' attention.

7.0 Governance

- 7.1 An internal audit review of Treasury Management arrangements was undertaken with the final report issued in January 2015, giving an overall assurance opinion of 'Moderate Assurance'.
- 7.2 The audit highlighted that controls governing Treasury Management were generally adequate and operating effectively. It was noted that the effects of staff movements over the previous year had affected the administration and management of documented procedures, management information, transaction administration and reconciliation procedures. Permanent appointments have now been made and all noted issues have been addressed.
- 7.3 The next internal audit review is due to commence in November 2015.

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

Council - 14th February 2014 - Minute 551 - Treasury
Management Strategy Statement 2014/15 and Annual Investment
Strategy 2014/15

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