Cabinet
27 October 2015

Half Year Investment Performance & Review of Treasury Management Strategy 2016/17

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 2016/17 and agree the ongoing deposit strategy for the remainder of 2016/17 and a review of compliance with Treasury and Prudential Limits for 2016/17 (Appendix 1).

Recommendation: To agree a continuation of the current policy outlined at paragraph 6.0.

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

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: Compliance with the CIPFA Code is a statutory duty.

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 2016/17, it will also seek approval for the ongoing deposit strategy.

2.0 Treasury Performance 1/4/16 to 30/09/16

2.1 The table below shows our overall Treasury Management position for the first six months of 2016/17.

	Average Interest %	Total Interest as at 30/9/16	Forecast Year-end position
Temp Invests & Deposits	0.72%	£68k	£125k
Nat West Bank a/c	0.42%	£9k	13k
CCLA dividends	4.43%*	£83k*	£163k
Total		**£ 160k**	**£301k**

*based on Q2 estimate

2.2 The General Fund 2016/17 budget for all investment activity is £171k and for the Housing Revenue Account is £40k.

2.3 UK Bank interest rates continue to remain at historically low levels. It is currently estimated that the Council will generate an investment return of approximately £301k. 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, Capita Asset Services, has provided the following forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

3.0 Current Portfolio Position

3.1 The Council's Treasury Portfolio position as at 30 September 2016 was made up of short-term investments/deposits to the value of £26.69m. These investments comprised:

£ 20.0m in fixed term investments
£ 2.69m in Natwest bank call accounts
£ 4.00m with CCLA commercial property fund

Detailed list of deposits/short term investments:

Institution	Principal: (£)	Rate:	Start Date:	Maturity Date:
Lloyds	1,000,000	1.05%	15/10/2015	14/10/2016
Lloyds	500,000	1.05%	03/11/2015	02/11/2016
Lloyds	500,000	1.05%	15/02/2016	14/02/2017
Lloyds	1,000,000	1.05%	01/03/2016	01/03/2017
Standard Chartered	2,000,000	0.74%	29/04/2016	28/10/2016
Standard Chartered	1,000,000	0.73%	04/05/2016	04/11/2016
Standard Chartered	1,000,000	0.66%	19/05/2016	20/10/2016
Sumitomo	1,000,000	0.69%	02/06/2016	02/12/2016
Nationwide	1,000,000	0.56%	12/07/2016	17/03/2017
Santander	1,500,000	0.60%	22/07/2016	17/03/2017
Sumitomo	1,500,000	0.38%	23/08/2016	04/01/2017
Nationwide	2,500,000	0.37%	01/09/2016	09/02/2017
Sumitomo	1,000,000	0.44%	09/09/2016	23/03/2017
Santander	2,500,000	0.41%	15/09/2016	09/02/2017
Lloyds	1,500,000	1.00%	19/09/2016	19/09/2017
Lloyds	500,000	1.00%	30/09/2016	29/09/2017

3.2 **Property Fund**: The Council currently has £4m deposited with the CCLA (Churches, Charities and Local Authorities) commercial property fund. Dividends are paid quarterly; first quarter dividends of 4.54% were earned and an estimated 4.33% in quarter 2. The Council is asked to consider whether a slight increase to our deposit level should be considered when dividend returns are compared against investment returns (see 3.3).

3.3 The Council received an average return of 0.72% on investments during the first six months and 0.42% 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, post Brexit, and the expectation for the second half of the year is for them to be under 0.60%. Similarly, on current account balances, this will fall to at least 0.25%, or further depending on subsequent base rate changes.

3.4 During 2015/16 an average rate of investment return of 0.73% 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 £44.8m at the end of September 2016 in addition to £525k in finance leases.

4.2 The Council has not undertaken any new borrowing during 2016/17. 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 2016/17 will keep us within approved Treasury & 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 and the Police and Fire Authorities) 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.

6.2 Officers would recommend a continuation of the existing policy for investments with banks and building societies.

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 own 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 It is envisaged that the average return will continue to be depressed, with future interest rate cuts a possibility following the BREXIT referendum.

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