

## STROUD DISTRICT COUNCIL

AGENDA  
ITEM NO

## AUDIT AND STANDARDS COMMITTEE

12 SEPTEMBER 2017

9

<b>Report Title</b>	<b>1ST QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2017/18</b>
<b>Purpose of Report</b>	To provide an update on treasury management activity as at 30/06/2017.
<b>Decision(s)</b>	<b>The Audit and Standards Committee APPROVES the treasury management activity first quarter report for 2017/2018.</b>
<b>Consultation and Feedback</b>	Capita Asset Services Limited
<b>Financial Implications &amp; Risk Assessment</b>	Interest of £45k in the first quarter is on target to achieve £180k for 2017/18.  Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: <a href="mailto:graham.bailey@stroud.gov.uk">graham.bailey@stroud.gov.uk</a>
<b>Legal Implications</b>	There are no significant legal implications. (Ref :r21.8c22.8d25.8) Karen Trickey, Legal Services Manager Email : <a href="mailto:karen.trickey@stroud.gov.uk">karen.trickey@stroud.gov.uk</a>
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<b>Options</b>	None
<b>Performance Management Follow Up</b>	Further quarterly reports and a full 2017/18 annual report.
<b>Appendices</b>	A – Economic Update B – Prudential Indicators as at 30 June 2017 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 first 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 first 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 2017/18
  - A review of the Council's borrowing strategy for 2017/18
  - A review of compliance with Treasury and Prudential Limits for 2017/18.
  - Other Treasury Issues

### **Treasury Management Strategy Statement and Investment Strategy update**

4. The TMSS for 2017/18 was approved by Council on 23 February 2017. 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, otherwise using call accounts.
6. A breakdown of the Council's investment portfolio as at 30 June 2017 is shown in Table 2 of this report. Investments & borrowing during the year have been in line with the strategy.
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.

## Investment Portfolio 2017/18

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 first 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
01/04/17 - 30/06/17	£43,103	£33.207m	0.52%	0.11%	0.17%

9. The Local Area Mortgage Scheme investment of £1m which matured on the 24<sup>th</sup> April 2017 at 3.8% with Lloyds is excluded from the above table. If this interest is included the interest earned is £45k at an average interest rate of 0.55%.
10. Table 2 below shows the investments and borrowing position at the end of June 2017.
11. The approved limits as set out in the Treasury Management Strategy report to Council 23<sup>rd</sup> February 2017 within the Annual Investment Strategy were not breached during the first 3 months of 2017/18.
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 and Borrowing as at June 2017**

	<b>June 2017 £'000</b>
Federated Prime Rate	1,900
Deutsche	1
Goldman Sachs	1
<b>Money Market Funds Total</b>	<b>1,902</b>
Bank of Scotland	3,000
Lloyds	4,425
<b>Lloyds Banking Group Total</b>	<b>7,425</b>
Royal Bank of Scotland	1,007
<b>RBS Banking Group Total</b>	<b>1,007</b>
Goldman Sachs	8,000
Standard Chartered	2,000
Santander	4,604
Barclays Bank Plc	1
Svenska Handelsbanken	1,500
UBS	2,000
Rabobank	2,000
<b>Other Banks Total</b>	<b>20,105</b>
<b>TOTAL INVESTMENTS</b>	<b><u>£30,439</u></b>
Local Authority	2,000
PWLB	104,717
<b>TOTAL BORROWING</b>	<b><u>£106,717</u></b>

**Borrowing**

13. The Council's revised Capital Financing Requirements (CFR) for 2017/18 is £113.984m. 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 external borrowing of £106,717m as at 30 June 2017, as well as a further £4.740m of internal borrowing.

## **Compliance with Treasury and Prudential Limits**

14. 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.
15. During the period to 30 June 2017 the Council has operated within treasury limits and 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 B.

## **Early Payment of Pension Lump Sums**

16. The Council agreed with the Pension Fund to pay 3 years’ pension lump sums in 4 instalments (Apr, Jul, Oct & Jan) during 2017-18. The cash value of these prepayments is £6.497m, rather than £6.809m if paid annually over 3 years, a cash saving of £312k. An estimated £50k of interest will be foregone.

## **Local Authority Mortgage Scheme (LAMS) Financial Guarantee Outstanding**

17. Whilst the £1m investment has been repaid (see paragraph 9) the LAMS financial guarantee will reduce gradually as each individual mortgage reaches the 5 year mark. At this point, if the mortgage has been in arrears during the previous 6 months the financial guarantee will be extended for a further 2 years. Table 3 below shows the current maximum liability, and how it is scheduled to diminish. It is worth noting that to date none of the 37 loans have been in arrears during the period of the scheme.

**Table 3: Outstanding LAMS Financial Guarantee**

<b>Month</b>	<b>£'000</b>
Sep-17	799
Dec-17	536
Mar-18	494
Jun-18	412
Sep-18	330
Dec-18	84
Mar-19	53
Jun-19	53
Sep-19	25
Dec-19	25
Mar-20	25
Jun-20	25
Sep-20	0