

Report Title:	Treasury Management Report 2016/17
Contains Confidential or Exempt Information?	NO - Part I
Member reporting:	Councillor Saunders, Lead Member for Finance
Meeting and Date:	Cabinet - 14 December 2017
Responsible Officer(s):	Russell O'Keefe, Strategic Director of Corporate and Community Services Rob Stubbs, Head of Finance and Deputy Director of Corporate and Community Services
Wards affected:	"All"

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REPORT SUMMARY

1. This report reviews the Royal Borough's treasury management arrangements during 2016/17, as required by the Council's constitution.
2. The Council's treasury management approach aims to deliver an investment return above the chosen benchmark (Bank of England base rate plus 0.25%). This target has been met for the period reported.
3. The Council continues to utilise cash backed reserves to finance its capital spend. The level of capital investment over the next few years will determine how long this approach, which has the twin objectives of reducing credit risk and financing costs, can be maintained.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION:

- i. That Cabinet notes the report.

2 REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 2.1 As this report is for information only, decisions are not necessary and options have not therefore been considered.

3 KEY IMPLICATIONS

- 3.1 A successful treasury management approach will ensure the security of the Council's assets whilst meeting the liquidity requirements of the Council and ensuring an investment return that meets the target set in the table below.

Table 1: Investment return target

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
A return that exceeds benchmark (Bank of England base rate plus 0.25%)	<0%	>0%	>0.1%	>0.2%	31 March 2018

4 FINANCIAL DETAILS / VALUE FOR MONEY

- 4.1 This report reviews the period from the 1st April 2016 to the 31st March 2017.
- 4.2 The Council receives payments in the form of government grants, council tax and business rates. These funds are invested in either fixed rate loans, cash deposits or money market funds with Council approved counterparties. The list of approved counterparties is known as the "Lending List". There were no changes to the counterparties on the Lending List during the financial year 2016/17. However, Achieving for Children were added to the Lending List following approval at Cabinet on the 28 September 2017. A copy of the Lending List following this approval is attached to this report as Appendix A.
- 4.3 Whilst total funds under management varied throughout the period, 2016/17 ended with the Authority having total funds under management of £2,362,000 (2015/16 was £25,758,000).
- 4.4 Appendix B shows the allocation of funds under management by counterparty type at 31st March 2017.
- 4.5 The investment return benchmark is 0.25% above Bank of England base rate. The Monetary Policy Committee of the Bank of England reduced the Bank of England base rate from 0.50% to 0.25% on the 4th August 2016. This report reviews the treasury management arrangements for the financial year 2016/17, so the increase in Bank of England base rate to 0.50% on the 2nd November 2017 is not included in the benchmark calculation.
- 4.6 The benchmark for 2016/17 has been calculated as an average rate as the base rate reduction occurred part way through the year.
- 4.7 The investment return for 2016/17 was 0.62% compared to the benchmark of 0.59%.
- 4.8 The return on the prepayment of Pension Fund contributions for 2016/17 was £305,000. This amount is not included in the investment return reported above but it contributes towards budget targets, which were achieved in 2016/17.
- 4.9 The Council has not increased its level of long term external debt during the period. As at 31st March 2017 the Authority's total long term external borrowing was £57,100,000, with an average interest rate of 4.97% for the Public Works Loan Board (PWL) loans and 4.19% for the Lender Option Borrower Option (LOBO) loans borrowed from Barclays and Dexia. Appendix C shows the Authority's external long term borrowing as

at 31st March 2017. During the course of the year a total of £2,700,000 will be repaid on existing long term loans in the form of interest payments.

4.10 At the end of the financial year 2016/17 the Council borrowed £5,000,000 in the short term. The duration of the loan was one month and it was repaid in full on the 20 April 2017.

5 LEGAL IMPLICATIONS

5.1 In producing and reviewing this report the Council is meeting legal obligations to manage its funds properly.

6 RISK MANAGEMENT

Risks	Uncontrolled Risk	Controls	Controlled Risk
That a counterparty defaults on repayment of a loan resulting in a loss of capital for the Council	MEDIUM	Loans are only made to counterparties on the approved lending list. The credit ratings of counterparties on the lending list are monitored regularly	LOW
That funds are invested in fixed term deposits and are not available to meet the Council's commitment to pay suppliers and payroll.	MEDIUM	A cashflow forecast is maintained and referred to when investment decisions are made to ensure that funds are available to meet the Council's commitment to pay suppliers and payroll.	LOW

7 POTENTIAL IMPACTS

7.1 None.

8 CONSULTATION

8.1 Comments from Overview and Scrutiny Panels, if available, have been included below.

9 TIMETABLE FOR IMPLEMENTATION

9.1 This section is not applicable.

10 APPENDICES

Appendix A – Approved Lending List

Appendix B – Summary of Funds Invested

Appendix C – External Long Term Borrowing at 31st March 2017

11 BACKGROUND DOCUMENTS

11.1 Budget Report to Council 21 February 2017

12 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Commented & returned
Councillor Saunders	Lead Member for Finance		
Councillor Rankin	Deputy Lead Member for Finance		
Alison Alexander	Managing Director & Strategic Director Adult, Children and Health Services		
Andy Jeffs	Strategic Director Operations		
Russell O'Keefe	Strategic Director Corporate & Community Services		
Rob Stubbs	Section 151 Officer	03/10/17	

REPORT HISTORY

Decision type: For information	Urgency item? No
Report Author: Rob Stubbs, Section 151 Officer, 01628 796222	

<u>Fitch Ratings</u>	<u>FITCH Short Term Rating (note 1)</u>	<u>FITCH Long Term Rating (note 2)</u>	<u>FITCH Outlook</u>	<u>Max. Sum To Be Lent £m</u>
UK				
<u>Government</u>				
Debt Management Office	F1+	AA	Negative	no limit
<u>Banks</u>				
Abbey National Treasury	F1	A	Stable	15
Australia and New Zealand Bank	F1+	AA-	Stable	5
Barclays Bank	F1	A	Stable	15
Clydesdale Bank	F2	BBB+	Stable	15
HSBC (inc HSBC Private Bank)	F1+	AA-	Stable	15
Lloyds Banking Group	F1	A+	Stable	15
National Australia Bank Ltd	F1+	AA-	Stable	5
Royal Bank of Canada	F1+	AA	Negative	5
Royal Bank of Scotland	F2	BBB+	Stable	15
Santander UK	F1	A	Stable	15
Standard Chartered	F1	A+	Stable	15
Ulster Bank	F2	BBB+	Stable	5
<u>Building Societies (max £3m per loan)</u>				
All Building Societies with total group assets greater than £6 billion and FITCH Long term rating of BBB or better				
Coventry	F1	A	Stable	5
Nationwide	F1	A+	Stable	5
Yorkshire	F1	A-	Stable	5
Leeds	F1	A-	Stable	5
Principality	F2	BBB+	Stable	5
Skipton	F1	A-	Stable	5
<u>Local Authorities</u>				
All UK Local Authorities, with the exception of those with reported financial irregularities.				
<u>Money Market Funds</u>				
All money market funds with a Fitch AAA long term credit rating, including:				
Federated Short Term Sterling Prime Fund		AAA		10
Invesco Sterling Liquidity Fund		AAA		10
STANDARD LIFE (IGNIS) Sterling Liquidity Fund		AAA		10
Insight GBP Liquidity Fund		AAA		10
LGIM Sterling Liquidity Fund		AAA		10
<u>Revolving Credit Facility</u>				
AFC				11.7
<u>Financial Services Companies</u>				
Kames Capital (note 3)				1
Legal & General (note 3)				1.5
<u>RBWM associated companies</u>				
Flexible Home Improvement Loans Ltd				0.5
RBWM Property Co. Ltd				1.3

NOTES

1. SHORT TERM RATING

Expectation of timely repayment of financial commitments.

F1+ is most likely to repay on time, **F1** Highest Credit, **F2** Good, **F3** Fair, **B** Speculative, **C** High Default Risk

2. LONG TERM RATING

How likely an institution is to receive support if it runs into significant difficulties.

1 denotes a bank for which support would be extremely likely, **2** High probability of support, **3** moderate probability, **4** limited probability, **5** possible but can't be relied on

3. NO FITCH RATINGS

FITCH ratings are credit ratings which assesses an organisations creditworthiness, i.e. their ability to repay a debt.

The investments with Kames and Legal & General are not debt instruments, so a credit rating is not relevant.

They are investments in equity funds on behalf of the Working Boys Club and Kidwells Park Trust.

Appendix B**Summary of Funds Invested**

<u>Counterparty Type</u>	<u>31/03/2017</u> <u>£000s</u>	<u>31/03/2016</u> <u>£000s</u>	<u>31/03/2015</u> <u>£000s</u>
Banks	0	15,000	28,214
Building Societies	0	9,000	9,000
Local Authorities	0	0	0
Money Market Funds	500	0	5,000
RBWM Trading Companies	1,862	1,758	0
Total	2,362	25,758	42,214

Appendix C

External Long Term Borrowing at 31st March 2017

Fixed Term Borrowing			
	Duration/ Type	Repayment Date	Loan Value £000s
<u>PWLB</u>			
	25yrs/Maturity	25/09/2021	785
	25yrs/Maturity	08/06/2029	7,500
	26yrs/Maturity	25/09/2029	2,500
	26yrs/Maturity	23/09/2030	10,000
	25yrs/Maturity	08/12/2030	5,000
	30yrs/Maturity	25/09/2033	5,000
	45yrs/Maturity	08/12/2050	5,000
	45yrs/Maturity	08/12/2050	5,000
	60yrs/Maturity	25/03/2055	1,600
	60yrs/Maturity	25/09/2055	1,000
	60yrs/Maturity	25/03/2056	400
	60yrs/Maturity	25/09/2056	265
Total Fixed Term Borrowing			44,049

ANALYSIS OF PWLB RESIDUAL MATURITY @ 31.3.17		
Maturing Within	Amount £000s	Average Rate
1 Year	0	0.000%
1 to 2 Years	0	0.000%
2 to 5 Years	785	8.000%
5 to 10 Years	0	0.000%
10 to 15 Years	25,000	4.790%
15 to 20 Years	5,000	4.800%
20 to 25 Years	0	0.000%
25 to 30 Years	0	0.000%
30 to 35 Years	10,000	4.200%
35 to 40 Years	3,265	8.184%
40 to 45 Years	0	0.000%
TOTAL	44,049	4.966%

LOBO Loans at 31st March 2017

Fixed Term Borrowing			
	Duration/ Type	Repayment Date	Loan Value £000s
<u>LOBO</u>			
Barclays	60yrs/15yrs fixed, 6mth LOBO	19-Jul-66	5,000
Dexia	35yrs/5yrs fixed, 5yr LOBO	26-Jan-43	8,000
Total Fixed Term Borrowing			13,000

ANALYSIS OF LOBO RESIDUAL MATURITY @ 31.12.16		
Maturing Within	Amount £000s	Average Rate
5 to 30 Years	8,000	4.190%
30 to 55 Years	5,000	4.190%
TOTAL	13,000	4.190%