

By: John Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement  
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To: Governance and Audit Committee – 3 October 2014

Subject: **TREASURY MANAGEMENT UPDATE**

Classification: Unrestricted

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Summary: To report a summary of Treasury Management activity

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## **FOR ASSURANCE**

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### **INTRODUCTION**

1. This report covers Treasury Management activity for the 3 months to 30 June and developments in the period since up to the date of this report.

### **BACKGROUND**

2. 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 at least twice yearly (mid-year and at year end). This report provides an additional quarterly update.
3. Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
4. The Authority has both 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.

### **MONTHLY PERFORMANCE REPORT**

5. The Treasury and Investments Manager produce a monthly report for members of the Treasury Management Advisory Group. The June report is attached in Appendix 1.

### **INVESTMENT ACTIVITY**

6. The Council's average investment balances to date have amounted to £420m, representing income received in advance of expenditure plus balances and reserves held. These balances are forecast to fall over the coming months reflecting the front loading in the financial year of Government grants.

7. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

## **COUNTERPARTY UPDATE**

8. The Treasury Management Advisory Group met on 17 April and received presentations from Arlingclose on the current economic situation, from the Capital International Group on their global equity fund and from Grant Thornton on alternative opportunities for investment. After some discussion the Group agreed that a recommendation for diversifying the Council's investment portfolio should go to the June meeting of Cabinet. The reasons for diversification were:
  - a. All cash deposits are subject to "bail in" rule i.e. in the event of a solvency issue for an institution depositors potentially will take a loss. This reflects changes of Government policy in the UK, US and EU with sovereigns seeking an alternative to "bail out" by Government.
  - b. To reduce exposure to any one financial institution the counterparty limits have been reduced to a maximum of £40m resulting in capacity issues given the level of Cash held. The Royal Bank of Scotland / NatWest Bank has remained suspended from the approved counterparty list thus losing £40m of capacity.
  - c. Rates paid on bank deposits have fallen further while new asset classes, such as Covered Bonds, introduced in February, are providing attractive returns and at low risk.
  - d. Underlying this is the need for higher returns at potentially the same or lower level of risk to support the Council's budget.
9. On 2 June Cabinet approved the following changes to the Treasury Management Strategy Statement for 2014/15.
  - a. Increase the Svenska Handelsbanken limit to £40m.
  - b. Increase the allocation to Covered Bonds to £100m in aggregate with a £20m limit by institution.
  - c. Increase the maximum investment in the CCLA LAMIT Property Fund to £10m.
  - d. Introduce Corporate Bonds with a maximum individual limit of £5m.
  - e. Introduce Bond Funds with a maximum investment in any one fund of £5m within the investment portfolio aggregate limit of £75m
10. In August it was decided not to place any new deposits with Standard Chartered Bank as the result of concerns relating to their trading particularly in China and falling share price. To date no investments have been made in equity or bond funds reflecting the potential impact of interest rate rises.

## **STATEMENT OF DEPOSITS**

11. A statement of deposits as at 29 August is attached in Appendix 2. This statement is circulated to members of the Treasury Management Advisory Group every Friday.

## **BORROWING**

12. For the Council the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure.

## **RECOMMENDATION**

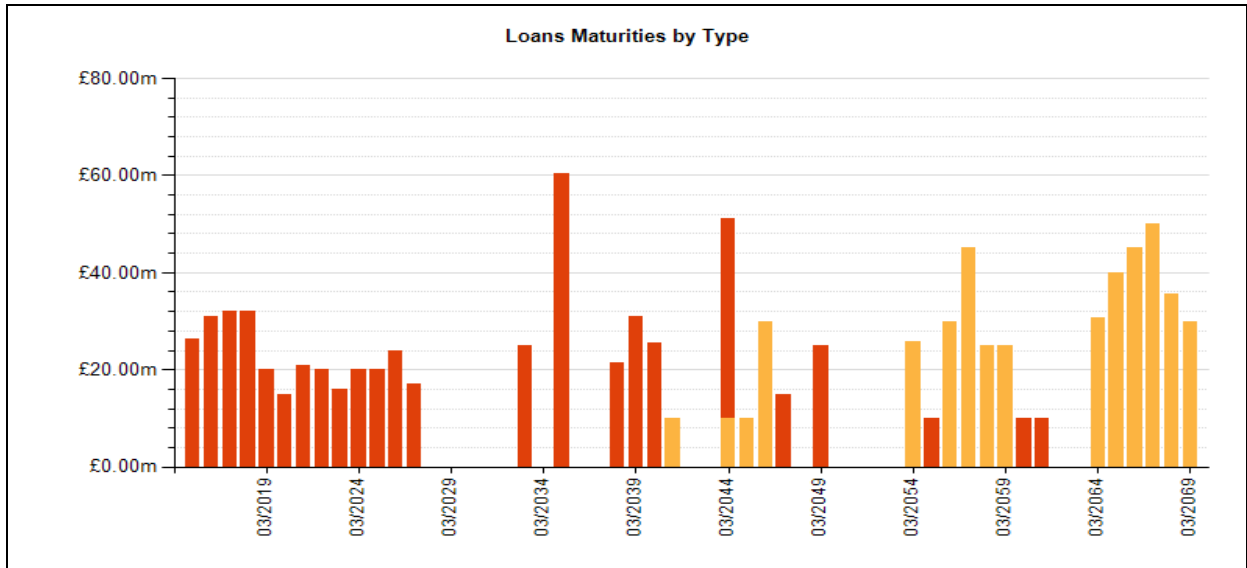
13. Members are asked to note this report for assurance.

**Alison Mings**  
**Treasury and Investments Manager**  
**Ext: 7000 6294**

Treasury Management Report for the month of June 2014

1. Long Term Borrowing

The Council’s strategy continues to be to fund its capital expenditure from internal resources as well as consider borrowing at advantageous points in interest rate cycles. The total amount of debt outstanding at the end of June remained at £1,010.27 million, with the maturity profile being as follows.



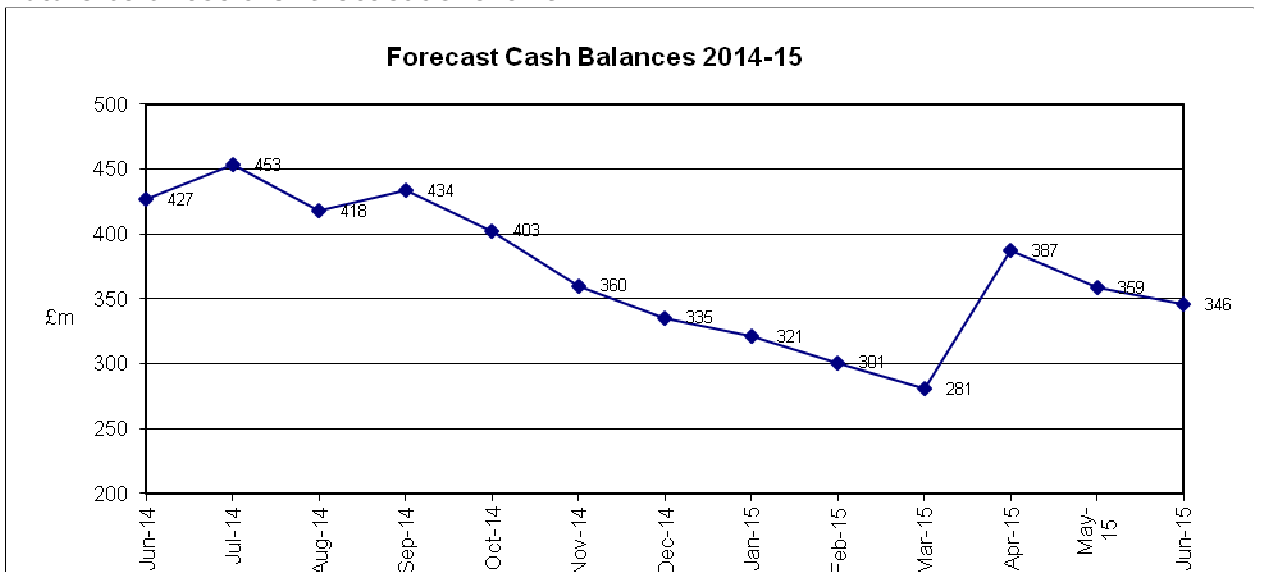
■ PWLB Maturity loans ■ Market LOBO Loans

Total external debt managed by KCC includes £41.405m pre-LGR debt managed by KCC on behalf of Medway Council. Also included is pre-1990 debt managed on behalf of the Further Education Funding Council (£1.76m) and Magistrates Courts (£0.745m).

2. Investments

2.1 Cash Balances

During June the total value of cash under management fell slightly to £426.9m. Future balances are forecast as follows:



## 2.2 Type of investment at month end

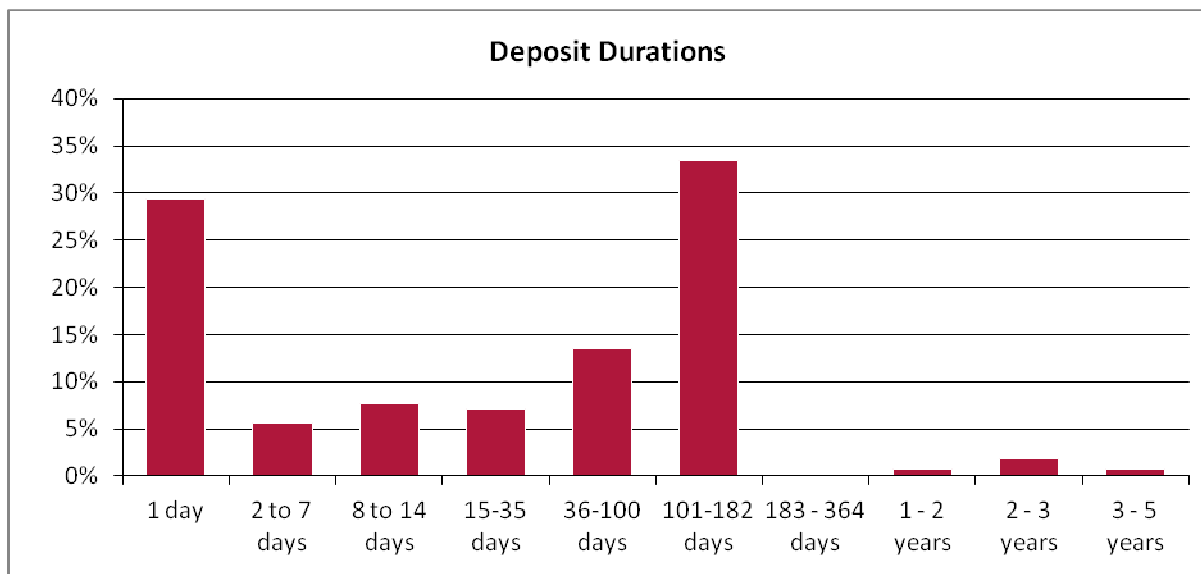
Type of Investment	Total	
Call Account	£116,150,000	27.89%
Certificate of Deposit	£80,000,000	19.21%
Fixed Deposit	£111,850,000	26.86%
Supranational Bond	£13,658,000	3.28%
Covered Bond	£13,280,000	3.19%
T-Bill	£59,512,500	14.29%
Icelandic Deposits (net)	£9,270,107	2.23%
<b>Internally managed cash</b>	<b>£403,720,607</b>	<b>96.95%</b>
External Investments	£ 10,000,000	2.40%
Equity	£ 2,681,260	0.64%
<b>Total</b>	<b>£416,401,867</b>	<b>100.00%</b>

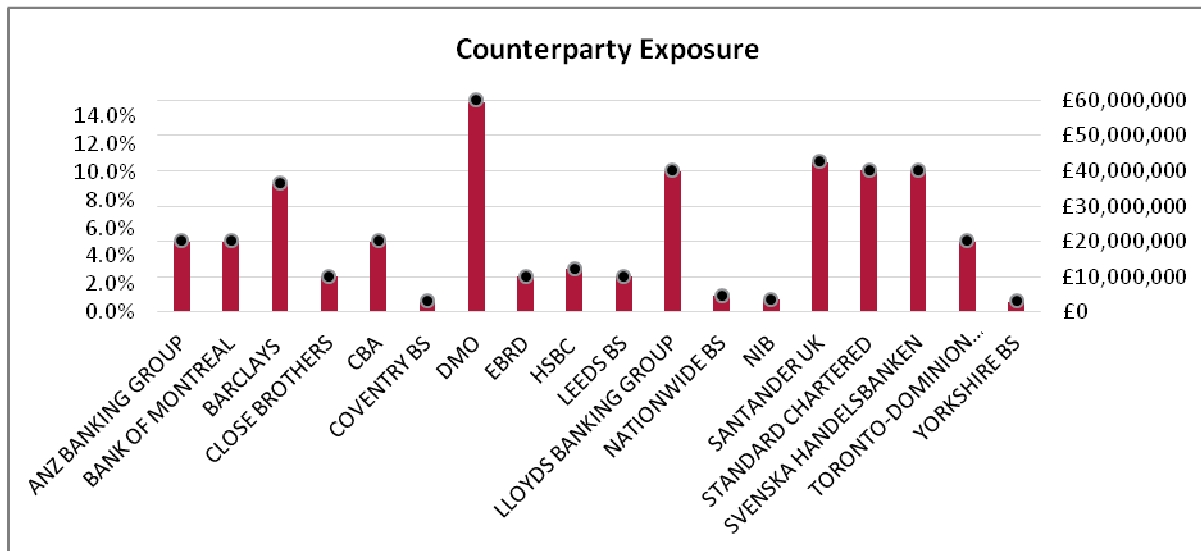
## 2.3 Internally managed cash

### 2.3.1 Average return on new deposits

The average rate of interest on new investments made during the month was 0.6184% vs 7 day LIBID 0.3485%.

### 2.3.2 Deposit maturity profile and counterparty exposure at month end





### 2.3.3 Credit Score matrix

	May 2014		June 2014	
	Credit Rating	Credit Risk Score	Credit Rating	Credit Risk Score
<b>Value Weighted Average</b>	AA-	4.16	AA-	4.13
<b>Time Weighted Average</b>	AA+	2.21	AA+	2.09

### 3. Financing Items

The continued low interest rate on savings and investments, partially offset by the re-phasing of last year's capital programme, means that we are forecasting a pressure of £0.400m at this stage.

**Alison Mings, 10 July 2014**

## Investments as at 29 August 2014

## 1) Internally Managed Investments

Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate
Call Account	Barclays Bank	£3,250,000	n/a	0.3
Call Account	Barclays FIBCA	£30,000,000	n/a	0.6
Certificate of Deposit	Barclays Bank	£5,000,000	14/08/2015	0.99
	Total Barclays	£38,250,000		
Fixed Deposit	Bank of Scotland	£5,000,000	08/05/2014	0.75
Fixed Deposit	Bank of Scotland	£5,000,000	22/07/2014	0.75
Fixed Deposit	Lloyds Bank	£5,000,000	22/10/2014	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	06/11/2014	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	19/11/2014	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	31/12/2014	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	19/02/2015	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	23/02/2015	0.7
	Total Lloyds Group	£40,000,000		
Call Account	Santander UK	£11,360,000	n/a	0.4
Certificate of Deposit	Standard Chartered	£10,000,000	07/01/2015	0.55
Certificate of Deposit	Standard Chartered	£8,000,000	08/09/2014	0.59
Certificate of Deposit	Standard Chartered	£10,000,000	02/10/2014	0.54
	Total Standard Chartered	£28,000,000		
<b>Total UK Bank Deposits</b>		<b>£117,610,000</b>		
Fixed Deposit	Nationwide Building Society	£4,700,000	20/11/2014	0.58
Fixed Deposit	Nationwide Building Society	£4,850,000	31/12/2014	0.64
Fixed Deposit	Nationwide Building Society	£6,400,000	21/01/2015	0.64
Fixed Deposit	Nationwide Building Society	£5,600,000	11/02/2015	0.64
	Total Nationwide BS	£21,550,000		
<b>Total UK Building Society Deposits</b>		<b>£21,550,000</b>		
Fixed Deposit	Commonwealth Bank of Australia	£7,000,000	31/10/2014	0.5
Fixed Deposit	Commonwealth Bank of Australia	£7,000,000	02/12/2014	0.5
	Total Commonwealth Bank of Australia	£14,000,000		
Fixed Deposit	Australia and New Zealand Banking Group	£10,000,000	08/12/2014	0.52
Fixed Deposit	Australia and New Zealand Banking Group	£10,000,000	07/01/2015	0.56
	Total Australia and New Zealand Banking Group	£20,000,000		
<b>Total Australian Bank Deposits</b>		<b>£34,000,000</b>		
Certificate of Deposit	Bank of Montreal	£10,000,000	31/10/2014	0.5

Certificate of Deposit	Bank of Montreal	£10,000,000	02/12/2014	0.5
	Total Bank of Montreal	£20,000,000		
<b>Instrument Type</b>	<b>Counterparty</b>	<b>Principal Amount</b>	<b>End Date</b>	<b>Interest Rate</b>
Certificate of Deposit	Toronto Dominion Bank	£10,000,000	08/12/2014	0.52
Certificate of Deposit	Toronto Dominion Bank	£10,000,000	07/01/2015	0.56
	Total Toronto Dominion Bank	£20,000,000		
<b>Total Canadian Bank Deposits</b>		<b>£40,000,000</b>		
Call Account	Handelsbanken	£40,000,000	n/a	0.6
<b>Total Swedish Bank Deposits</b>		<b>£40,000,000</b>		
Treasury Bill	DMO	£4,992,652	08/09/2014	0.34
Treasury Bill	DMO	£4,992,327	15/09/2014	0.34
Treasury Bill	DMO	£4,990,817	06/10/2014	0.369
Treasury Bill	DMO	£4,990,544	13/10/2014	0.38
Treasury Bill	DMO	£4,992,188	13/10/2014	0.34
Treasury Bill	DMO	£4,990,472	20/10/2014	0.385
Treasury Bill	DMO	£4,991,587	10/11/2014	0.338
Treasury Bill	DMO	£4,504,949	24/11/2014	0.338
Treasury Bill	DMO	£4,987,193	29/12/2014	0.515
Treasury Bill	DMO	£4,987,689	26/01/2015	0.495
	<b>Total UK Govt. Deposits</b>	<b>£49,420,419</b>		
Fixed Rate Covered Bond	Bank of Scotland	£2,184,840	08/11/2016	1.29%
Fixed Rate Covered Bond	Bank of Scotland	£3,142,737	08/11/2016	1.31%
Fixed Rate Covered Bond	Coventry Building Society	£3,307,597	19/04/2018	1.92%
Fixed Rate Covered Bond	Leeds Building Society	£2,182,448	17/12/2018	2.02%
Floating Rate Covered Bond	Abbey National Treasury	£2,494,600	05/04/2017	0.78%
Floating Rate Covered Bond	Abbey National Treasury	£1,410,605	05/04/2017	0.72%
Floating Rate Covered Bond	Abbey National Treasury	£5,771,455	20/01/2017	0.82%
Floating Rate Covered Bond	Lloyds	£3,010,362	16/01/2017	0.81%
Floating Rate Covered Bond	National Australia Bank	£5,018,003	12/08/2016	0.65%
Floating Rate Covered Bond	Nationwide Building Society	£1,899,992	17/07/2017	0.76%
Floating Rate Covered Bond	Nationwide Building Society	£1,001,481	17/07/2017	0.75%
Floating Rate Covered Bond	Nationwide Building Society	£2,103,733	17/07/2017	0.70%
Floating Rate Covered Bond	Yorkshire Building Society	£3,069,161	23/03/2016	0.91%
Floating Rate Covered Bond	Yorkshire Building Society	£5,121,686	23/03/2016	0.91%
Floating Rate Covered Bond	Yorkshire Building Society	£2,192,863	12/04/2018	1.98%
Floating Rate Covered Bond	Yorkshire Building Society	£2,047,646	23/03/2016	0.91%
Fixed Rate	European Bank of	£10,027,936	15/12/2014	0.43%



Supranational Bond	Regeneration and Development			
Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate
Fixed Rate Supranational Bond	Nordic Investment Bank	£3,765,194	16/12/2014	0.40%
<b>Total Covered Bonds</b>		<b>£59,752,338</b>		
Instrument Type		Principal Amount		
<i>Total Icelandic Bank Deposits</i>		£12,416,710		
<i>Icelandic Deposits held in ESCROW (est GBP)</i>		-£3,146,603		
<b><i>Net Icelandic Deposits outstanding</i></b>		<b>£9,270,107</b>		
<b>Total Internally Managed Investments</b>		<b>£371,602,863</b>		

## 2) Externally Managed Investments

Investment Fund	Book cost	Market Value at 30 June 2014	Gross return for 6 months to 30 June 2014
CCLA*	£7,500,000	£7,481,000	1.21%
Pyrford	£5,000,000	£4,923,000	1.02%
<b>Total Investment Funds</b>		<b>£12,404,000</b>	
Equity	Book cost	Market Value at 30 June 2014	Projected annual return
Kent PFI (Holdings) Ltd	£2,681,260	£2,681,260	7.6%
<b>Total Externally Managed Investments</b>		<b>£2,681,260</b>	

## 3) Total Investments

<b>Total Investments</b>	<b>£386,688,123</b>
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