

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

28 JANUARY 2020

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Report Title	3RD QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2019/20			
Purpose of Report	To provide an update on treasury management activity as at 31/12/2019.			
Decision(s)	The Audit and Standards Committee RESOLVES to accept the third quarter treasury management report for 2019/20.			
Consultation and Feedback	Link Asset Services			
Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133 Email: graham.bailey@stroud.gov.uk			
Options	None			
Background Papers	None			
Appendices	Appendix A – Prudential Indicators 31 December 2019 Appendix B – Explanation of prudential indicators			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	Yes	No	Yes

1. BACKGROUND

- 1.1** 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.’
- 1.2** 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).
- 1.3** 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 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

2. MAIN POINTS

Treasury Management Strategy Statement and Investment Strategy update

2.1 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

2.2 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.

2.3 A breakdown of the Council's investment portfolio as at 31 December and 30 September 2019 is shown in Table 2 of this report. Investments and borrowing during the year have not breached the Strategy.

Investment Portfolio 2019/20

2.4 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

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%
01/10/19 - 31/12/19	£115,000	£50,632	0.90%	0.57%	0.66%
Total	£316,778	£46,706	0.90%	0.57%	0.66%

2.5 Table 2 below shows the investments and borrowing position at the end of December 2019.

2.6 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 three quarters of 2019/20.

2.7 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 £15m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

TABLE 2: Investments & Borrowing

	Sep 2019 £'000		Dec 2019 £'000	
Federated Prime Rate	3,278		3,992	
Deutsche	1		114	
Goldman Sachs	0		1,649	
Aberdeen	1		3,993	
Money Market Funds Total		3,280		9,748
Lloyds Banking Group Total	7,944	7,944	7,948	7,948
NatWest	5,011		5,690	
Royal Bank of Scotland	7		8	
RBS Banking Group Total		5,018		5,698
Goldman Sachs	4,000		2,000	
Standard Chartered	2,000		4,000	
Santander	3,013		7,918	
Barclays Bank Plc	7,700		7,722	
Svenska Handelsbanken	5,416		7,827	
Toronto Dominion	2,000		-	
Rabobank Netherlands	2,000		-	
Other Banks Total		26,129		29,467
Coventry Building Society	2000	2000	2,000	2,000
Peterborough City Council	2000	2000	-	-
Hermes	-		2,000	
Property Funds		-		2,000
TOTAL INVESTMENTS		<u>£46,371</u>		<u>£56,861</u>
PWLB		103,717		103,717
TOTAL BORROWING		<u>£103,717</u>		<u>£103,717</u>

Borrowing

- 2.8** The Council's Capital Financing Requirements (CFR) estimate for 2019/20 is £111.468m. 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 31 December 2019.

Compliance with Treasury and Prudential Limits

- 2.9** 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.

3. CONCLUSION

- 3.1** During the period to 31 December 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.

4. IMPLICATIONS

4.1 Financial Implications

There are no significant implications within this category. The report updates on treasury activity throughout the Quarter.

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4.2 Legal Implications

There are no significant implications within this category.

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4.3 Equality Implications

There are not any specific changes to service delivery proposed within this decision.

4.4 Environmental Implications

The following sets out details of significant implications identified by officers:

Selection of property funds and multi-asset funds took into consideration some 'red lines' following consultation with a cross-party member group, which included considerations regarding fossil fuels and low carbon energy sources.