

**Report to:** Audit & Governance Committee **Date of Meeting:** 7 December 2016

**Subject:** Treasury Management 2016/17 – Position to October 2016

**Report of:** Head of Corporate Finance & Information Services

**Wards Affected:** All

**Is this a Key Decision?** No

**Is it included in the Forward Plan?** No

**Exempt/Confidential** No

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### **Purpose/Summary**

To inform members of Treasury Management Activities undertaken to 31 October 2016.

### **Recommendation(s)**

Audit & Governance is requested to note the Treasury Management update to 31 October 2016.

### **How does the decision contribute to the Council's Corporate Objectives?**

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		√	
2	Jobs and Prosperity		√	
3	Environmental Sustainability		√	
4	Health and Well-Being		√	
5	Children and Young People		√	
6	Creating Safe Communities		√	
7	Creating Inclusive Communities		√	
8	Improving the Quality of Council Services and Strengthening Local Democracy		√	

### **Reasons for the Recommendation:**

To ensure that Audit & Governance are fully appraised of treasury activity undertaken to 31 October 2016.

### **What will it cost and how will it be financed?**

#### **(A) Revenue Costs**

The financial position on the external investments to the end of October indicates a shortfall of £8k compared to the proportion of the budget to date. If current market conditions prevail a small under-recovery of around £12k will be experienced.

**(B) Capital Costs**

None.

**Implications:**

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

<b>Legal</b>	The Council has a statutory duty to review its Treasury Management activities from time to time during the financial year. The CIPFA Treasury Management Code of Practice recommends that regular reports are prepared and considered on the implementation of treasury management policies; on the effects of decisions taken and transactions executed in pursuance of those policies	
<b>Human Resources</b>	None	
<b>Equality</b>		
1. No Equality Implication		<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated		<input type="checkbox"/>
3. Equality Implication identified and risk remains		<input type="checkbox"/>

**Impact on Service Delivery:**

None.

**What consultations have taken place on the proposals and when?**

The Chief Finance Officer has been involved in the preparation of this report. (FD 4399/16))

The Head of Regulation & Compliance has been consulted and has no comments on the report (LD3682/16)

**Are there any other options available for consideration?**

None.

**Implementation Date for the Decision**

Immediately following the Committee Meeting.

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**Background Papers:**

None.

## **1 BACKGROUND TO THE REPORT**

- 1.1 The Treasury Management Policy and Strategy document for 2016/17 (approved by Council on 3 March 2016) included a requirement for regular updates to be provided to the Audit & Governance Committee on the investment activity of the Authority. This report is the second of such reports for the year and presents relevant Treasury Management information for the period ending 31 October 2016.
- 1.2 The report includes information on the investments held / entered into during the period and the interest rates obtained (with a comparison of performance against a standard benchmark figure). In addition, the report highlights whether there has been any variance from the Treasury Management Policy Strategy and the Prudential Indicators (the operational boundaries within which the Council aims to work).

## **2 INVESTMENTS HELD**

Investments held at the end of October 2016 comprise the following:

## Overnight Deposits

Institution	Deposit £m	Rate %	Maturity	On Current Counterparty	
				List?	Rating
Federated	5.460	0.33	n/a	Yes	AAA
Invesco	4.450	0.35	n/a	Yes	AAA
Standard Life	5.230	0.35	n/a	Yes	AAA
BNP Paribas	5.460	0.38	n/a	Yes	AAA
Total	20.600				

## Call Accounts

Bank of Scotland	5.000	0.60	175 day notice	Yes	A+
Santander	2.000	0.65	95 day notice	Yes	A
Santander	2.000	0.80	120 day notice	Yes	A
Total	9.000				

## Fixed Term Deposits

Commonwealth Bank of Australia	5.000	0.82	27/01/2017	Yes	AA-
Heleba	5.000	0.84	05/01/2017	Yes	A+
Barclays	5.000	0.42	21/03/2017	Yes	A
Goldman-Sachs	5.000	0.74	06/12/2016	Yes	A
Total	20.000				

## Other

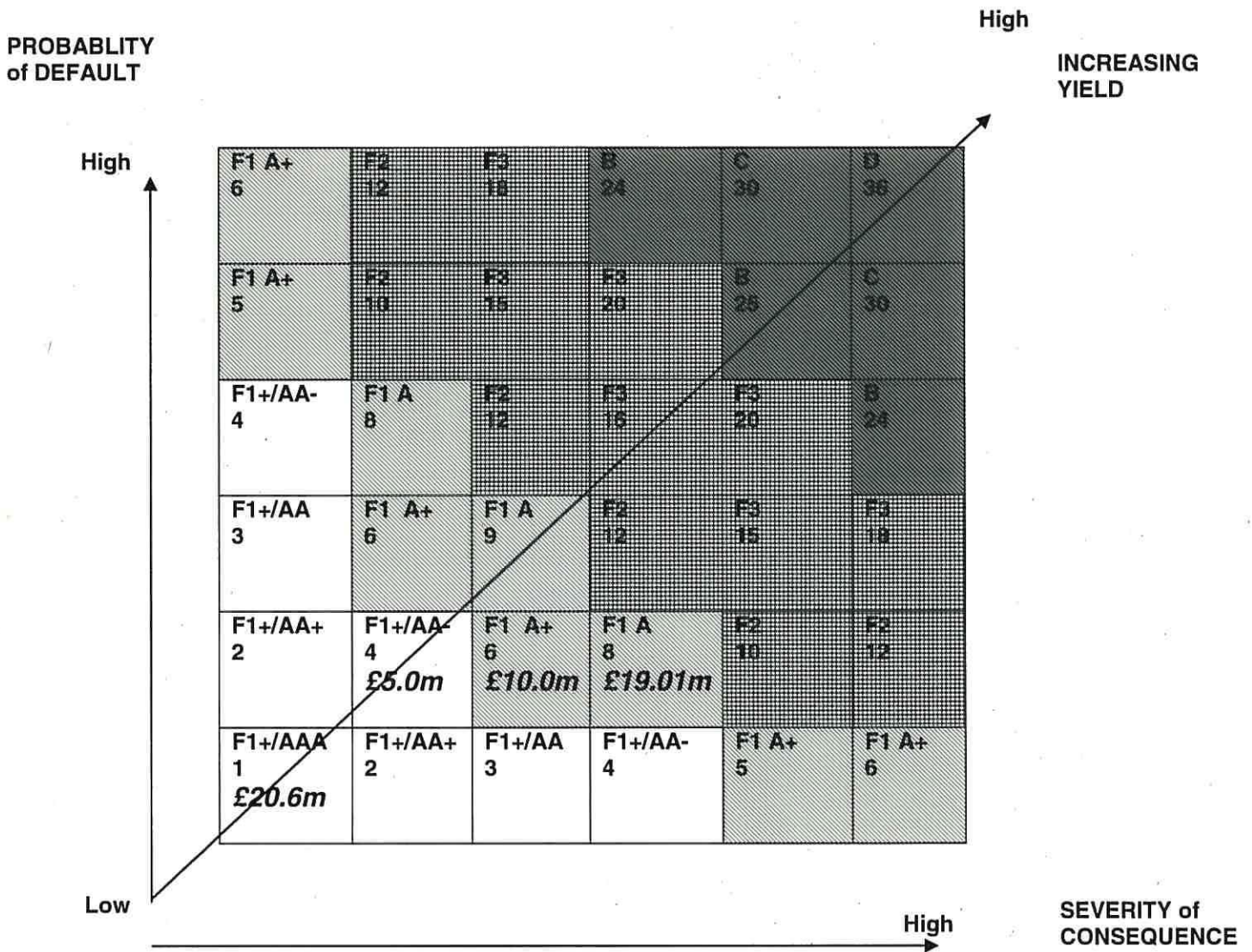
The Funding Circle	0.010	-	n/a	n/a	n/a
CCLA	5.000	5.19	n/a	Yes	n/a
Total	5.010				

- 2.1 All of the investments made since April 2016 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £25m. Whilst the maximum should be retained, in case economic conditions change, a day to day operational maximum of 10% of the total portfolio is currently being imposed. This will spread the risk of investments for the Council, but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.
- 2.2 The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or Aaa/Mr1+ for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix.
- 2.3 A sum of £10,000 has been placed with the Funding Circle, a body that helps businesses access funding at a lower interest rate than is charged commercially by bidding for funding. Interest of around 6% will be earned from funding that has

been placed on loan to businesses. However, at the end of October 2016, total lending is £2k to two separate businesses. Given the lack of success with placing loans it has been decided to withdraw the balance of funding not placed with businesses.

- 2.4 An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where the market is currently more buoyant than the north. The Council has in effect bought a share of the property portfolio, and returns paid are in the region of 5%. This is seen as a long term investment with the potential for capital growth of the investment as property prices potentially increase. However, when the investment is made fees are deducted from the initial investment hence in the first year any income received covers these fees.
- 2.5 The matrix shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield.

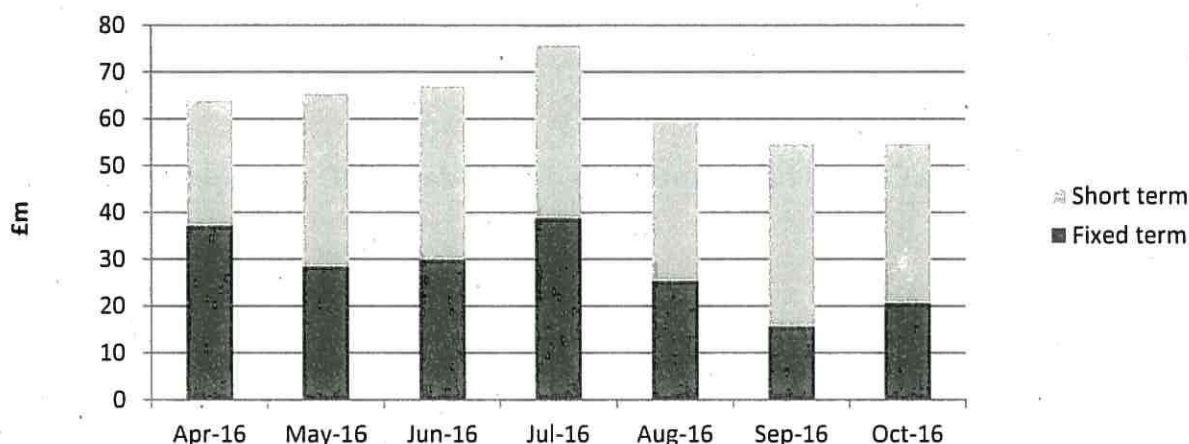




SEFTON RISK TOLERANCE	4		INVESTED
LOW RISK	1 - 4	Investment Grade	£25.6m
LOW - MEDIUM RISK	5 - 9	Investment Grade	£29.01m
MEDIUM RISK	10 - 20	Investment Grade	Nil
HIGH RISK	21 - 36	Speculative Grade	Nil

2.6 The ratio of overnight deposits (i.e. short term) to fixed term investments is illustrated below:

## Fixed and short term investments



2.7 In September one additional fixed term investment was placed with Barclays Bank for £5m

2.8 SECTOR, our Treasury Advisors, have supplied the interest rate forecast below:

Date	Now	Jun 17	Dec 17	Jun 18	Dec 18	Jun 19	Dec 19
Rate %	0.25	0.25	0.25	0.25	0.25	0.50	0.75

SECTOR's advice is that yields are still at historic lows with most value in terms of borrowing being at the 40 to 50 year range. Any borrowing undertaken must also take account of the cost of carry which is the difference between borrowing and investing rates, especially as the forecast bank rate will not start to rise until June 2019 and investment returns will remain low. Hence there is little hope of substantially improving returns in the foreseeable future.

### 3 INTEREST EARNED

3.1 The actual performance of investments against the profiled budget for the period to 31 October 2016 is shown below:

#### 2016/17 Investment Income

	Budget '000s	Actual '000s	Variance '000s
To Oct 2016	381	373	8

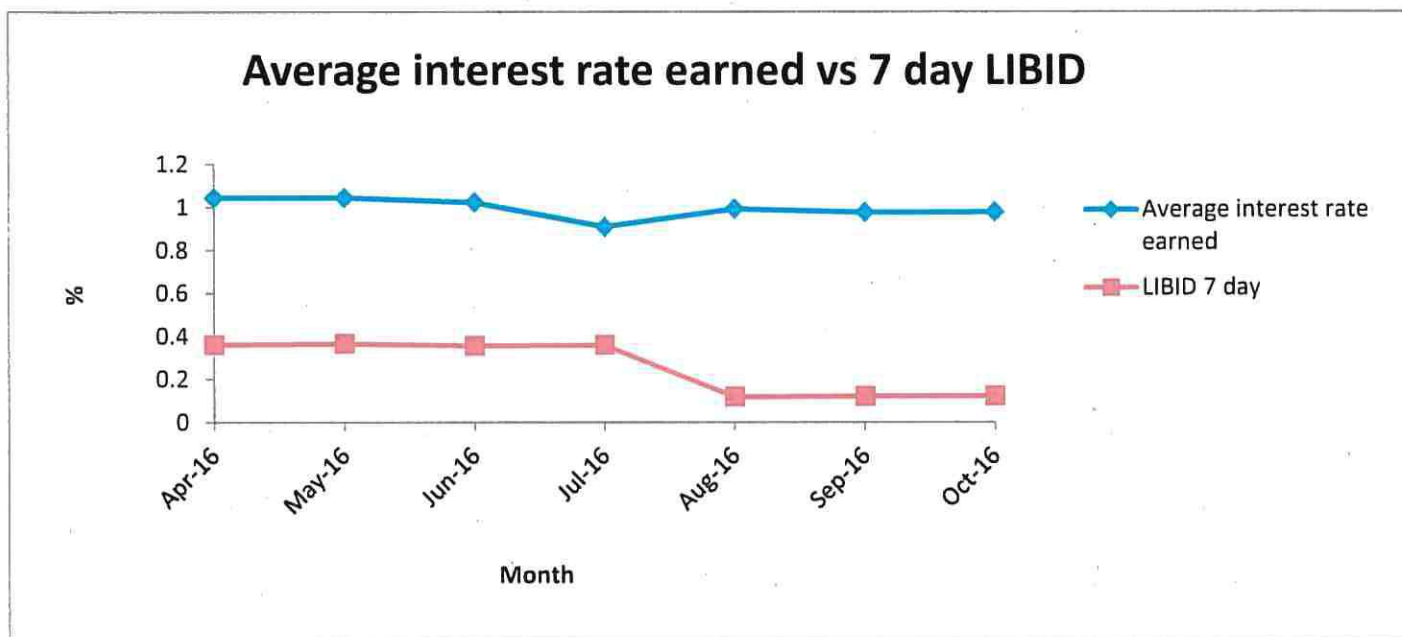
3.2 The budgeted investment return for the financial year 2016/17 is £0.595m. This figure assumes the income from investments already in place at 1st April 2016



and new returns based upon Bank of England's Base Rate projection as supplied by Sector, our treasury consultants.

- 3.3 The investment income achieved to 31 October is £0.373m, which compares to a budgeted investment return for the seven months of £0.381m. This represents a small under-recovery for the year to date.

Despite this, the Council has outperformed the 7 day LIBID average as follows:



## 4 PRUDENTIAL INDICATOR MONITORING

- 4.1 Prudential indicators are an integral component of measuring how prudently a Council is acting with regard to its finances. They were introduced into all local authorities (by CIPFA) following the Local Government Act 2003. A number of measures/limits/parameters including capital financing, external debt, impact on council tax, and treasury management are set prior to the start of the year and are monitored on a monthly basis.

- 4.2 As at October 2016 none of the prudential indicators have been breached.

## 5 MEMBERS TRAINING

It is intended to organise the annual Treasury Management training for Members on 22 March 2017. This will be provided by Council Officers and its Treasury Management Advisors. Provision of appropriate training for members of Audit and Governance committee is an integral part of the CIPFA code and as such a



comprehensive session will be developed as part of the ongoing knowledge and skills programme for Members

