

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

19 NOVEMBER 2019

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|---|---|
| Report Title | HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2019/20 |
| Purpose of Report | To provide an update on treasury management activity as at the first half of the financial year 30/09/2019. |
| Decision(s) | The Audit and Standards Committee RECOMMENDS that Council APPROVES the treasury management activity half year report for 2019/2020. |
| Consultation and Feedback | Link Asset Services Limited |
| Financial Implications & Risk Assessment | There are no financial implications arising directly from this report as it reports on past performance of the Treasury Management function. Andrew Cummings, Strategic Director of Resources Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk |
| Legal Implications | There are no legal implications arising from this report. Patrick Arran, Interim Head of Legal Services & Monitoring Officer Tel: 01453 754369 Email: patrick.arran@stroud.gov.uk |
| Report Author | Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk |
| Options | A selection process for longer term investments is in progress. |
| Performance Management Follow Up | A third quarter report and a full 2019/20 annual report. |
| Background Papers | None |
| Appendices | A – Prudential Indicators as at 30 Sept 2019 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 first half of the financial year, and to report on prudential indicators and compliance with treasury limits. A mid year report is essential under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management (revised 2017).

Discussion

3. The primary requirements of the Code are:
 - A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
 - A review of the Council's investment portfolio for 2019/20
 - A review of the Council's borrowing strategy for 2019/20
 - A review of compliance with Treasury and Prudential Limits for 2019/20
 - Other Treasury issues

Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2019/20 was approved by Council on 21 February 2019. 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's suggested creditworthiness approach, which includes a sovereign credit rating and Credit Default Swap (CDS) overlay.
6. Paragraph 4.19 of the TMSS approved on 21 February 2019 stated that financial year 2019-20 would mark the start of the Council taking a more diversified approach to investments, and that the Section 151 officer will consider a range of investments newly introduced within the unspecified category. In line with this a selection process is being conducted by Link for the Council of property and multi-asset funds.
7. A breakdown of the Council's investment portfolio as at 30 September and 30 June 2019 is shown in Table 2 of this report. Investments and borrowing during the year have been in line with the Strategy.

Investment Portfolio 2019/20

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 half year is shown in the table below:

TABLE 1: Average Interest Rate Compared with Benchmark Rates

| Period | Investment Interest Earned | Average Net Investment £'000 | Average Interest Rate | Benchmark 7 day LIBID | Benchmark 3 month LIBID |
|---------------------|----------------------------|------------------------------|-----------------------|-----------------------|-------------------------|
| 01/04/19 - 30/06/19 | £98,873 | £42,106 | 0.94% | 0.57% | 0.68% |
| 01/07/19 - 30/09/19 | £102,905 | £47,379 | 0.86% | 0.56% | 0.64% |
| Total | £201,778 | £44,757 | 0.90% | 0.57% | 0.66% |

9. Table 2 below shows the investments and borrowing position at the end of September 2019.
10. The approved limits as set out in the Treasury Management Strategy report to Council 21 February 2019 within the Annual Investment Strategy have been complied with during the first half year of 2019/20.
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 £15m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

TABLE 2: Investments & Borrowing

| | Jun 2019 | | Sep 2019 | |
|-----------------------------------|----------|------------------------|----------|------------------------|
| | £'000 | | £'000 | |
| Federated Prime Rate | 2,885 | | 3,278 | |
| Deutsche | 0 | | 1 | |
| Standard Life | 0 | | 1 | |
| Money Market Funds Total | | 2,885 | | 3,280 |
| Bank of Scotland | 0 | | 0 | |
| Lloyds | 7,983 | | 7,944 | |
| Lloyds Banking Group Total | | 7,983 | | 7,944 |
| NatWest | 6000 | | 5011 | |
| Royal Bank of Scotland | 0 | | 7 | |
| RBS Banking Group Total | | 6,000 | | 5,018 |
| Goldman Sachs | 2,000 | | 4,000 | |
| Standard Chartered | 2,000 | | 2,000 | |
| Santander | 7,084 | | 3,013 | |
| Barclays Bank Plc | 7,690 | | 7,700 | |
| Svenska Handelsbanken | 2 | | 5,416 | |
| Toronto Dominion | 2,000 | | 2,000 | |
| Rabobank Netherlands | 2,000 | | 2,000 | |
| Other Banks Total | | 22,776 | | 26,129 |
| Coventry Building Society | 2000 | 2000 | 2,000 | 2,000 |
| Peterborough City Council | 0 | 0 | 2,000 | 2,000 |
| TOTAL INVESTMENTS | | <u>£41,644</u> | | <u>£46,371</u> |
| PWLB | | 103,717 | | 103,717 |
| TOTAL BORROWING | | <u>£103,717</u> | | <u>£103,717</u> |

Borrowing

12. The Council's Capital Financing Requirements (CFR) for 2019/20 is £114.657m. 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 £103.717m as at 30 September 2019. There is also £7.750m of internal borrowing.

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 30 September 2019 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.

Increasing return on investments

A selection process is being conducted by Link Asset Services on behalf of the Council. A shortlist of Multi-Asset Funds and Property Funds has been produced and a further selection process resulted in the following coming to the Council on 11 October for an officer and cross-party member presentation and interview process.

| | |
|-------------------|--------------|
| Property Funds | CCLA |
| | Hermes |
| | Lothbury |
| Multi-Asset Funds | CCLA |
| | Newton |
| | Royal London |

Capital Strategy

15. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities were required to prepare a Capital Strategy which should provide the following: -
 - a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability

16. Each year the Capital Strategy should be revised. The updated 2020/21 Capital Strategy will be presented to Strategy and Resources Committee, and on to full Council, as part of the budget proposals in early 2020.