

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**6 FEBRUARY 2018**

**11**

<b>Report Title</b>	<b>3<sup>RD</sup> QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2017/18</b>
<b>Purpose of Report</b>	To provide an update on treasury management activity as at 31/12/2017.
<b>Decision(s)</b>	<b>The Audit and Standards Committee APPROVES the treasury management activity third quarter report for 2017/2018.</b>
<b>Consultation and Feedback</b>	Link Asset Services Limited
<b>Financial Implications &amp; Risk Assessment</b>	Bank base interest rate was increased from 0.25% to 0.5% in November 2017. This was the first increase for a decade. This will increase the interest income earned by investment of the Council's balances and cash flow funds. Graham Bailey, Principal Accountant Tel: 01453 754133 Email: <a href="mailto:graham.bailey@stroud.gov.uk">graham.bailey@stroud.gov.uk</a>
<b>Legal Implications</b>	The report indicates that the Council is operating its investment strategy in accordance with the statutory Treasury and Prudential Limits in view of which there are no legal concerns arising from the report. Alan Carr, Solicitor Email <a href="mailto:alan.carr@stroud.gov.uk">alan.carr@stroud.gov.uk</a> Tel 01453754357
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<b>Options</b>	None
<b>Performance Management Follow Up</b>	A full 2017/18 annual report.
<b>Appendices</b>	A – Prudential Indicators as at 31 December 2017 B – 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 2009, and it was 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:
  - 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:
  - Security of Capital
  - Liquidity
  - 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 low interest rate environment the Council is seeking to invest for longer periods of up to a 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.
6. A breakdown of the Council's investment portfolio as at 31 December and 30 September 2017 is shown in Table 2 of this report. Investments and borrowing during the year have been in line with the Strategy.

## Investment Portfolio 2017/18

7. 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**

<b>Period</b>	<b>Investment Interest Earned</b>	<b>Average Investment</b>	<b>Average Interest Rate</b>	<b>Benchmark 7 day LIBID</b>	<b>Benchmark 3 month LIBID</b>
01/04/17 - 30/06/17	£43,103	£33.207m	0.52%	0.11%	0.17%
01/07/17 - 30/09/17	£45,235	£39.001m	0.47%	0.11%	0.18%
01/09/17 - 31/12/17	£47,553	£40.215m	0.47%	0.35%	0.37%
<b>Total</b>	<b>£135,891</b>	<b>£37.490m</b>	<b>0.48%</b>	<b>0.19%</b>	<b>0.24%</b>

8. 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 £138k at an average interest rate of 0.4904%.
9. Table 2 below shows the investments and borrowing position at the end of December 2017.
10. The approved limits as set out in the Treasury Management Strategy report to Council 23 February 2017 within the Annual Investment Strategy have been complied with during the first three quarters of 2017/18.
11. 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 2017 £'000	Dec 2017 £'000
Standard Life	2,034	415
Federated Prime Rate	3,264	3,985
Goldman Sachs	1	3,991
Deutsche	0	2,000
<b>Money Market Funds Total</b>	<b>5,299</b>	<b>10,391</b>
Bank of Scotland	0	1,500
Lloyds	6,428	6,431
<b>Lloyds Banking Group Total</b>	<b>6,428</b>	<b>7,931</b>
NatWest	-	1,798
Royal Bank of Scotland	4,008	4,007
<b>RBS Banking Group Total</b>	<b>4,008</b>	<b>5,805</b>
Goldman Sachs	8,000	8,000
Standard Chartered	2,000	2,000
Santander	4,607	2,053
Barclays Bank Plc	1	2,001
Svenska Handelsbanken	7,802	5,918
Rabobank	2,000	0
<b>Other Banks Total</b>	<b>24,410</b>	<b>19,972</b>
<b>TOTAL INVESTMENTS</b>	<b><u>£40,145</u></b>	<b><u>44,099</u></b>
Local Authority	2,000	2,000
PWLB	104,717	104,717
<b>TOTAL BORROWING</b>	<b><u>£106,717</u></b>	<b><u>£106,717</u></b>

**Borrowing**

12. The Council's 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 31 December 2017. There is also £5.589m of internal borrowing, which includes year to date spending on Littlecombe Industrial Units and Multi Service Contract vehicles of £0.849k.

**Compliance with Treasury and Prudential Limits**

13. 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.

14. During the period to 31 December 2017 the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix A.

## **MIFID II**

15. The Markets in Financial Instruments Directives is EU legislation changed from 3<sup>rd</sup> January 2018, this is a regulatory environment for local authorities using certain financial investment types. Local authorities have been classified as retail rather than professional investors which will limit the range of investments available. There is an option within the legislation for local authorities to opt up to the professional classification on an institution by institution basis. The Council meets the criteria to opt up to professional status and has done so to maintain the range of investments available. An example of where the Council is opting up is with Money Market Funds.