



Audit Committee 29 November 2016	REPORT
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Subject Heading:

Treasury Management Update Quarter 2
2016/17

CMT Lead:

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Policy context:

The code of practice on treasury management 2009 recommends treasury activities to be reported to a scrutiny committee on a quarterly basis

Financial summary:

There are no direct financial implications from the report

The subject matter of this report deals with the following Council Objectives

- | | |
|--|-------------------------------------|
| Havering will be clean and its environment will be cared for | <input type="checkbox"/> |
| People will be safe, in their homes and in the community | <input type="checkbox"/> |
| Residents will be proud to live in Havering | <input checked="" type="checkbox"/> |

SUMMARY

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function to full Council at least twice

yearly (mid-year and at year end). This report provides an additional quarterly update to be reviewed by the Audit Committee.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

RECOMMENDATIONS

- To note the treasury management activities detailed in the report

REPORT DETAIL

Investments

The average level of funds available for investment purposes has increased marginally from £232m in quarter 1 to £235 in quarter 2.

A full breakdown of the Authority's deposits can be found as appendix A.

Investment performance for quarter ending 30 June 2016

Benchmark	Benchmark Return 3 month LIBOR	Budgeted Rate of Return	Actual Rate of Return	Investment Interest Earned
Quarter 1	0.56%	0.60%	0.77%	£446,490
Quarter 2	0.43%	0.60%	0.76%	£900,201

During the August MPC meeting the UK Bank Rate was reduced to 0.25% and because of this short-term money market rates have dropped even further with some institutions not interested in taking on deposits. This can be seen by the reduction of 3 month LIBOR which in Quarter 2 is down to 0.43%.

As illustrated in the table above, the Authority outperformed the benchmark in the second quarter by 33bp. This was achieved by trying to lock into longer term deposits to negate the effect of a falling 3 month LIBOR whilst maintaining security on its deposits.

The Authority has also outperformed its budgeted rate of return by 16bp which in addition to a higher cash position has led to excess interest earned to date of

£338k. Because of the expectations that 3 month LIBOR will drop further and as maturing deposits are replaced with lower rates the excess interest has not been declared within the Council's overall revenue position and will be kept under review as the year progresses.

2. New borrowing:

Affordability and the “cost of carry” remained important influences on the Authority’s borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources instead, referred to as internally borrowing.

Because of the above no long term borrowing was undertaken during the quarter and its anticipated there will not be a requirement to commit to any long term borrowing for the remainder of the year however this will be continuously reviewed as capital spending is monitored.

The Council has also not borrowed in advance of need during the 2nd quarter of 2016/17 and has no intention to borrow in advance of need for the remainder of the year.

3. Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates following increases in PWLB new borrowing rates in October 2010. The possibility of debt rescheduling is regularly discussed with our treasury advisers and is a regular agenda item at the quarterly treasury meeting held between the treasury department, the S151 officer and the lead Member.

The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority’s portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

4. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council’s approved Treasury and Prudential Indicators (affordability limits) were included and approved by full Council as part of the Treasury Management Strategy Statement (TMSS) in February.

During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

4.1 Interest Rate Exposures

This indicator is set to control the Authority's exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure*	100%	100%	100%
Actual	99.8%		
Upper limit on variable interest rate exposure	25%	25%	25%
Actual	0.2%		

*Fixed rate borrowing are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Having larger amounts of fixed interest rate borrowing gives the Authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local Authorities have taken advantage of fixing interest rates long term to reduce interest rate exposure.

4.2 Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	Actual
Under 12 months	40%	0%	3%
12 months and within 24 months	40%	0%	0%
24 months and within 5 years	60%	0%	0%
5 years and within 10 years	75%	0%	0%
10 years and above	100%	25%	97%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

4.3 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum for investments greater than 1 year invested to final maturities beyond the period end will be:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£75m	£50m	£50m
Actual	£28.8m	£28.8m	£23.8m

4.4 Liquidity Treasury Indicator

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments overnight and within a rolling three month period without additional borrowing.

	Target	Actual
Total cash available by the next working day	£5m	£4m*
Total cash available within 3 months	£30m	£100m

*The level of instant access cash dipped below the voluntary target on the 30th September due to a large pay run clashing with the monthly salary outgoings. The figure was immediately replenished on the following working day

4.5 Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
Long Term Debt	£210m	£210m	£210m
CFR	£235m	£270m	£306m

Total debt is expected to remain below the CFR during the year.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

4.6 Operational Boundary for External Debt

The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	£377.8m	£397.0m	£397.0m
Other long-term liabilities	£2.0m	£2.0m	£2.0m
Total	£379.8m	£399.0m	£399.0m
Long Term Debt	£210.0m	£210.0m	£210.0m
Headroom	£169.8m	£189.0m	£189.0m

4.7 Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	£404.8m	£436.7m	£437.0m
Other long-term liabilities	£2.0m	£2.0m	£2.0m
Total Debt	£406.8m	£438.7m	£439.0m
Long Term Debt	£210.0m	£210.0m	£210.0m
Headroom	£196.8m	£228.7m	£229.0m

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications from this report.

Legal implications and risks:

There are no apparent legal implications or risks from noting this Report.

Human Resources implications and risks:

There are no HR implications from this report

Equalities implications and risks:

There are no Equalities implications arising from this report

BACKGROUND PAPERS

None

Appendix A

Detail of Deposits as at 30th September 2016

Type	Deal Ref	Start / Purchase Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
Fixed Term Deposit	3213	05/02/16	03/02/17	Lloyds Bank plc	1.0500%	-3,000,000.00
Certificate of Deposit	3219	10/03/16	12/12/16	Rabobank Nederland	0.7400%	-3,000,000.00
Fixed Term Deposit	3223A	31/03/16	31/03/17	United Overseas Bank Limited	0.8200%	-5,000,000.00
Fixed Term Deposit	3222	01/04/16	31/03/17	Bank of Montreal	0.8000%	-5,000,000.00
Fixed Term Deposit	3220	04/04/16	04/10/16	Close Brothers	0.6700%	-5,000,000.00
Fixed Term Deposit	3223B	01/04/16	31/03/17	United Overseas Bank Limited	0.8200%	-3,000,000.00
Fixed Term Deposit	3224	01/04/16	03/10/16	Commonwealth Bank of Australia	0.6500%	-5,000,000.00
Fixed Term Deposit	3226	06/04/16	06/10/16	Commonwealth Bank of Australia	0.6500%	-5,000,000.00
Fixed Term Deposit	3227	07/04/16	06/04/17	Bank of Montreal	0.7700%	-4,000,000.00
Fixed Term Deposit	3229	11/04/16	10/04/17	Oversea-Chinese Banking Corp	0.7800%	-5,000,000.00
Fixed Term Deposit	3232	15/04/16	16/01/17	Lloyds Bank plc	0.9000%	-5,000,000.00
Fixed Term Deposit	3234	03/05/16	03/11/16	Spelthorne Borough Council	0.5500%	-5,000,000.00
Certificate of Deposit	3236	03/05/16	02/05/17	Rabobank Nederland	0.8050%	-5,000,000.00
Fixed Term Deposit	3238	16/05/16	15/05/17	Nationwide Building Society	0.7100%	-3,000,000.00
Fixed Term Deposit	3239	16/05/16	15/05/17	Oversea-Chinese Banking Corp	0.8000%	-4,000,000.00
Fixed Term Deposit	3240	16/05/16	16/11/16	National Australia Bank Ltd	0.6200%	-5,000,000.00
Fixed Term Deposit	3241	19/05/16	12/10/16	Highland Council	0.5200%	-5,000,000.00
Fixed Term Deposit	3233	19/04/16	19/10/16	Close Brothers	0.6700%	-5,000,000.00
Fixed Term Deposit	3242	01/06/16	30/11/16	Nationwide Building Society	0.7100%	-3,000,000.00
Fixed Term Deposit	3246	11/07/16	11/01/17	Leeds Building Society	0.4400%	-5,000,000.00
Fixed Term Deposit	3247	15/07/16	14/07/17	Lloyds Bank plc	1.0500%	-4,000,000.00
Fixed Term Deposit	3249	22/07/16	24/07/17	Lloyds Bank plc	1.0500%	-5,000,000.00
Fixed Term Deposit	3175	09/10/15	10/10/16	Lloyds Bank plc	1.0500%	-3,000,000.00
Certificate of Deposit	3188	15/10/15	13/10/16	Rabobank Nederland	0.7000%	-5,000,000.00
Fixed Term Deposit	3185	06/11/15	04/11/16	Eastleigh Borough Council	0.5600%	-5,000,000.00
Fixed Term Deposit	3190	03/11/15	01/11/16	Lancashire County Council	0.6500%	-5,000,000.00
Fixed Term Deposit	3194	04/11/15	05/11/18	Lancashire County Council	1.3000%	-5,000,000.00
Fixed Term Deposit	3192	02/11/15	01/11/16	Toronto-Dominion Bank	0.8900%	-5,000,000.00
Fixed Term Deposit	3193	04/11/15	02/11/16	Toronto-Dominion Bank	0.8900%	-3,000,000.00
Fixed Term Deposit	3197	15/12/15	13/12/16	Toronto-Dominion Bank	0.9900%	-5,000,000.00
Fixed Term Deposit	3199	29/02/16	26/02/21	Newcastle upon Tyne City Council	1.8000%	-5,000,000.00
Fixed Term Deposit	3202	26/04/16	26/04/21	London Borough of Islington	1.7500%	-5,000,000.00
Fixed Term Deposit	3211	29/01/16	27/01/17	Oversea-Chinese Banking Corp	0.8000%	-5,000,000.00
Fixed Term Deposit	3244	01/07/16	07/10/16	Goldman Sachs International	0.4400%	-3,000,000.00
Certificate of Deposit	3245	05/07/16	05/10/16	Svenska Handelsbanken	0.6000%	-3,000,000.00
Fixed Term Deposit	3250	01/08/16	31/07/17	Australia and New Zealand Banking Group	0.5300%	-3,000,000.00
Fixed Term Deposit	3251	01/08/16	01/02/17	Nationwide Building Society	0.5000%	-5,000,000.00
Fixed Term Deposit	3252	16/08/16	24/11/16	Goldman Sachs International	0.4200%	-7,000,000.00
Fixed Term Deposit	3253	24/08/16	30/11/16	Goldman Sachs International	0.4300%	-5,000,000.00

