RECOMMENDATION FROM

AUDIT AND STANDARDS COMMITTEE

TO COUNCIL ON 25 JANUARY 2018

AGENDA ITEM NO

4

This is a copy of the Agenda Item 11 report to the Committee on 28 November 2017

Report Title	**HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2017/18**
Purpose of Report	To provide an update on treasury management activity as at the first half of the financial year 30/09/2017.
Decision(s)	**The Committee:** 1. **RECOMMENDS** to Council that it approves the Treasury Management Activity Half-year Report for 2017/2018, and 2. **RESOLVES** the amendment to investment duration to 2 years for up to £3million with government supported banks, as set out in paragraph 17 of this report.
Consultation and Feedback	Capita Asset Services Limited
Financial Implications & Risk Assessment	David Stanley, Accountancy Manager (Section 151 Officer) Tel: 01453 754100 Email: david.stanley@stroud.gov.uk
Legal Implications	None (Ref: KT/c13.11.17)
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Chair of Committee	Councillor Nigel Studdert-Kennedy Tel: 01453 821491 E-mail: cllr.nigel.studdert-kennedy@stroud.gov.uk
Options	None
Performance Management Follow Up	A third quarter report and a full 2017/18 annual report.
Appendices	A – Prudential Indicators as at 30 Sept 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 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 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 half year 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 30 September and 30 June 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 half year is shown in the table below:

TABLE 1: Average Interest Rate Compared With Benchmark Rates

Period	Investment Interest Earned	Average Net 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%
01/07/17 - 30/09/17	£45,235	£36.120m	0.49%	0.11%	0.18%
Total	**£88,338**	**£36.120m**	**0.49%**	**0.11%**	**0.18%**

8. The Local Area Mortgage Scheme investment of £1m which matured on the 24th April 2017 at 3.8% with Lloyds is excluded from the above table. If this interest is included the interest earned is £91k at an average interest rate of 0.XX%.

9. Table 2 below shows the investments and borrowing position at the end of September 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 half year 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

	Jun 2017 £'000		Sep 2017 £'000	
Federated Prime Rate	1,900		3,264	
Deutsche	1		0	
Goldman Sachs	1		1	
Standard Life	0		2,034	
Money Market Funds Total		**1,902**		**5,299**
Bank of Scotland	3,000		0	
Lloyds	4,425		6,428	
Lloyds Banking Group Total		**7,425**		**6,428**
Royal Bank of Scotland	1,007		4,008	
RBS Banking Group Total		**1,007**		**4,008**
Goldman Sachs	8,000		8,000	
Standard Chartered	2,000		2,000	
Santander	4,604		4,607	
Barclays Bank Plc	1		1	
Svenska Handelsbanken	1,500		7,802	
UBS	2,000		0	
Rabobanks	2,000		2,000	
Other Banks Total		**20,105**		**24,410**
TOTAL INVESTMENTS		**£30,439**		**£40,145**
Local Authority		2,000		2,000
PWLB		104,717		104,717
TOTAL BORROWING		**£106,717**		**£106,717**

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 30 September 2017. There is also £4.740m 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 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.

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15. The Markets in Financial Instruments Directives is EU legislation that changes, from 3 January 2018, the 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 so will do so to maintain the range of investments available. An example of where the Council is opting up is with Money Market Funds.

Pension Pre-Payment

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.

Increasing return on investments

17. The current Treasury Strategy approved in February 2017commits the Council to following Capita Asset Services (CAS) advice in terms of the length of investment permitted. It is recommended that the Strategy is amended to allow up to £3m to be invested with UK government supported banks for up to a period of 2 years (which is currently beyond the duration advised by CAS) . Any such investment being justified on the rate of return available, and being achievable from a cash flow perspective, and subject to specific approval by the Section 151 officer.

Appendix A

Prudential Indicators as at September 2017

Prudential Indicator	2017/18 Indicator £'000	Actual as at 30 June 2017 £'000	Actual as at 30 September 2017 £'000
Capital Financing Requirement (CFR)	113,984	112,088	112,720
Gross Borrowing	107,717	106,717	106,717
Authorised Limit for external debt	128,000	106,717	106,717
Operational Boundary for external debt	120,000	106,717	106,717
Limit of fixed interest rates based on net debt	100%	100%	100%
Limit of variable interest rates based on net debt	25%	0%	0%
Principal sums invested > 364 days	8,000	0	0
Maturity structure of borrowing limits			
Under 12 months	25%	1%	1%
12 months to 2 years	50%	0%	0%
2 years to 5 years	75%	1%	1%
5 years to 10 years	100%	2%	2%
10 years and above	100%	96%	96%

Appendix B

Explanation of prudential indicators

Central Government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permitted local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Gross borrowing – compares estimated gross borrowing in February 2017 strategy with actual gross borrowing as at 30 June 2017.

Capital financing requirement (CFR) – the capital financing requirement shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. The overall positive CFR of £113,984m provides the Council with the opportunity to borrow if appropriate. No external borrowing is planned for 2017/18.

Authorised limit for external debt - this is the maximum limit for gross external indebtedness. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cashflows. This limit has not been breached in the period 1 April 2017 to 30 September 2017.

Operational boundary for external debt – this is set as the more likely amount that may be required for day to day cashflow. This limit has not been breached in the period 1 April 2017 to 30 September 2017.

Upper limit for fixed and variable interest rate exposure – these limits allow the Council flexibility in its investment and borrowing options. Current investments are either fixed rate term investments or on call. Borrowing is at a fixed rate.

Upper limit for total principal sums invested for over 364 days – the amount it is considered can prudently be invested for a period in excess of a year. Current policy only permits lending beyond 1 year with other Local Authorities up to a maximum of 3 years.