

SUBJECT:	<i>Treasury Management – Quarterly Report Quarter 2 2016/17</i>
REPORT OF:	<i>Jim Burness, Director of Resources</i>
RESPONSIBLE OFFICER	<i>Helen O'Keeffe, Principal Accountant</i>
REPORT AUTHOR	<i>Helen O'Keeffe, hokeeffe@chiltern.gov.uk 01494 732781</i>
WARD/S AFFECTED	<i>All</i>

1. Purpose of Report

- 1.1 To report on the Treasury Management operation of the Council for June – September 2016.

RECOMMENDATION

Members are requested to note the Treasury Management performance for Quarter 2 2016/17.

2. Background

- 2.1 The Council is required to comply with the CIPFA Code of Practice on Treasury Management. The primary requirements of the code are:
- (i) Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies, and objectives of the Council's treasury management activities.
 - (ii) Creation and maintenance of Treasury Management Practices, which set out the manner in which the Council will achieve those policies and objectives.
 - (iii) Receipt by the Cabinet and Council of an annual strategy report for the year ahead and an annual review report of the previous year.
 - (iv) The delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

3. Quarterly Report on Treasury Management Quarter to September 2016

- 3.1 As a debt free authority the treasury management activities of the Council are exclusively concerned with the investment of its reserves, as the Council does not undertake any borrowing.
- 3.2 The base rate was decreased from 0.5% to 0.25% in August, with the rate having remained at 0.5% since March 2009.
- 3.3 The total of loans outstanding at the end of the quarter was £23,000,000 detailed in the table below.

UK Institutions	Fitch Credit Rating	Principal £	Interest Rate	Invested	Matures	Length in Days
Standard Life Money Market Fund		5,000,000	Currently 0.37%	On call		
Lloyds Banking Group	A+					
Fixed Deposit		1,000,000	1.05%	12/05/16	12/05/17	365
Fixed Deposit		1,000,000	1.05%	19/05/16	19/05/17	365
Fixed Deposit		1,000,000	1.05%	02/06/16	02/06/17	365
Fixed Deposit		1,000,000	0.86%	14/07/16	14/03/17	243
Fixed Deposit		1,000,000	1.05%	02/08/16	02/08/17	365
Royal Bank of Scotland	BBB+					
Fixed Deposit		2,000,000	3 mth LIBOR	09/02/15	09/02/18	1096
Fixed Deposit		3,000,000	1.31% then 3 mth LIBOR	09/02/15	09/02/20	1826
Nationwide	A					
Fixed Deposit		1,000,000	0.42%	30/09/16	31/03/17	182
Santander	A					
Fixed Deposit		1,000,000	1.00%	11/11/15	11/11/16	366
Fixed Deposit		2,000,000	0.70%	14/07/16	16/01/17	186
Fixed Deposit		1,000,000	0.45%	30/09/16	31/03/17	182
Close Brothers	A					
Fixed Deposit		1,000,000	1.40%	13/10/15	13/04/17	548
Svenska Handelsbanken	AA					
Call Account		2,000,000	Currently 0.25%	On Call		
Total Deposits		23,000,000				

3.4 In addition, funds are held on a short term basis for day to day cashflow purposes with our bankers, Barclays. At the end of September £2.655m was held in an instant access account. The £2,000,000 on deposit with Svenska Handelsbanken has now been recalled and placed into a money market fund to achieve a higher interest rate.

3.5 The following corporate bonds were held at the end of the September 2016:

Bond held	Valuation £	Coupon Interest Rate	Effective Interest Rate	Maturity date
UK Treasury (a)	48,999	8.75%	4.59%	25/08/17
UK Treasury (b)	59,887	8.75%	4.54%	25/08/17
Asif II (a)	102,172	6.38%	5.49%	05/10/20
Asif II (b)	34,058	6.38%	5.33%	05/10/20

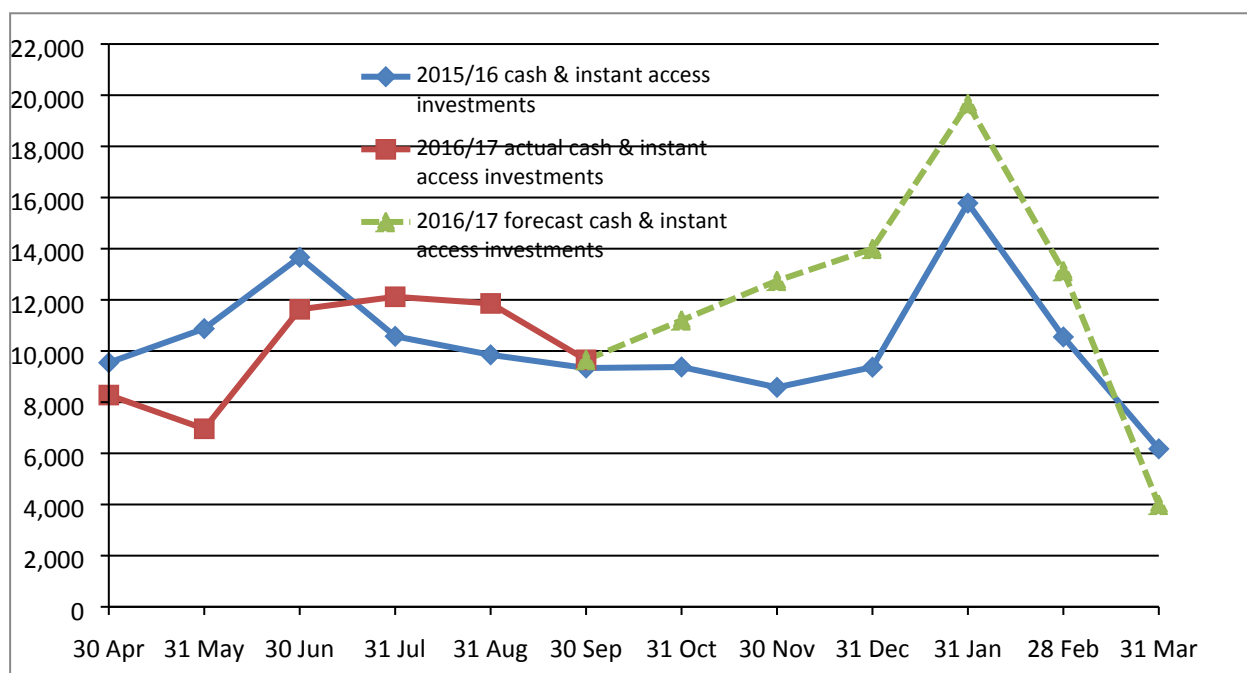
Asif II (c)	52,978	6.38%	6.41%	05/10/20
UK Treasury	191,086	8.00%	4.77%	07/06/21
Atlantia SPA (a)	72,155	6.25%	5.65%	09/06/22
Atlantia SPA (b)	112,857	6.25%	5.55%	09/06/22
UK Treasury	75,055	6.00%	4.76%	07/12/28
Total	749,247			

3.6 During the quarter, bonds were repurchased by the National Grid for £289,985, compared to the coupon value of £214,000.

3.7 The weighted average interest rate earned on fixed rate investments in the quarter was 1.07%.

3.8 Capita Asset Services Treasury is engaged by the Council as its Treasury Management consultants providing advice on investment, performance and regulations where necessary.

3.6 The following graph shows how the level of cash and instant access investments fluctuated in 2015/16, and the forecast levels of cash and instant access investments in 2016/17. The purpose of the graph is to illustrate that we always have a sufficient level of cash reserves to meet our immediate short term cash requirements.



4. The Prudential Capital Code – Prudential Indicators

4.1 In accordance with the Prudential Capital Code the Council reviews its Prudential Indicators on a quarterly basis. Movements in the Prudential Indicators for the year 2016/17 to date are as follows:

4.2 Interest rate exposures

The interest rate exposure on investments has moved as follows:

Date	Investments as a % of total	
	Fixed	Variable
31/03/16	82%	18%
30/06/16	74%	26%
30/09/16	71%	29%

This Prudential Indicator sets an upper limit on fixed interest rate exposures of 100% and variable interest rate exposures of 60% of net outstanding principal sums. Exposures have been managed within this limit.

4.3 Principal sums invested for periods longer than 364 days

The upper limit for sums invested for periods longer than 364 days is £17m. As at the end of September the figures are as follows:

Date	Total investments (excluding bonds)	Sums invested for greater than 364 days	% of total investments
31/03/16	£16m	£13m	81%
30/06/16	£18m	£13m	72%
30/09/16	£23m	£11m	48%

Of the £11m that is invested for greater than 364 days, £5m is for 5 loans for a period between 365 and 366 days. £6m is invested for greater than 367 days. Sums invested reflect the current level of rates that do not incentivise long term cash investments.

5 Corporate Implications

- 5.1 The budgeted income from investments for 2016/17 has been set at £430,000. Investment income earned in the year to September is £179,000. The budget assumed that new medium term investments would achieve an average interest rate of 1.5% and longer term investments would achieve an average interest rate of 3.5%. Based on current interest rates the 2016/17 budget will not be met. Current indications are that income from investments will equal approximately £280,000 in 2016/17.

Background Papers:	None
---------------------------	------