

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

7 FEBRUARY 2017

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Report Title	3RD QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2016/17
Purpose of Report	To provide an update on treasury management activity as at 31/12/2016.
Decision(s)	The Audit and Standards Committee APPROVES the treasury management activity third quarter report for 2016/2017.
Consultation and Feedback	Capita Asset Services Limited
Financial Implications & Risk Assessment	Interest of £202k in the third quarter is on target to achieve £250k for 2016/17. Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk
Legal Implications	This report provides a review on recent treasury management performance and as such is largely being provided for information. There are no legal implications to report. Karen Trickey, Legal Services Manager and Monitoring Officer Email : karen.trickey@stroud.gov.uk Tel: 01453 754369
Report Author	Maxine Bell, Snr Accounting Officer Tel: 01453 754134 E-mail: maxine.bell@stroud.gov.uk
Performance Management Follow Up	A full 2016/17 annual report
Appendices	A – Economic Update B – Prudential Indicators as at 31 December 2016 C – Explanation of prudential indicators

Background

1. Treasury management is defined as: 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
2. This report is presented to the Audit and Standards Committee to provide an overview of the investment activity and performance for the third quarter of the financial year, and to report on prudential indicators and compliance with treasury limits. A quarterly report is regarded as good practice, but is not essential under the Code of Practice for Treasury Management (the Code).

Discussion

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code in November 2011, originally adopted by this Council on 21 January 2010. This third quarter report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
 - An economic update – Appendix A
 - A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
 - A review of the Council's investment portfolio for 2016/17
 - A review of the Council's borrowing strategy for 2016/17
 - A review of compliance with Treasury and Prudential Limits for 2016/17.
 - Other Treasury Issues

Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2016/17 was approved by Council on 25 February 2016. The Council's Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:
 1. Security of Capital
 2. Liquidity
 3. Yield
5. The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, less than 1 year, with highly credit rated financial institutions, using Capita's suggested creditworthiness approach, which includes a sovereign credit rating and Credit Default Swap (CDS) overlay. The Council is prepared to invest for up to 366 days with UK Government supported banks. Where possible the Council has invested for 3, 6, 9 or 12 month periods to benefit from higher interest rates, rather than using call accounts.
6. A breakdown of the Council's investment portfolio as at 31 December 2016 is shown in Table 2 of this report. Investments & borrowing during the year have been in line with the strategy, with the exception of a breach of an amount limit during the first quarter, and reported in the first quarter report.

7. Capita's latest economic analysis is set out in Appendix A. Current advice from Capita is to invest for no more than a year with UK banks, or up to a maximum of five years with government or local government provided they are sufficiently highly rated on Capita's weekly list. The Council has a maximum investment duration of 3 years.

Investment Portfolio 2016/17

8. In accordance with the Code, it is the Council's priority to ensure security and liquidity of investments, and once satisfied with security and liquidity, to obtain a good level of return. The investment portfolio yield for the third quarter is shown in the table below:

TABLE 1: Average Interest Rate Compared With Benchmark Rates

Period	Investment Interest Earned	Average Investment	Average Interest Rate	Benchmark 7 day LIBID	Benchmark 3 month LIBID
01/04/16 - 30/06/16	£59,510	£34.328m	0.72%	0.36%	0.43%
01/07/16 - 30/09/16	£60,670	£35.365m	0.65%	0.12%	0.25%
01/10/16 - 31/12/16	£53,540	£36.430m	0.58%	0.12%	0.25%
Total	£173,720	£35.379m	0.65%	0.12%	0.25%

9. The Local Area Mortgage Scheme investment of £1m at 3.8% with Lloyds is excluded from the above table. If this interest is included the interest earned is £202k at an average interest rate of 0.74%.
10. Table 2 below shows the investments and borrowing position at the end of December 2016.
11. The approved limits as set out in the Treasury Management Strategy report to Council 26th February 2016 within the Annual Investment Strategy were breached once during the first 3 months of 2016/17.
12. Funds were available for investment on a temporary basis. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and canal project. The authority holds £8m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

TABLE 2: Investments & Borrowing

	Sep 2016 £'000	Dec 2016 £'000
Standard Life	3,062	2,005
Federated Prime Rate	3,984	3,999
Deutsche	-	2,866
Money Market Funds Total	7,046	8,870
Bank of Scotland	3,500	3,500
Lloyds	4,414	4,415
Lloyds Banking Group Total	7,914	7,915
NatWest	-	536
Royal Bank of Scotland	7	7
RBS Banking Group Total	7	543
Goldman Sachs	-	2,000
Standard Chartered	-	6,000
Santander	7,957	7,974
Barclays Bank Plc	1	1
Svenska Handelsbanken	10	-
UBS	2,000	2,000
Rabobank	-	2,000
Toronto Dominion	2,000	1,000
Nordea AB	1,000	-
Other Banks Total	12,968	20,975
Nationwide	6,000	-
Building Society Total	6,000	-
TOTAL INVESTMENTS	<u>£33,935</u>	<u>£38,303</u>
Local Authority	2,000	2,000
PWLB	104,717	104,717
TOTAL BORROWING	<u>£106,717</u>	<u>£106,717</u>

External Borrowing

13. The Council's revised Capital Financing Requirements (CFR) for 2016/17 is £114.381m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (External Borrowing) or from internal balances on a temporary basis (Internal Borrowing). The Council has borrowing of £106,717m as at 31

December 2016. During June two £1m PWLB loans were taken at rates of 2.65% and 2.51% for 47 and 50 years respectively. These rates are 0.85% and 1% lower than the preferential rates offered by the Government for HRA financing.

14. Compliance with Treasury and Prudential Limits

15. It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. Council’s approved Treasury and Prudential Indicators are outlined in the approved TMSS.
16. During the period to 31 December 2016 the Council breached the treasury limits on one occasion and otherwise complied with the Prudential Indicators set out in the Council’s TMSS and with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix