

REPORT OF AUDIT COMMITTEE

(Meeting held on 25 September 2015)

1. TREASURY MANAGEMENT MID-YEAR MONITORING REPORT 2015/16 – CHANGES TO THE 2015/16 TREASURY MANAGEMENT STRATEGY (MINUTE NO. 30 – 25 SEPTEMBER 2015)

The Committee has received a mid-year monitoring report on the performance of the treasury management function. The report detailed the economic background, the borrowing strategy, investment activity, as well as compliance with prudential and treasury management indicators.

At the same time, the Committee considered recommended changes to the current Strategy.

Over the 18 months that Hampshire County Council has managed NFDC's Treasury function, the Council's investment balances have risen significantly from £46m to over £75m at its highest point this financial year. Current forecasts show that investment balances could peak at £89m, higher than predicted when the current Treasury Management Strategy was approved. The diversification of those balances has been managed between initially eight counterparties but has now grown to 36 counterparties.

The Committee's recommended changes are set out below.

Investment Limits

Increasing the investment and counterparty limits will increase flexibility, which is required to a greater extent now that cash balances are greater.

As approved in the 2015/16 Treasury Management Strategy, a group of banks under the same ownership will be treated as a single organisation for limit purposes. Maximum limits will also be placed on fund managers and industry sectors as below:

Table 4: Investment Limits	Cash Limit	
	Current	Revised
Any single organisation, except the UK Central Government	£5m each	£8m each
UK Central Government	Unlimited	Unlimited
Any group of organisations under the same ownership	£5m per group	£8m per group
Any group of pooled funds under the same management	£5m per manager	£8m per manager
Registered Providers	£6m in total	£6m in total
Money Market Funds	50% in total	50% in total

The Council may invest its surplus funds with any of the counterparty types in Table 5, subject to the cash limits (per counterparty) and the time limits shown.

Table 5: Approved Investment Counterparties and Limits					
Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 4 years	n/a	n/a
AAA	£4m 4 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years
AA+	£4m 4 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years
AA	£4m 4 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years
AA-	£4m 3 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years
A+	£4m 2 years	£8m 3 years	£4m 4 years	£4m 3 years	£4m 4 years
A	£4m 13 months	£8m 2 years	£4m 4 years	£4m 2 years	£4m 4 years
A-	£4m 6 months	£8m 13 months	£4m 4 years	£4m 13 months	£4m 4 years
BBB+	£2m 100 days	£4m 6 months	£2m 2 years	£2m 6 months	£2m 2 years
BBB or BBB-	£2m next day only	£4m 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	£4m 4 years	n/a	£4m 4 years
Pooled funds	£8m per fund				

Principal Sums Invested for Periods longer than 364 days

As a result of the cash balances held by NFDC being greater than expected, principal sums invested for periods longer than 364 days is now close to the limit set within the revised strategy.

For 2015/16 NFDC restricted investments for periods of over a year to a maximum of £20.0m. At 31 August 2015 NFDC had £16.0m of investments with over 364 days to their maturity.

The Committee therefore considers that it would be prudent to increase this limit to £25.0m for 2015/16 to allow for further excess funds to be invested over a longer period so as to provide greater flexibility and to also take advantage of greater interest rates than those that are available in the over-night cash options.

Table 6	2015/16	2016/17	2017/18
Limit on principal invested beyond 364 days	£25m	£25m	£25m

Increasing the principal sum invested for periods longer than 364 days requires other limits also to be increased so as to comply with the following new limits.

Table 7: Non-Specified Investment Limits	Cash Limit
Total long-term investments	£25m
Total investments without credit ratings or rated below A- (excluding investments with other local authorities)	£10m
Total non-Sterling investments	£0m
Total investments in foreign countries rated below AA+	£0m
Total non-specified investments	£45m

Table 8: Interest Rate Exposures	2015/16	2016/17	2017/18
Upper limit on fixed interest rate investment exposure	£25.0m	£25.0m	£25.0m
Upper limit on variable interest rate investment exposure	£80.0m	£80.0m	£80.0m
Upper limit on fixed interest rate borrowing exposure	£163.4m	£163.7m	£159.8m
Upper limit on variable interest rate borrowing exposure	£163.4m	£163.7m	£159.8m

With regard to investment activity, the Committee was of the view that in order to access additional investments that can attract higher returns than cash, and to make use of the Council's stable core balances, up to a further £4m should be in long-term pooled funds, including pooled equity funds. These are also considered to be capital investments.

RECOMMENDATION:

- (a) *That the changes to the 2015/16 Treasury Management Strategy as set out above be approved; and*
- (b) *That the proposal to add up to a further £4 million of long term pooled investments to New Forest District Council's investment portfolio be noted.*

**Cllr A D O'Sullivan
Chairman**