Report of:	Meeting	Date	Item no.
Cllr. Alan Vincent, Resources Portfolio Holder and Philippa Davies, Corporate Director of Resources	Cabinet	2 December 2015	6

Treasury Management Activity April 2015 to September 2015

1. Purpose of report

1.1 To report on the overall position and activities in respect of Treasury Management for the first half of the financial year 2015/16.

2. Outcomes

2.1 An informed Cabinet who have an understanding of Treasury Management activity, in line with the approved Treasury Management Policy and Strategy Statements and Treasury Management Practices.

3. Recommendation/s

3.1 That the Annual Report on Treasury Management Activity for the first half of the 2015/16 financial year be approved.

3.2 That the changes to the credit methodology whereby viability and support ratings (Fitch) and the financial strength rating (Moody's) will not be considered as key criteria in the choice of creditworthy investment counterparties be approved.

4. Background

4.1 In order to demonstrate compliance with the CIPFA Code of Practice for Treasury Management a review of the Treasury Management Policy Statement, Treasury Management Procedures, Strategy and Minimum Revenue Provision Policy Statement is undertaken each year and reported to Cabinet in March. The Council, in accordance with legislation is also formally required to approve the formulation of the plan or strategy for the control of the authority's borrowing, investments or capital expenditure and for the determination of the authority's minimum revenue provision. This is agreed by Council in April.

4.2 A requirement of the Treasury Management Code of Practice is the reporting of the results of treasury management activity twice a year. This report covers the six months ending 30 September 2015. A further report including activity for the 2015/16 financial year in its entirety will be considered by Cabinet in July 2016.

4.3 The Treasury Management Procedures indicate that the report should include the following issues, where relevant:

a) Total debt and investments at the beginning and end of the review period and average interest rates;
b) Explanations for variance between original strategies and actual;
c) Debt rescheduling done in the year;
d) Actual borrowing and investment rates achieved through the year;
e) Comparison of return on investments to the investment benchmark; and
f) Compliance with Prudential and Treasury Indicators.

5. Key issues and proposals

5.1 The main rating agencies (Fitch, Moody's and Standard and Poor's) have, through much of the financial crisis, provided some institutions with a rating uplift due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these 'uplifts' with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies now take into account additional factors, such as regulatory capital levels. In some cases, these factors have 'netted' each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.
In keeping with the agencies' new methodologies, the credit element of Capita Treasury Solutions Ltd credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard &Poor's, this has been a change to the use of Fitch and Moody's ratings. All other key elements of the Capita Treasury Solutions Ltd credit assessment process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.
The rating agency changes do not reflect any changes in the underlying status of the institutions, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were

formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the 'support' phase of the financial crisis.

5.2 The table below illustrates the Council's debt and investment position at the beginning of the 2015/16 financial year and as at 30 September 2015:

	1st April 2015	30th September 2015
	£	£
Loans - Temporary	0	0
- Cash Overdrawn	0	0
Total Short term Debt	**0**	**0**
Loans - Long Term Borrowing	1,552,000	1,552,000
Total Long term Debt	**1,552,000**	**1,552,000**
Investments - Temporary	16,512,269	17,934,184
Cash in Bank	223,428	37,165
Cash held by the Authority	2,214	2,724
Total Short term Investments	**16,737,911**	**17,974,073**

5.3 The Prudential Code for Capital Finance aims to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. The code sets out indicators that must be used and requires local authorities to set relevant limits and ratios. The indicators for the 2015/16 financial year were originally considered by Cabinet 18 February 2015 and agreed at Council on 5 March 2015. During the six months to 30 September 2015 the Council operated within these treasury limits and Prudential Indicators.

5.4 The 2015/16 Budget assumed no additional long term borrowing and capital schemes were to be funded by grants and contributions, capital receipts and the Capital Investment Reserve.

5.5 From 1 September 2011, and following a cost/benefit analysis it was decided to cease the formal overdraft facility. The formal overdraft facility used to cost the Council £2,000 plus 1% over the base rate for overdrawn net balances over £500,000. The new arrangement now incurs charges at 4% over the current base rate for net overdrawn balances with no annual arrangement fee. There have been no instances when the Council's net bank account position was overdrawn during the period April to September 2015.

5.6 There were no short-term borrowing transactions (i.e. less than 365 days) during the first six months of 2015/16.

5.7 Interest payments in respect of short term and long term borrowing for the first half of the financial year are on target and total £34,415 compared to a budgeted figure of £68,830 for the full year. Including miscellaneous payments and an overstated creditor provision in 2014/15 the actual at 30 September is £34,207 compared to a full year budget of £73,950. The budget includes £5,000 for interest in the latter part of the financial year due to potential temporary borrowing being required as income from Council Tax reduces during February and March.

5.8 The Council has continued to invest any surplus balances with the Council's Bank, NatWest on call deposit facility, Money Market Funds (MMF) with Prime Rate Capital Management, LGIM and the Bank of Scotland (Overnight/Call account and fixed rates 95 day and annual notice facilities). However, in view of the current cash balance, the low interest rates of the MMF's and a reduced rate from the Nat West on call deposit facility, a new on call account has been opened and utilised with Svenska Handelsbanken and new notice accounts have been opened and utilised including Nationwide 3 month fixed, Santander 60 and 31 day notice, Goldman Sachs International Bank 3 month fixed and Svenska Handelsbanken 35 day notice. There have been four occasions where funds greater than £100,000 have remained in the Council's accounts overnight as a surplus balance in the first six months of 2015/16. There has also been one instance between 1st and 16th April 2015 where the £6m investment limit for Money Market Funds was breached by between £3m and £5.9m which was when new notice accounts were in the process of being opened and this has not happened since. The spreadsheet used for the daily management of funds includes a control which identifies a warning flag when established limits are exceeded. Unfortunately these were not updated to reflect the new investment limits as agreed by Cabinet in March. The creation of the new spreadsheet with effect from 1 April will be authorised by a senior officer to prevent any recurrence.
The equated investments for the first half of 2015/16 are detailed in the following table:-

	Equated Investment Principal	Interest Due	Rate of Return	Benchmark Return
	£	£		
NatWest Call Account	942,502	3,856	0.41%	0.35%
Money Market Funds	2,884,511	13,185	0.46%	0.35%
Bank of Scotland (Overnight/ Call)	279,605	1,119	0.40%	0.35%
Bank of Scotland (Fixed)	1,998,274	12,597	0.63%	0.35%

Svenska Handelsbanken (Instant Access)	673,565	2,357	0.35%	0.35%
Svenska Handelsbanken (35Day Notice)	978,082	4,402	0.45%	0.35%
Nationwide BS (3 Month Fixed)	810,274	4,051	0.50%	0.35%
Santander (60 Day Notice)	369,863	2,774	0.75%	0.35%
Santander (31 Day Notice)	246,575	1,603	0.65%	0.35%
Goldman Sachs IB (3 Month Fixed)	747,945	4,001	0.53%	0.35%
Total	9,931,196	49,945	0.50%	0.35%

5.9 The table above reflects that investments earned an average return of 0.50% against a benchmark LIBID (London Interbank Bid Rate) 7-day average of 0.35%. The Bank of England base rate has remained at 0.5%.

5.10 Interest receivable on investments for the first half of the financial year is £34,781 (or £35,131 including miscellaneous items) compared to an annual budget of £63,070. The rate of interest received is expected to reduce through the second part of the year as funds available for investment diminish as a result of increased capital expenditure and reduced levels of Council Tax income in the last quarter of the year

5.11 Within the Council's current Annual Investment Strategy, the Investment Policy criteria are based on Sector's creditworthiness service. The Council, to date, has adopted a very cautious approach and regularly monitors organisations with which investments are held to ensure they meet the Investment Policy criteria.

Financial and legal implications	
Finance	Considered in detail in the report above.
Legal	The approval of the recommendations will ensure compliance with the CIPFA Code of Practice.

<u>Other risks/implications: checklist</u>

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
data protection	x

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List of background papers:		
name of document	date	where available for inspection

List of appendices

None

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