

## STROUD DISTRICT COUNCIL

AGENDA  
ITEM NO

## AUDIT AND STANDARDS COMMITTEE

29 JANUARY 2019

**10**

<b>Report Title</b>	<b>3<sup>RD</sup> QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2018/19</b>
<b>Purpose of Report</b>	To provide an update on treasury management activity as at 31/12/2018.
<b>Decision(s)</b>	<b>The Audit and Standards Committee APPROVES the treasury management activity third quarter report for 2018/2019.</b>
<b>Consultation and Feedback</b>	Link Asset Services Limited
<b>Financial Implications &amp; Risk Assessment</b>	<p>This report outlines treasury management performance up to Q3 2018/19 and as a result there are no direct financial implications.</p> <p>There was one minor breach of the prudential indicators (paragraph 9) but this has not exposed the Council to any level of unsafe risk.</p> <p>Andrew Cummings Head of Finance and Section 151 Officer Email: <a href="mailto:andrew.cummings@stroud.gov.uk">andrew.cummings@stroud.gov.uk</a></p>
<b>Legal Implications</b>	<p>The report indicates how the Council is meeting its statutory obligations in operating its investment strategy and Prudential limits; no legal concerns arise.</p> <p>Nicola Swan Interim Head of Legal &amp; Monitoring Officer Tel: 01453 754369 Email: <a href="mailto:nicola.swan@stroud.gov.uk">nicola.swan@stroud.gov.uk</a></p>
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<b>Options</b>	None
<b>Performance Management Follow Up</b>	A full 2018/19 annual report.
<b>Appendices</b>	A – Prudential Indicators as at 31 December 2018 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 2018/19
  - A review of the Council's borrowing strategy for 2018/19
  - A review of compliance with Treasury and Prudential Limits for 2018/19
  - Other Treasury issues

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

4. The TMSS for 2018/19 was approved by Council on 22 February 2018. 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 Link Asset Services' 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 2018 is shown in Table 2 of this report. Investments and borrowing during the year have been in line with the Strategy, with the exception of investments with the Council's own bank NatWest over the Christmas period as noted in paragraph 9.

## Investment Portfolio 2018/19

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 first three quarters 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 Net Investment £'000</b>	<b>Average Interest Rate</b>	<b>Benchmark 7 day LIBID</b>	<b>Benchmark 3 month LIBID</b>
01/04/18 - 30/06/18	£56,547	£36,350	0.63%	0.36%	0.55%
01/07/18 - 30/09/18	£76,772	£44,159	0.73%	0.51%	0.66%
01/10/18 - 31/12/18	£107,062	£47,458	0.85%	0.58%	0.74%
<b>YTD Total</b>	<b>£240,381</b>	<b>£42,678</b>	<b>0.75%</b>	<b>0.49%</b>	<b>0.65%</b>

8. Table 2 below shows the investments and borrowing position at the end of December 2018.
9. The approved limits as set out in the Treasury Management Strategy report to Council 22 February 2018 within the Annual Investment Strategy have been complied with during the first three quarters of 2018/19, apart from exceeding the £8m limit with the NatWest banking group over the period 27 December 2018 to 2 January 2019 when deposits in our own bank were a maximum of £1.4m over the designated limit. The investment level was brought within limit on 2 January.
10. 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. 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 2018 £'000	Dec 2018 £'000
Federated Prime Rate	3,984	3,929
Deutsche	3,750	1
Goldman Sachs	1,743	3,437
Aberdeen ( previously Standard Life)	2	609
<b>Money Market Funds Total</b>	<b>9,479</b>	<b>7,976</b>
Bank of Scotland	1,500	1,500
Lloyds	6,458	6,468
<b>Lloyds Banking Group Total</b>	<b>7,958</b>	<b>7,968</b>
NatWest	6,001	9,421
Royal Bank of Scotland	7	7
<b>RBS Banking Group Total</b>	<b>6,008</b>	<b>9,428</b>
Goldman Sachs	4,000	2,000
Standard Chartered	2,000	5,000
Santander	7,066	7,970
Credit Industriel et Commercial	0	2,000
Barclays Bank Plc	4,518	7,031
Toronto Dominion	0	2,000
Svenska Handelsbanken	2,001	2
<b>Other Banks Total</b>	<b>19,585</b>	<b>26,003</b>
<b>Coventry Building Society</b>	4,000 <b>4,000</b>	2,000 <b>2,000</b>
<b>TOTAL INVESTMENTS</b>	<b><u>£47,030</u></b>	<b><u>£53,375</u></b>
Local Authority	2,000	2,000
PWLB	103,717	103,717
<b>TOTAL BORROWING</b>	<b><u>£105,717</u></b>	<b><u>£105,717</u></b>

**Borrowing**

11. The Council's Capital Financing Requirements (CFR) estimate for 2018/19 is £112.180m. 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 £105.717m as at 31 December 2018.

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

12. 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.
13. During the period to 31 December 2018 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, with the exception of the breach of the NatWest group limit as detailed at paragraph 9. The Prudential and Treasury Indicators are shown in Appendix A.

### **Members Information Evening**

14. A Treasury Management Members Information Evening was held in the Council Chamber on 4<sup>th</sup> December 2018. Link Asset Services provided some training for members focused on investment options, and there was a discussion of the Council’s draft Capital Strategy.