

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**28 NOVEMBER 2017**

**11**

<b>Report Title</b>	<b>HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2017/18</b>
<b>Purpose of Report</b>	To provide an update on treasury management activity as at the first half of the financial year 30/09/2017.
<b>Decision(s)</b>	<b>The Committee:</b> 1. <b>RECOMMENDS</b> to Council that it approves the Treasury Management Activity Half-year Report for 2017/2018, and 2. <b>RESOLVES</b> 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.
<b>Consultation and Feedback</b>	Capita Asset Services Limited
<b>Financial Implications &amp; Risk Assessment</b>	David Stanley, Accountancy Manager (Section 151 Officer) Tel: 01453 754100 Email: david.stanley@stroud.gov.uk
<b>Legal Implications</b>	None (Ref: KT/c13.11.17)
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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 2017/18 annual report.
<b>Appendices</b>	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**

<b>Period</b>	<b>Investment Interest Earned</b>	<b>Average Net Investment</b>	<b>Average Interest Rate</b>	<b>Benchmark 7 day LIBID</b>	<b>Benchmark 3 month LIBID</b>
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%
<b>Total</b>	<b>£88,338</b>	<b>£36.120m</b>	<b>0.49%</b>	<b>0.11%</b>	<b>0.18%</b>

8. The Local Area Mortgage Scheme investment of £1m which matured on the 24<sup>th</sup> 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
<b>Money Market Funds Total</b>	<b>1,902</b>	<b>5,299</b>
Bank of Scotland	3,000	0
Lloyds	4,425	6,428
<b>Lloyds Banking Group Total</b>	<b>7,425</b>	<b>6,428</b>
Royal Bank of Scotland	1,007	4,008
<b>RBS Banking Group Total</b>	<b>1,007</b>	<b>4,008</b>
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
<b>Other Banks Total</b>	<b>20,105</b>	<b>24,410</b>
<b>TOTAL INVESTMENTS</b>	<b><u>£30,439</u></b>	<b><u>£40,145</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>

**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.

## **MIFID II**

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 2017 commits 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.