

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

26 JULY 2018

7

Report Title	1ST QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2018/19
Purpose of Report	To provide an update on treasury management activity as at 30/06/2018.
Decision(s)	The Audit and Standards Committee APPROVES the treasury management activity first quarter report for 2018/2019.
Consultation and Feedback	Link Asset Services Limited
Financial Implications & Risk Assessment	Interest of £57k in the first quarter is on target to achieve £180k for 2018/19. Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk
Legal Implications	There are no significant legal implications arising from the decision recommended in this report. (Ref : rc10718d12718) Karen Trickey, Legal Services Manager and Monitoring Officer Email : karen.trickey@stroud.gov.uk Tel: 01453 754369
Report Author	Maxine Bell, Snr Accounting Officer Tel: 01453 754134 E-mail: maxine.bell@stroud.gov.uk
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	Further quarterly reports and a full 2018/19 annual report.
Appendices	A – Prudential Indicators as at 30 June 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 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).

Discussion

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code in November 2011, originally adopted by this Council on 21 January 2010. This first 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 2018/19
 - A review of the Council's borrowing strategy for 2018/19
 - A review of compliance with Treasury and Prudential Limits for 2018/19.
 - 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:
 1. Security of Capital
 2. Liquidity
 3. Yield
5. In 2018-19 the Council will continue to invest for the longest permitted duration with quality counterparties to maximise return without compromising security, or liquidity. In particular instances the Section 151 Officer will authorise investments in the LAS blue category for a period of up to two years, which is currently longer than the LAS recommended duration of one year. Otherwise, the length of investments permitted will vary if necessary in line with LAS advice subject to the Council's 3-year upper limit.
6. A breakdown of the Council's investment portfolio as at 30 June 2018 is shown in Table 2 of this report. Investments & borrowing during the year have been in line with the strategy.
7. Current advice from Link is to invest for no more than a year with UK banks, or up to a maximum of five years with government or local government provided they are sufficiently highly rated on Link's weekly list.

Investment Portfolio 2018/19

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 first quarter is shown in the table below:

TABLE 1: Average Interest Rate Compared With Benchmark Rates

Period	Investment Interest Earned	Average Investment	Average Interest Rate	Benchmark 7 day LIBID	Benchmark 3 month LIBID
01/04/18 - 30/06/18	£56,547	£36.344m	0.6316%	0.36%	0.51%

9. Table 2 below shows the investments and borrowing position at the end of June 2018.
10. The approved limits as set out in the Treasury Management Strategy report to Council 22nd February 2018 within the Annual Investment Strategy were not breached during the first 3 months of 2018/19.
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 £7m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

		June 2018
		£'000
Standard Life	1	
Federated Prime Rate	2,429	
Deutsche	0	
Goldman Sachs	4	
Money Market Funds Total		2,434
Bank of Scotland	1,500	
Lloyds	6,449	
Lloyds Banking Group Total		7,949
NatWest	105	
Royal Bank of Scotland	3,007	
RBS Banking Group Total		3,112
Goldman Sachs	4,000	
Standard Chartered	4,000	
Santander	7,062	
Barclays Bank Plc	4,510	
Svenska Handelsbanken	2	
Other Banks Total		19,574
Coventry Building Society	4,000	4,000
TOTAL INVESTMENTS		<u>£37,069</u>
Local Authority		2,000
PWLB		103,717
TOTAL BORROWING		<u>£105,717</u>

External Borrowing

12. The Council's Capital Financing Requirements (CFR) for 2018/19 is £112.18m. 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 £105,717m as at 30 June 2018.

13. 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 June 2018 the Council has operated within treasury limits and Prudential Indicators set out in the Council’s TMSS and with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix A.

Prudential Indicators as at June 2018

Prudential Indicator	2018/19 Indicator £'000	Actual as at 30 June 2018 £'000
Capital Financing Requirement (CFR)	112,180	112,364
Gross Borrowing	107,717	105,717
Authorised Limit for external debt	130,000	105,717
Operational Boundary for external debt	122,000	105,717
Limit of fixed interest rates based on net debt	100%	100%
Limit of variable interest rates based on net debt	100%	0%
Principal sums invested > 364 days	8,000	0
Maturity structure of borrowing limits		
Under 12 months	100%	2%
12 months to 2 years	100%	0%
2 years to 5 years	100%	3%
5 years to 10 years	100%	0%
10 years and above	100%	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.

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. £1m of borrowing is planned for 2018/19 arising from the approved capital programme.

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 June 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 June 2018.

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.