
Subject:	TREASURY MANAGEMENT QUARTER ONE REPORT 2015/16
Meeting and Date:	Cabinet – 7th September 2015 Governance – 22nd September 2015
Report of:	Mike Davis – Director of Finance, Housing & Community
Portfolio Holder:	Councillor Mike Connolly – Portfolio Holder for Corporate Resources and Performance
Decision Type:	Non-Key Decision
Classification:	Unrestricted

Purpose of the report:	To provide details of the Council's treasury management for the quarter ended 30 June 2015 (Q1) and an update of activity to date.
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Recommendation:	That the report is received
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1. Summary

As at 30 June 2015, the Council's in-house investment portfolio totalled £15.9m (see Appendix 2). This includes some of the funds returned from Investec following their withdrawal from the segregated fund market, although the majority of the returned funds are sitting in overnight cash balances with our operating bank. This has resulted in us exceeding our deposit limits with our operating bank, and therefore breaching our Treasury Management Strategy Statement (TMSS) pending an update of our TMSS to deal with the higher level of in-house funds available for investment.

It is expected that we will increase the sum regarded as "investment portfolio" (as opposed to cashflow funds), which was previously at £22m approx., as part of revising our TMSS and reviewing our cashflow needs following the return of the funds from Investec.

The Council's investment return for the quarter was 0.52%, which outperformed the benchmark¹ by 0.16%. However, while the Council's budgeted investment return for 2015/16 is £333k, performance for the year is estimated to be £292k, which is £41k below budget. This is partly due to the limitations on size of deposits permissible within the current Treasury Management Strategy (TMSS), the on-going pressure on interest rates, and the reduction in deposit durations permissible for part nationalised banks following revisions to credit ratings.

The Council has remained within Prudential Code guidelines during the period.

2. Introduction and Background

(Please see the same section in the Treasury Management Year End report, also on the agenda, for more information.)

¹ The "benchmark" is the interest rate against which performance is assessed. DDC use the London Inter-Bank Bid Rate or LIBID, as its benchmark.

Council adopted the 2015/16 Treasury Management Strategy Statement (TMSS) on 4 March 2015 as part of the 2015/16 Budget and Medium Term Financial Plan.

The Revised 2015/16 Treasury Management Strategy which is also on the Cabinet agenda has been produced in response to the withdrawal, by the Council's fund managers, Investec, from the local authority segregated funds market, resulting in the return of funds from Investec, leaving the Council holding additional sums.

These are currently held in low risk overnight, instant access deposit accounts with the Council's operating bank. The risks are minimal, but nevertheless the deposits do exceed the deposit limits within the current TMSS. In addition there is a small loss of income as these are low interest accounts.

3. Annual investment strategy

At the end of June, Investec withdrew from the segregated fund market and returned the majority of funds to DDC, with the exception of the Gilts stock, which was transferred to King & Shaxson as custodians. We were aware that this would create challenges, including requiring the Council to bring the funds held with Investec back in-house. It has been necessary to revise the Treasury Management Strategy for 2015/16 to provide sufficient scope to spread the investment risk across a sufficiently wide number of banks and institutions.

The Gilt holding of £1.9 million transferred to King and Shaxson will be held until its maturity date of July 2018. The balance of the Investec funds, which were repaid in cash on 30th June 2015, totalling £11 million approx., is currently being held in the Council's NatWest SIBA account whilst the treasury management strategy is reviewed, updated and approved to deal with the higher level of in-house funds.

The investment portfolio as at the end of June is attached at Appendix 2. Since the end of the quarter, another £1 million has been invested with Nationwide for six months at a rate of 0.66% and £5 million has been invested in a money market fund with Standard Life Investments on 12th August at a rate of 0.47%. We are in the process of opening an account with HSBC to place further funds, currently in our operating bank's overnight (SIBA) account at low interest rates, in order to spread risk and earn higher returns.

Cash flow funds increased from £24.6m at 31 March 2015 to £35.4m at 30 June 2015 (see Appendix 2), which is largely due to the return of the funds previously held by Investec. The cash flow funds have risen further since 30 June 2015 to £37.4m by 31 July 2015, which reflects the increased inflow of Council Tax receipts, generally paid over 10 months from April to January, while preceptors on the Collection Fund are paid their shares of Council Tax income evenly over the year which causes some building of cash balances until February/March (see Appendix 4).

4. Economic background

Please see the same section in the Treasury Management Year End report, also on the agenda, for the economic background.

5. **Net Borrowing**

The Council's borrowing portfolio is attached at Appendix 3. No new borrowing was undertaken during the quarter.

6. **Debt Rescheduling**

At this time it is not of benefit to the Council to consider rescheduling of its long-term debt, as advised by Capita.

7. **Compliance with Treasury and Prudential Limits**

The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices, but has exceeded the level of permissible deposit with its own operating bank, NatWest, albeit in a low risk instant-access overnight deposit account. As mentioned above, it has been necessary to revise the Treasury Management Strategy Statement for 2015/16 to provide sufficient scope to spread the investment risk across a sufficiently wide number of banks and institutions.

The revised TMSS will be presented to Cabinet for approval at the same time as this report.

8. **Corporate Implications**

Comment from the Section 151 Officer: Finance have no further comments to make. (DL)

Comment from the Senior Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make. (HR)

Comment from the Equalities Officer: This report does not specifically highlight any equalities implications however, in discharging their responsibilities members are required to comply with the public sector equality duty as set out in section 149 of the Equality Act 2010 <http://www.legislation.gov.uk/ukpga/2010/15>. (KS)

Appendices

Appendix 1 – Capita treasury management report for quarter one

Appendix 2 – Investment portfolio as at 30 June 2015

Appendix 3 – Borrowing portfolio as at 30 June 2015

Appendix 4 – Investment portfolio as at 31 July 2015

Background Papers

Medium Term Financial Plan 2014/15 – 2016/17

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