

REPORT TO	ON
Governance Committee	20 September 2018



TITLE	REPORT OF
Amended Investment Strategy Options 2018/19	Deputy Chief Executive (Resources & Transformation)

Is this report confidential?	No
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### 1. PURPOSE OF THE REPORT

To compare the performance of this council’s treasury investments with the performance of other councils.

To propose an amendment to the Investment Strategy for 2018/19, which requires the approval of Full Council.

### 2. RECOMMENDATIONS

Members are asked to recommend to Council that the amended limits per Investment Counterparty presented in Appendix C should be approved.

### 3. EXECUTIVE SUMMARY

The average rate achieved on treasury investments in the first quarter of 2018/19 is in line with performance by other councils. Treasury investment activity by this council is similar to that of other Lancashire district and unitary councils.

All UK-incorporated banks and building societies with a Link Asset Services suggested investment duration of at least three months should be considered for use as investment counterparties. Banks and building societies without suggested investment durations should not be used.

The limit per UK bank, building society, or local authority should be increased from £5m to £6m. This may give access to banks which require higher minimum investments, and larger sums can be invested as term deposits at higher rates of interest.

#### 4. CORPORATE PRIORITIES

The report relates to the following corporate priorities:

Excellence and Financial Sustainability	✓
Health and Wellbeing	
Place	

Projects relating to People in the Corporate Plan:

People	
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#### 5. BACKGROUND TO THE REPORT

The Annual Investment Strategy for 2018/19 was included in the Treasury Strategy 2018/19 to 2022/23, which was approved by Council on 28 February 2018. The report emphasised that the Council's investment priorities will be **Security** first, portfolio **Liquidity** second, and only then return (**Yield**).

The Treasury Management Annual Report 2017/18 was presented to Governance Committee on 26 July 2018. The report indicated that an average return on investments of 0.49% had been achieved, which exceeded the target rate of 0.24%, being seven day LIBID plus 15%. In the first quarter of 2018/19, the average return had increased to 0.63%.

A review of investment counterparties was requested, and information about how this council's treasury investment performance compares to that of other authorities. This report provides benchmarking information and proposes changes to investment counterparties and limits.

#### 6. TREASURY INVESTMENT PERFORMANCE COMPARED TO OTHER AUTHORITIES

At present, the rate of return on treasury investments achieved by local authorities is lower than the rate of inflation, whether measured by CPI or RPI. Inflation is at a higher rate than the return on investments, so the downside of holding cash to invest is that it loses its value. Local authorities aim to minimise this loss in value by achieving as high a rate of return as can be earned from highly secure and liquid treasury investments. As an alternative, local authorities may use their cash to invest in council-owned income generating assets. However, purchase or construction of such assets is beyond the scope of this report, being capital expenditure rather than treasury investment.

Link Asset Services, the council's treasury advisors, have compared investment activity performance for the first quarter of 2018/19 with the performance achieved by their other local authority clients. Performance is summarised in the following table.

	South Ribble Borough Council	Non-Met Districts (91)	Other Councils (224)
WARoR	0.62%	0.69%	0.66%
WAM	89	98	92
WATT	142	192	178
WA Credit Risk	3.38	3.36	3.19

#### Definitions

<b>WARoR</b>	Weighted Average Rate of Return	This is the average annualised rate of return weighted by the principal amount in each rate.
<b>WAM</b>	Weighted Average Time to Maturity	This is the average time, in days, till the portfolio matures, weighted by principal amount.
<b>WATT</b>	Weighted Average Total Time	This is the average time, in days, that deposits are lent out for, weighted by principal amount.

This council's investment performance is similar to that of other local authorities, though a little lower. Though credit risk is a little higher than that of other councils, the scale is from 1 to 7 so this council's score is in the lower half of the range. Risk could be reduced by investing regularly in the Debt Management Office's Debt Management Account Deposit Facility (DMADF), but the effect would be to reduce rate of return on investments.

The comparison of performance against other local authorities and the Link Model is presented as Appendix A. Though some councils are achieving a higher rate of return, in line with their risk appetites, this council's performance is in line with expectations.

Appendix B, which is derived from local authorities' quarterly borrowing and investment returns, compares this council's investments as at 31 March 2018 and 30 June 2018 with those of English local authorities as a whole, other Lancashire district councils, and the Lancashire unitary councils.

The tables show that the most popular treasury investment types for English councils are banks, local authorities, and money market funds (MMFs).

At both dates analysed in Appendix B, this council had placed more cash with banks than the national average and other Lancashire councils. At 31 March 2018, investments with other local authorities were higher than the national percentage, but slightly lower than for other Lancashire councils. By 30 June 2018 several local authority term deposits had matured and the cash was not reinvested with local authorities, so the percentage in this category was lower than for English authorities in general. The percentage placed with MMFs at 31 March 2018 was lower than for all English authorities and other Lancashire councils, but by 30 June was slightly higher than the percentage for English authorities, and similar to that for other Lancashire councils.

This council's treasury investment activity is typical of Lancashire councils in general. Few of the Lancashire councils use treasury investment options other than banks, local authorities, and MMFs.

In summary, the average rate achieved for treasury investments in the first quarter is broadly in line with expectations according to Link's benchmarking, and the type of treasury investment activity is typical of Lancashire councils in general.

## 7. OPTIONS FOR AMENDING THE 2018/19 INVESTMENT STRATEGY

The approved Investment Strategy for 2018/19 permits cash to be placed with UK-incorporated banks and building societies which have a Link Asset Services' maximum duration of three to twelve months.

There are a limited number of suitable UK-incorporated banks and building societies which can be used by the council, based on credit ratings from the three main agencies (Fitch, Moody's, and Standard & Poor's) and Link suggested investment durations. These are as follows:

- Barclays Bank
- Close Brothers
- Coventry Building Society
- Goldman Sachs International Bank
- HSBC group
- Leeds Building Society
- Lloyds group (Banks of Scotland and Lloyds Bank)
- Nationwide Building Society
- Royal Bank of Scotland group (RBS and NatWest Bank)
- Santander group (Abbey National Treasury Services and Santander)
- Skipton Building Society
- Standard Chartered Bank
- Sumitomo Mitsui Banking Corporation Europe
- UBS Limited
- Yorkshire Building Society

Not all of these banks have been used by the council. It is recommended that the Investment Strategy should be interpreted to permit use of all of the UK-incorporated banks and building societies which have a Link suggested investment duration of at least three months.

Some large banks, which do have credit ratings, currently have no suggested investment duration recommended by Link. This is reviewed frequently by Link, and it is possible that ratings may improve so that other banks can be added to this list. In the meantime, such banks should not be used. This would exclude banks such as the Co-operative Bank and Clydesdale Bank from the list of counterparties for the time being.

There are a large number of UK-incorporated challenger, specialist and small banks which do not have credit ratings from the three main agencies, and therefore do not have Link suggested investment durations. All have been reviewed as potential investment counterparties, but there is no reason to depart from Link's advice that they should not be used for investment purposes by local authorities.

Use of additional non-UK counterparties or an increase in the limit per non-UK bank has not been considered. The only non-UK bank used at present is the large German bank Helaba. The use of non-UK banks was approved when investment counterparties were reviewed during 2015/16, and Helaba has been used as a counterparty since then. As the bank has a UK base and takes deposits in sterling, it is broadly equivalent to a UK bank. Risks arising from Brexit are not considered material, but will be monitored.

Until accounts are set up with additional banks, there is a possibility that the DMADF may have to be used from time to time for short-term investments. To reduce the likelihood of this, it is recommended that Council should approve an increase in the limit per UK institution or group and local authorities from £5 million to £6 million. The maximum duration of twelve

months should be retained. All term deposits are approved by the S151 Officer before they are placed, and credit ratings are checked before cash is transferred.

## 8. CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

No consultation has been undertaken in preparing this report.

## 9. FINANCIAL IMPLICATIONS

Increasing the maximum invested per UK bank or building society may lead to some reduction in liquidity if more cash is invested as term deposits. Another consequence may be an increase in the average return. No reduction in security is anticipated.

## 10. LEGAL IMPLICATIONS

Please see the Monitoring Officer comments.

## 11. COMMENTS OF THE STATUTORY FINANCE OFFICER

The proposed changes have the potential for increasing the average return on treasury investments.

## 12. COMMENTS OF THE MONITORING OFFICER

The Monitoring Officer has no concerns or issues with what is proposed in this report.

## 13. OTHER IMPLICATIONS:

<ul style="list-style-type: none"><li>▶ <b>HR &amp; Organisational Development</b></li><li>▶ <b>ICT / Technology</b></li><li>▶ <b>Property &amp; Asset Management</b></li><li>▶ <b>Risk</b></li><li>▶ <b>Equality &amp; Diversity</b></li></ul>	<p>The Investment Strategy sets limits on investments in order to manage risks.</p>
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## 14. BACKGROUND DOCUMENTS

Treasury Strategy 2018/19 to 2022/23

(Council 28/2/18)

## 15. APPENDICES

- Appendix A SRBC Investment Performance Quarter 1 2018/19
- Appendix B Comparison of Investments by Counterparty Category
- Appendix C Proposed Revisions to Investment Counterparties 2018/19

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