

## AUDIT AND STANDARDS COMMITTEE

22 NOVEMBER 2016

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<b>Report Title</b>	<b>HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2016/17</b>
<b>Purpose of Report</b>	To provide an update on treasury management activity as at the first half of the financial year 30/09/2016.
<b>Decision(s)</b>	<b>The Audit and Standards Committee RECOMMENDS that the Council APPROVES the treasury management activity half year report for 2016/2017.</b>
<b>Consultation and Feedback</b>	Capita Asset Services Limited
<b>Financial Implications &amp; Risk Assessment</b>	<p>The Treasury Management half-year report provides members with details of both performance against and compliance with the approved Treasury Management Strategy.</p> <p>The report highlights an average rate of return for the first 2 quarters of 0.72% and 0.70% respectively. The current Bank of England base rate and the impact of economic uncertainty in the light of the decision to leave the European Union are likely to have an adverse effect on the council's investment income.</p> <p>David Stanley, Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk</p>
<b>Legal Implications</b>	The report is provided largely for information and as such there are no significant legal implications to report in terms of the recommended decision. Karen Trickey, Legal Services Manager
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<b>Chair of Committee</b>	Councillor Nigel Studdert-Kennedy Tel: 01453 821491 E-mail: <a href="mailto:cllr.nigel.studdert-kennedy@stroud.gov.uk">cllr.nigel.studdert-kennedy@stroud.gov.uk</a>
<b>Options</b>	None
<b>Performance Management Follow Up</b>	A third quarter report and a full 2016/17 annual report.

<b>Background Papers</b>	<ul style="list-style-type: none"> <li>o Council Report 28 January 2016, Agenda Item 4(g), Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2016/17</li> </ul>
<b>Appendices</b>	<ul style="list-style-type: none"> <li>A – Economic Update</li> <li>B – Prudential Indicators as at 30 Sept 2016</li> <li>C – Explanation of prudential indicators</li> </ul>

## 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:
  - o An economic update – Appendix A
  - o A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
  - o A review of the Council's investment portfolio for 2016/17
  - o A review of the Council's borrowing strategy for 2016/17
  - o A review of compliance with Treasury and Prudential Limits for 2016/17
  - o Other Treasury issues

## Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2016/17 was approved by Council on 28 January 2016. 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

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 2016 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 a breach of an amount limit breached during the first quarter and already reported in the first quarter report.
7. Capita's latest economic analysis is set out in Appendix A.

### **Investment Portfolio 2016/17**

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**

<b>Period</b>	<b>Investment Interest Earned</b>	<b>Average Investment</b>	<b>Average Interest Rate</b>	<b>Benchmark 7 day LIBID</b>	<b>Benchmark 3 month LIBID</b>
01/04/16 - 30/06/16	£59,510	£34.328m	0.72 %	0.36 %	0.43 %
01/04/16 - 30/09/16	£118,101	£34.849	0.70%	0.12%	0.25%

9. Interest earned from the Local Area Mortgage Scheme investment of £1m at 3.8% with Lloyds is excluded. These amounts of interest are excluded because the investments are not as a result of Treasury Management decisions. When the interest is included this interest earned is £137,049k at an average interest rate of 0.787%.
10. Table 2 below shows the investments and borrowing position at the end of September 2016.
11. The approved limits as set out in the Treasury Management Strategy report to Council 28<sup>th</sup> January 2016 within the Annual Investment Strategy were breached once during the first quarter of 2016/17. The breach was an investment total of £411k for the period of 15<sup>th</sup> June 2016 until the next fixed term investment matured on the 22<sup>nd</sup> July 2016.
12. 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**

	<b>Jun 16</b>	<b>Sep 16</b>
	<b>£'000</b>	<b>£'000</b>
<b>Money Market Funds Total</b>	<b>3,131</b>	<b>7046</b>
Bank of Scotland	3,000	3,500
Lloyds	5,410	4,413
<b>Lloyds Banking Group Total</b>	<b>8,410</b>	<b>7,913</b>
NatWest	1	0
Royal Bank of Scotland	2,007	7
<b>RBS Banking Group Total</b>	<b>2,008</b>	<b>8</b>
<b>Svenska Handelsbanken</b>	<b>10</b>	<b>10</b>
<b>Barclays Bank</b>	<b>2</b>	<b>2</b>
<b>Santander</b>	<b>7,933</b>	<b>7,956</b>
Toronto Dominion	2,000	2,000
Nordea	1,000	1,000
UBS Ltd		2,000
<b>Certificates of Deposits</b>	<b>3,000</b>	<b>5,000</b>
Nationwide	6,000	6,000
<b>Building Societies</b>	<b>6,000</b>	<b>6,000</b>
<b>TOTAL INVESTMENTS</b>	<b><u>30,494</u></b>	<b><u>33,935</u></b>
Local Authority	2,000	2,000
PWLB	104,717	104,717
<b>TOTAL BORROWING</b>	<b><u>106,717</u></b>	<b><u>106,717</u></b>

### **External Borrowing**

13. The Council's Capital Financing Requirements (CFR) for 2016/17 is £114.381m. 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 borrowing of £106.717m as at 30 September 2016. Further HRA borrowing of £1.2m had been planned during the year together with up to £6.5m of General Fund borrowing. As at September 2016 £2m of borrowing has been undertaken.

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

14. 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.
15. During the period to 30 September 2016 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 B.