**Cabinet**
**23 November 2017**

# Treasury Management Strategy-Mid Year Review Report 2017/18

**Cabinet Member:** Cllr Peter Hare Scott
**Responsible Officer**: Director of Finance, Assets & Resources (Andrew Jarrett)

**Reason for Report:** To inform the Cabinet of the treasury performance during the first six months of 2017/18 and agree the ongoing deposit strategy for the remainder of 2017/18 and a review of compliance with Treasury and Prudential Limits for 2017/18 (Appendix 1).

**Recommendation: That Cabinet recommends to Council that a continuation of the current policy outlined at paragraph 6.2 be agreed**

**Relationship to Corporate Plan:** Maximising investment return whilst minimising risk of credit default enables the Council to finance the delivery of its Corporate Plan objectives.

**Financial Implications:** Good financial management and administration underpins the entire strategy. The Council's Treasury Management Strategy should attempt to maximise investment return commensurate with the minimum risk to the principal sums invested**.**

**Legal Implications**: The Council is under a statutory duty to "have regard" to the 2011 CIPFA Treasury Management Code of Practice. The Council's own Financial Regulations include requirements as to the reporting of treasury management information.

**Risk Assessment**: The Council considers deposit security as the paramount function in any treasury dealings or activities. It should be noted that any investment decisions will always be subject to a degree of risk. However, in complying with an agreed Treasury Management Strategy, these risks would be kept to a minimum acceptable level.

## 1.0 Introduction

1.1 CIPFA's Code of Practice for Treasury Management recommends the annual setting of a Treasury Management Strategy and best practice dictates a half yearly update of treasury performance. This report will not only update members on the treasury performance over the first six months of 2017/18, but will also seek approval for the ongoing deposit strategy.

## 2.0 Treasury Performance 1/4/17 to 30/09/17

2.1 The table below shows the Council's overall treasury management position for the first six months of 2017/18.

| | Average Interest % | Total Interest as at 30/9/17 | Forecast Year-end position |
|---|---|---|---|
| Temporary Investments and Deposits | 0.51% | £72k | £131k |
| CCLA dividends | 4.65% | £116k | £219k |
| **Total** | | **£ 188k** | **£350k** |

2.2 The General Fund 2017/18 budget for all investment activity is £254k and for the Housing Revenue Account is £40k.

2.3 At the Monetary Policy Committee (MPC) meeting of 2 November, members voted to increase Bank Rate by 0.25% to 0.50%. The MPC also gave forward guidance that they expected Bank Rate to increase twice more in the next two years to reach 1.0% by 2020. It is currently estimated that the Council will generate an investment return of approximately £350k. Members should note that historically we are able to invest significantly more monies in the first half of each financial year.

2.4 Interest rate forecasts

2.4.1 The Council's treasury advisor, Link Asset Services (formerly Capita Asset Services), has provided the following forecast:

| | NOW | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BANK RATE | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.25 | 1.25 | 1.25 |
| 3 month LIBID | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.60 | 0.60 | 0.60 | 0.70 | 0.90 | 0.90 | 1.00 | 1.20 | 1.20 | 1.20 |
| 6 month LIBID | 0.45 | 0.50 | 0.50 | 0.50 | 0.60 | 0.80 | 0.80 | 0.80 | 0.90 | 1.00 | 1.00 | 1.10 | 1.30 | 1.30 | 1.40 |
| 12 month LIBID | 0.65 | 0.70 | 0.80 | 0.80 | 0.90 | 1.00 | 1.00 | 1.10 | 1.10 | 1.30 | 1.30 | 1.40 | 1.50 | 1.50 | 1.60 |
| | | | | | | | | | | | | | | | |
| 5 yr PWLB | 1.50 | 1.50 | 1.60 | 1.60 | 1.70 | 1.80 | 1.80 | 1.90 | 1.90 | 2.00 | 2.10 | 2.10 | 2.20 | 2.30 | 2.30 |
| 10 yr PWLB | 2.10 | 2.10 | 2.20 | 2.30 | 2.40 | 2.40 | 2.50 | 2.60 | 2.60 | 2.70 | 2.70 | 2.80 | 2.90 | 2.90 | 3.00 |
| 25 yr PWLB | 2.70 | 2.80 | 2.90 | 3.00 | 3.00 | 3.10 | 3.10 | 3.20 | 3.20 | 3.30 | 3.40 | 3.50 | 3.50 | 3.60 | 3.60 |
| 50 yr PWLB | 2.40 | 2.50 | 2.60 | 2.70 | 2.80 | 2.90 | 2.90 | 3.00 | 3.00 | 3.10 | 3.20 | 3.30 | 3.30 | 3.40 | 3.40 |

## 3.0 Current Portfolio Position

3.1 The Council's treasury portfolio position as at 30 September 2017 was made up of short-term investments/deposits to the value of £29.29m. These investments comprised:

£ 24.00m in fixed term investments
£ 2.00m in a notice account
£ 3.29m in Natwest bank call accounts
£ 5.00m with CCLA commercial property fund

Detailed list of deposits/short term investments:

| Institution | Principal: (£) | Rate: | Start Date: | Maturity Date: |
|---|---|---|---|---|
| Lloyds | 500,000 | 1.00% | 30/09/2016 | 29/09/2017 |
| Lloyds | 1,000,000 | 1.00% | 14/10/2016 | 13/10/2017 |
| Lloyds | 500,000 | 1.00% | 02/12/2016 | 01/12/2017 |
| Thurrock BC | 1,000,000 | 0.45% | 20/01/2017 | 27/11/2017 |
| Lloyds | 500,000 | 0.90% | 14/02/2017 | 14/02/2018 |
| Lloyds | 1,000,000 | 0.90% | 15/03/2017 | 15/03/2018 |
| Coventry | 2,000,000 | 0.46% | 03/04/2017 | 23/10/2017 |
| Nationwide | 3,000,000 | 0.32% | 15/05/2017 | 23/10/2017 |
| Nationwide | 2,000,000 | 0.45% | 25/05/2017 | 16/03/2018 |
| Coventry | 2,000,000 | 0.54% | 15/06/2017 | 14/06/2018 |
| Santander | 3,000,000 | 0.35% | 03/07/2017 | 08/02/2018 |
| Santander | 1,000,000 | 0.47% | 17/07/2017 | 16/07/2018 |
| Coventry | 1,000,000 | 0.45% | 28/07/2017 | 30/07/2018 |
| Barclays | 2,500,000 | 0.57% | 01/08/2017 | 01/08/2018 |
| Barclays | 1,500,000 | 0.54% | 31/08/2017 | 31/08/2018 |
| Lloyds | 1,500,000 | 0.65% | 19/09/2017 | 19/09/2018 |
| Goldman Sachs* | 2,000,000 | 0.86% | 01/02/2017 | - |

* notice account

3.2 **Property Fund**: The Council currently has £5m deposited with the CCLA (Churches, Charities and Local Authorities) commercial property fund. Dividends are paid quarterly; first two quarter dividends of 4.65% were earned.

3.3 The Council received an average return of 0.51% on investments during the first six months and 0.01% on current account balances. The return on investments for the first half of the year has been propped up by investments made in the previous year. The expectation for the second half of the year is uncertain given the recent BOE rate and concerns over the impact of Brexit.

3.4 During 2016/17 an average rate of investment return of 0.72% was earned at the mid-year point.

## 4.0 Borrowing Requirements

4.1 The Council has no short term borrowing but has existing PWLB loans of £43.1m at the end of September 2017, in addition to £440k in finance leases.

4.2 The Council has not undertaken any new borrowing during 2017/18. The most recent undertaking was on 27 March 2015 when £4.17m was borrowed for the purchase of Market Walk and 30-32 Fore Street, Tiverton.

4.3 Members should therefore note that any activity during the remainder of 2017/18 will keep us within approved treasury and policy limits previously agreed. (See Appendix 1 for main Prudential Indicators)

## 5.0 Annual Investment Strategy

5.1 Any fixed term investments in the market place (except Debt Management Office [DMO]) are restricted to a maximum term of one year. The Council's substantial commitments (particularly the monthly precepts to the Devon County Council, the Police and Fire Authority) constrain the term of investments. The Cabinet of 9 February 2012 resolved to a continuation of the policy to invest all surplus funds with the main UK banks and building societies, subject to strict lending criteria.

5.2 The Council will continue to have regard to the DCLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes ("the CIPFA Treasury Management Code").

## 6.0 Lending Criteria and Counterparty Limits

6.1 The current policy has been very slightly relaxed over time and at present the policy allows the lending of funds to be deposited with major UK banks and building societies with an investment period no longer than one year and where the counter party is required to meet the following ratings requirements: Banks (Fitch F1, F1+) and for building societies based upon a minimum Fitch rating of F1 and an asset base level of at least £1bn. The maximum lending limit to any group counterparty is £5m. The policy includes investments with CCLA property fund and money market funds with a limit of £2m on this option. Note that delegation was provided to the S151 officer and Finance Portfolio Holder in 2011/12 to make reactive decisions when market conditions changed due to volatility in rating changes when our own bankers, Natwest, were downgraded, along with other part nationalised banks. We do not invest any term deposits with the Royal Bank of Scotland Group and only have our call accounts with them.

6.2 Officers would recommend a continuation of the existing policy for investments with banks and building societies, property funds and money market funds.

6.3 In addition to these fixed term deposits, the Council also uses an instant access liquidity account with the National Westminster Bank (the Council's banker) to sweep any small surplus funds which cannot be placed by our brokers. Again, this account will be subject to the same £5m maximum deposit level.

6.4 The Council will also continue to lend to:

- Local Authorities, Police and Fire & Rescue Authorities

- DMOADF

6.5 None of the investments made to organisations stated in paragraph 6.4 will be constrained to a maximum deposit of £5m due to the level of attached risk.

## 7.0 Future Outlook

7.1 Economic forecasting remains difficult with so many external influences weighing on the UK. Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecast for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e. equities, or the "safe haven" of government bonds.

7.2 The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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