

By: John Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement
Andy Wood, Corporate Director of Finance and Procurement

To: Governance and Audit Committee – 29 April 2015

Subject: **TREASURY MANAGEMENT QUARTERLY REPORT**

Clarification: Unrestricted

Summary: To report an update on treasury management issues.

FOR ASSURANCE

Introduction

1. This Committee is charged with responsibility for oversight of the Council's treasury management arrangements and receives a quarterly report.

Statement of deposits and investments

2. A statement of deposits and investments as at 31 March 2015 is attached in Appendix 1. This report is circulated to members of the Treasury Management Advisory Group every Friday.

Monthly performance report

3. A performance report is produced monthly for the Treasury Management Advisory Group. The February report is attached in Appendix 2.

Summary of developments

4. The Treasury Management Advisory Group met on 21 November where the focus was the new Treasury Strategy. The 2015-16 Strategy was approved by Council on 12 February 2015 and implemented shortly thereafter.
5. The Council has not undertaken any new borrowing since 2011. With regard to borrowing decisions the Council looks to strike an appropriate balance between securing funds at low interest costs and achieving cost certainty over the period for which funds are required, with the flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
6. Affordability and the "cost of carry" ie the difference between the cost of borrowing and investment return achieved, remain important influences on the Council's borrowing strategy and as short-term investment returns remain lower than long-term borrowing rates, it is likely to be more cost effective in the short-term to use internal resources instead.

7. With the assistance of Arlingclose the benefits of internal borrowing continue to be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise.
8. The Council holds significant invested funds, averaging £407m over the 9 months to 31 December 2014 representing income received in advance plus balances and reserves held. The Council's aim continues to be to achieve a yield commensurate with the principles of security and liquidity. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy.
9. The maximum duration limits for deposits with approved counterparties were reduced in October 2014 and again in February 2015 following advice from Arlingclose. In February limits with UK banks other than HSBC were reduced from 6 months to 100 days. The latest Arlingclose advice reflects the move by S&P to place the credit ratings of systemically important UK banks on CreditWatch with negative implications, following the early adoption of the bail-in regime in the EU Bank Recovery and Resolution Directive (BRRD).
10. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council continues to seek to diversify into more secure and/or higher yielding asset classes. This has primarily been achieved through buying Covered Bonds - highly regulated asset backed securities which add substantial additional security over and above that offered by the issuing financial institution. At 31 March 2015 the Council had £89.7m invested in Covered Bonds. In March in line with its 2015-16 investment strategy the Council invested in money market funds and increased its investment in the CCLA LAMIT property fund to £15m.

Recommendation

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

Alison Mings
Treasury and Investments Manager
Ext: 03000 416488

Appendix 1

KCC Deposits and Investments

Internally Managed Investments as at 31 March 2015

Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate
Certificate of Deposit	Barclays Bank	£5,000,000	14/08/2015	0.99%
Same Day Call Deposit	Barclays Business Premium Account	£5,000,000	n/a	0.35%
Same Day Call Deposit	Barclays FIBCA	£30,000,000	n/a	0.50%
	Total Barclays	£40,000,000		
Fixed Deposit	Bank of Scotland	£5,000,000	07/05/2015	0.70%
Fixed Deposit	Lloyds Bank	£5,000,000	22/04/2015	0.70%
Fixed Deposit	Lloyds Bank	£5,000,000	06/05/2015	0.70%
Fixed Deposit	Lloyds Bank	£5,000,000	19/05/2015	0.70%
Fixed Deposit	Lloyds Bank	£5,000,000	19/05/2015	0.57%
Fixed Deposit	Lloyds Bank	£5,000,000	26/05/2015	0.57%
Fixed Deposit	Lloyds Bank	£5,000,000	30/06/2015	0.70%
Fixed Deposit	Lloyds Bank	£5,000,000	22/07/2015	0.70%
	Total Lloyds Group	£40,000,000		
Same Day Call Deposit	Santander UK plc	£22,110,000	n/a	0.40%
	Total Santander UK plc	£22,110,000		
Total UK Bank Deposits		£102,110,000		
Fixed Deposit	Nationwide Building Society	£5,000,000	02/04/2015	0.66%
Fixed Deposit	Nationwide Building Society	£3,700,000	11/05/2015	0.58%
Fixed Deposit	Nationwide Building Society	£5,700,000	21/07/2015	0.66%
Fixed Deposit	Nationwide Building Society	£1,000,000	05/06/2015	0.50%
	Total Nationwide Building Society	£15,400,000		
Total UK Building Society Deposits		£15,400,000		
Fixed Deposit	Australia and New Zealand Banking Group	£10,000,000	07/04/2015	0.50%
Fixed Deposit	Australia and New Zealand Banking Group	£10,000,000	11/05/2015	0.51%
	Total Australia and New Zealand Banking Group	£20,000,000		
Total Australian Bank Deposits		£20,000,000		
Certificate of Deposit	Bank of Montreal	£10,000,000	22/04/2015	0.53%
Certificate of Deposit	Bank of Montreal	£10,000,000	07/04/2015	0.56%
	Total Bank of Montreal	£20,000,000		
Certificate of Deposit	Toronto-Dominion Bank	£5,000,000	14/07/2015	0.56%

	Total Toronto-Dominion Bank	£5,000,000		
Total Canadian Bank Deposits		£25,000,000		
Same Day Call Deposit	Svenska Handelsbanken	£40,000,000	n/a	0.50%
	Total Svenska Handelsbanken	£40,000,000		
Total Swedish Bank Deposits		£40,000,000		
Money Market Fund	Deutsche Managed Sterling Advisory	£3,950,000	n/a	0.38%
Total Money Market Funds		£3,950,000		
Total cash deposits		£206,460,000		
Floating Rate Covered Bond	Abbey National Treasury	£5,767,161	20/01/2017	0.82%
Floating Rate Covered Bond	Abbey National Treasury	£3,008,794	20/01/2017	0.71%
Floating Rate Covered Bond	Abbey National Treasury	£2,477,434	05/04/2017	0.78%
Floating Rate Covered Bond	Abbey National Treasury	£1,400,584	05/04/2017	0.72%
Fixed Rate Covered Bond	Bank of Scotland	£2,140,610	08/11/2016	1.29%
Fixed Rate Covered Bond	Bank of Scotland	£3,079,599	08/11/2016	1.31%
Floating Rate Covered Bond	Barclays Bank	£5,007,659	15/09/2017	0.69%
Floating Rate Covered Bond	Barclays Bank	£3,004,933	15/09/2017	0.69%
Fixed Rate Covered Bond	Barclays Bank	£5,004,575	12/02/2018	0.69%
Fixed Rate Covered Bond	Coventry Building Society	£3,308,211	19/04/2018	1.93%
Fixed Rate Covered Bond	Coventry Building Society	£5,495,025	19/04/2018	1.70%
Fixed Rate Covered Bond	Coventry Building Society	£2,208,806	19/04/2018	1.52%
Floating Rate Covered Bond	Leeds Building Society	£2,503,711	09/02/2018	0.78%
Floating Rate Covered Bond	Leeds Building Society	£2,503,731	19/04/2018	0.78%
Fixed Rate Covered Bond	Leeds Building Society	£2,168,991	17/12/2018	2.02%
Fixed Rate Covered Bond	Leeds Building Society	£1,640,010	17/12/2018	1.19%
Floating Rate Covered Bond	Leeds Building Society	£5,000,000	01/10/2019	0.97%
Floating Rate Covered Bond	Lloyds	£3,008,342	14/01/2017	0.81%
Floating Rate Covered Bond	Lloyds	£3,903,139	19/01/2018	0.72%
Floating Rate Covered Bond	Lloyds	£1,406,187	01/07/2019	0.76%
Floating Rate Covered Bond	National Australia Bank	£5,013,464	12/08/2016	0.65%
Floating Rate Covered Bond	Nationwide Building Society	£1,899,993	17/07/2017	0.76%
Floating Rate Covered Bond	Nationwide Building Society	£1,001,229	17/07/2017	0.75%
Floating Rate Covered Bond	Nationwide Building Society	£2,103,100	17/07/2017	0.70%
Floating Rate Covered Bond	Yorkshire Building Society	£3,039,615	23/03/2016	0.91%
Floating Rate Covered Bond	Yorkshire Building Society	£5,072,307	23/03/2016	0.91%
Floating Rate Covered Bond	Yorkshire Building Society	£2,029,963	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	£3,320,841	12/04/2018	1.55%
Total Bonds		£89,710,877		
Icelandic deposits	Recoveries outstanding	£7,352,988		

Icelandic deposits	ISK held in Escrow at Islandsbanki	£3,146,603		
Total Icelandic Deposits		£10,499,591		
Total Internally Managed Investments		£306,670,468		

Externally Managed Investments

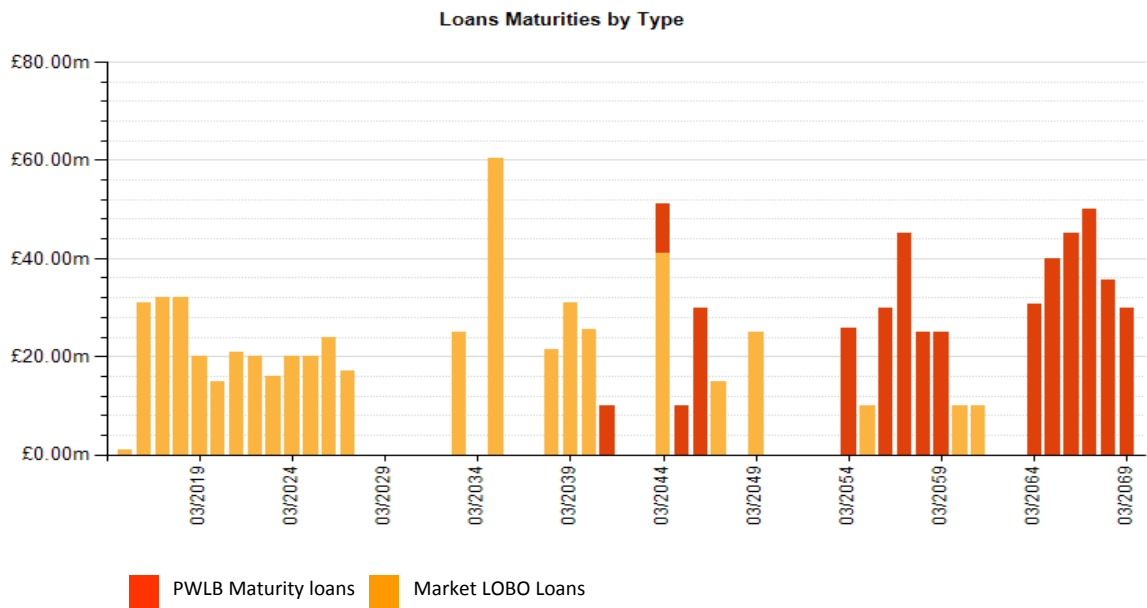
Investment Fund	Book Cost	Market Value as at 28 February 2015	Total annualised return to 28 February 2015
CCLA LAMIT Property Fund (note 1)	£10,000,000	£10,630,444	12.05%
Pyrford Global Total Return (Sterling) Fund	£5,000,000	£5,045,582	5.67%
Total Investment Funds		£15,676,026	

Note 1 Additional £5million invested 31 March

Treasury Management Report for the month of February 2015

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 February fell to £985m following the repayment of a £22m loan. The maturity profile is as follows with a further £1m due for repayment in March.

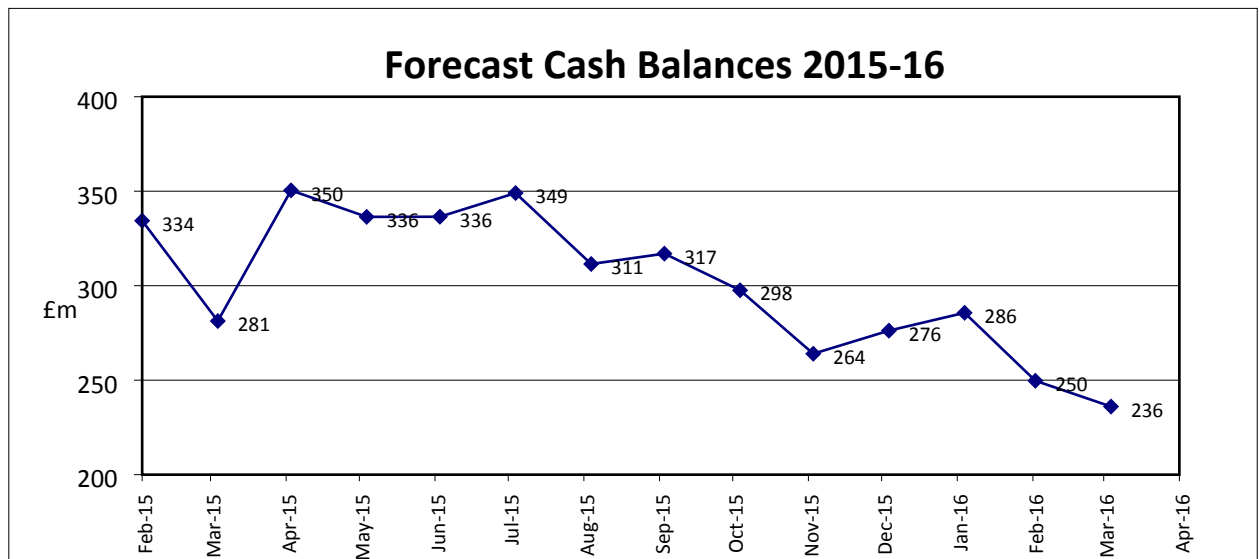


Total external debt managed by KCC includes £40.15m pre-LGR debt managed by KCC on behalf of Medway Council. Also included is pre-1990 debt managed on behalf of the Further Education Funding Council (£1.76m) and Magistrates Courts (£0.556m).

2. Investments

2.1 Cash Balances

During February the total value of cash under management fell slightly to £334.09m. Future cash balances are forecast as follows:



2.2 Type of investment at month end

Type of Investment	Total	
Call Account	£105,750,000	31.99%
Certificate of Deposit	£30,000,000	9.07%
Fixed Deposit	£74,400,000	22.50%
T-Bill	£4,989,656	1.51%
Covered Bond	£89,746,935	27.15%
ISK held in Escrow	£3,278,427	0.99%
Icelandic Recoveries outstanding	£4,074,564	1.23%
Internally managed cash	£312,239,582	94.45%
External Investments	£15,676,026	4.74%
Equity	£2,681,260	0.81%
Total	£330,596,867	100.00%

2.3 Internally managed cash

2.3.1 Average return on new investments

The average rate of interest on new investments made during the month was 0.67% vs 7 day LIBID of 0.3569%. The rate of return on outstanding investments is 0.66%.

2.3.2 Investment maturity profile and counterparty exposure.

On 4 February taking account of advice from Arlingclose the maximum duration for deposits with UK banks other than HSBC was reduced from 6 months to 100 days. The Arlingclose advice reflected the move by S&P to place the credit ratings of systemically important UK banks on CreditWatch with negative implications, following the early adoption of the bail-in regime in the EU Bank Recovery and Resolution Directive (BRRD). At the month end the maturity profile was as follows:

4. 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 continuing to forecast a pressure of £0.400m.

Alison Mings, 13 March 2015