

STROUD DISTRICT COUNCIL**AGENDA
ITEM NO****COUNCIL****24 JANUARY 2019****6a**

Audit and Standards Committee – 20 November 2018 – Agenda Item 7

Report Title	HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2018/19
Purpose of Report	To provide an update on treasury management activity as at the first half of the financial year 30/09/2018.
Decision(s)	The Audit and Standards Committee (a) RECOMMENDS that the Council APPROVES the treasury management activity half year report for 2018/2019, and (b) RECOMMENDS that the Council APPROVES the proposal to increase the limit for investment in property funds to £10m set out in paragraph 15.
Consultation and Feedback	Link Asset Services Limited
Financial Implications & Risk Assessment	<p>The increase in the limit for investment in property funds is a change in the risk appetite of the Council and creates an opportunity to generate additional returns on the Council's investments.</p> <p>Any investments placed must be in line with the treasury management strategy and the principles of security, liquidity and yield.</p> <p>Andrew Cummings, Head Of Finance & Section 151 Officer Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk</p>
Legal Implications	<p>The Council is required to comply with professional codes, legislation and guidance to accord with regulations issues under the Local Government Act 2003.</p> <p>Nicola Swan, Interim Head of Legal Services & Monitoring Officer Tel: 01453 754369 Email: nicola.swan@stroud.gov.uk</p>

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Options	Further options to increase return on investments are under consideration for inclusion in the 2019/20 Treasury Management Strategy.
Performance Management Follow Up	A third quarter report and a full 2018/19 annual report.
Appendices	A – Prudential Indicators as at 30 Sept 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 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:
 - o A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
 - o A review of the Council’s investment portfolio for 2018/19
 - o A review of the Council’s borrowing strategy for 2018/19
 - o A review of compliance with Treasury and Prudential Limits for 2018/19
 - o 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:
 - o Security of Capital
 - o Liquidity
 - o 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. A breakdown of the Council's investment portfolio as at 30 September and 30 June 2018 is shown in Table 2 of this report. Investments and borrowing during the year have been in line with the Strategy.

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 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
01/04/18 - 30/06/18	£56,547	£36,344	0.63%	0.36%	0.51%
01/07/18 - 30/09/18	£76,772	£44,086	0.70%	0.59%	0.68%
Total	£133,319	£40,236	0.66%	0.48%	0.60%

8. Table 2 below shows the investments and borrowing position at the end of September 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 half year of 2018/19.
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 and canal project. The authority holds £7m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

TABLE 2: Investments & Borrowing

	Jun 2018 £'000	Sep 2018 £'000
Federated Prime Rate	2,429	3,984
Deutsche	0	3,750
Goldman Sachs	4	1,743
Standard Life	1	2
Money Market Funds Total	2,434	9,479
Bank of Scotland	1,500	1,500
Lloyds	6,449	6,458
Lloyds Banking Group Total	7,949	7,958
NatWest	105	6001
Royal Bank of Scotland	3,007	7
RBS Banking Group Total	3,112	6,008
Goldman Sachs	4,000	4,000
Standard Chartered	4,000	2,000
Santander	7,062	7,066
Barclays Bank Plc	4,510	4,518
Svenska Handelsbanken	2	2,001
Other Banks Total	19,574	19,585
Coventry Building Society	4000 4000	4000 4000
TOTAL INVESTMENTS	<u>£37,069</u>	<u>£47,030</u>
Local Authority	2,000	2,000
PWLB	103,717	103,717
TOTAL BORROWING	<u>£105,717</u>	<u>£105,717</u>

Borrowing

11. The Council's Capital Financing Requirements (CFR) 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 30 September 2018. There is also £6.647m of internal borrowing.

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 30 September 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. The Prudential and Treasury Indicators are shown in Appendix A.

Increasing return on investments

14. Following on from the problems faced by the Council and many public sector organisations throughout the country regarding Icelandic investments the Council has adopted a risk-averse approach to treasury investments. There is a financial cost to this approach, and it is time to adopt a different risk profile for the Council's investments and the first step towards this is taken in this half-year report.
15. An amendment to the maximum sum the Council can invest in a property fund from £3m to £10m is proposed. This will amend the 2018-19 Treasury Management Strategy and it signals a necessary increase in risk appetite. This proposal is in line with the need identified in the Budget Strategy 2019/20 – 2022/23 report to October 2018 Strategy and Resources Committee for increased income generation. Other options to widen the range of permitted investments will be included within the 2019-20 Treasury Management Strategy.
16. The increase in the Prudential limits for property funds makes it possible for such investments to take place. Before any investments are placed members will be informed of the possible funds and their characteristics including potential returns and risks.

Capital Strategy

17. 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 will be required to prepare a Capital Strategy which is intended to 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
18. The Capital Strategy will be considered at Strategy and Resources Committee, and full Council, as part of the budget proposals in January 2019.

Prudential Indicators as at September 2018

Prudential Indicator	2018/19 Indicator £'000	Actual as at 30 June 2018 £'000	Actual as at 30 Sept 2018 £'000
Capital Financing Requirement (CFR)	112,180	112,364	112,364
Gross Borrowing	107,717	105,717	105,717
Authorised Limit for external debt	130,000	105,717	105,717
Operational Boundary for external debt	122,000	105,717	105,717
Principal sums invested > 365 days	7,000	0	0
Maturity structure of borrowing limits			
Under 12 months	25%	2%	2%
12 months to 2 years	50%	0%	0%
2 years to 5 years	75%	3%	1%
5 years to 10 years	100%	0%	2%
10 years and above	100%	95%	95%

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 2018 strategy with actual gross borrowing as at 30 June 2018 and 30 September 2018.

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 £112,364m provides the Council with the opportunity to borrow if appropriate. No external borrowing is planned for 2018/19.

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 2018 to 30 September 2018.

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 2018 to 30 September 2018.

Upper limit for total principal sums invested for over 365 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.