CABINET 6 DECEMBER 2017
COUNCIL 11 DECEMBER 2017

CHANGES TO THE 2017/18 TREASURY MANAGEMENT STRATEGY

1. PURPOSE

1.1. New Forest District Council approve the amendments to the 2017/18 Treasury Management Strategy Statement (TMSS) as detailed in section 3 of this report.

2. SUMMARY

2.1. Hampshire County Council has managed the Council's Treasury Management function since March 2014, and within this time the Council's investment balances have risen significantly to £96m at its highest point this financial year. Investment balances have increased during 2017/18 due to a number of reasons, the main ones being the additional funds collected each month in both Council Tax and NNDR as a result of bill increases in these areas, and increased reserve balances as a result of the 2016/17 outturn position.

2.2. Investment balances are higher than predicted than when the 2017/18 TMSS was approved, which has effectively resulted in a passive breach of the upper limit on variable interest rate investment exposure. In order to alleviate the upper limit on variable interest rate investment exposure, and reduce the risk of the Council experiencing the negative effect of higher inflation versus short-term deposit interest rates, it would be helpful to make some changes to the 2017/18 TMSS.

3. CHANGES TO THE 2017/18 TREASURY MANAGEMENT STRATEGY

3.1. For 2017/18 the Council restricted variable interest rate investments, which is considered to be all short-term investments, and long-term variable rate investments, to £90m. This limit is always set at the forecast highest level of cash balances, to allow all investments to be held at variable rate, therefore if the Council experienced a negative economic environment this would allow all cash balances to be invested with the Government's Debt Management Office, as this is the most secure option for Council funds.

3.2. Within this current low interest rate economic environment, the Council has chosen to invest in long-term variable rate investments, such as pooled funds and floating rate notes. The Council invests in pooled funds to diversify its investments, gaining exposure to high yielding investments, and invests in floating rate notes to take advantage of an asset class where interest rates increase in line with LIBOR. Therefore the upper limit on variable interest rate investment exposure is measuring both short and long term investments.

3.3. On 16 November 2017 the Council breached the £90m upper limit on variable interest investment exposure by £2.635m due to greater than expected total cash balances. The Council can alleviate this limit by increasing it to allow for revised forecast highest cash balances. It is recommended that for 2017/18 to 2019/20, the upper limit on variable interest rate investment exposure is increased from £90m to £100m, as shown in Table 1.

3.4. For 2017/18 the Council restricted the upper limit on fixed interest rate investment exposure to £25.0m. At 16 November 2017 the Council is close to the limit for 2017/18 as there are £24.05m of investments and a further £0.5m committed which have over 364 days to their maturity.

3.5. To continue with the overall approach for placing investments allowing for the greater than expected cash balances, it would be prudent to increase the upper limit on fixed interest rate investment exposure for 2017/18 to 2019/20 from £25m to £30m, as shown in Table 1. This would further alleviate the upper limit on variable interest rate investment exposure by allowing for further excess funds to be invested over a longer period at a fixed rate, and to also take advantage of greater interest rates than those that are available in the over-night cash options.

Table 1: Interest Rate Investment Exposures			
	2017/18	2018/19	2019/20
Upper limit on variable interest rate investment exposure	£100m	£100m	£100m
Upper limit on fixed interest rate investment exposure	£30m	£30m	£30m

3.6. Increasing the upper limit on fixed rate investment exposure requires other limits to also be increased so as to comply with the new limits; the limit on principal invested beyond 364 days, and the non-specified investment limits. These new limits are shown in Tables 2 and 3 below.

Table 2 – Limit on principal invested beyond 364 days			
	2017/18	2018/19	2019/20
Limit on principal invested beyond 364 days	£30m	£30m	£30m

Table 3 - Non-Specified Investment Limits	**Cash limit**
Total long-term investments	£30m
Total investments without credit ratings or rated below A- (excluding investments with other local authorities)	£20m
Total non-Sterling investments	£0m
Total investments in foreign countries rated below AA+	£0m
Total non-specified investments	£35m*

* Total non-specified investments is a limit in its own right, and is not meant to equal the aggregate of the limits for total long-term investments, and total investments without credit ratings or rates below A-.

4. RECOMMENDATION

Members are recommended to:

4.1. approve the changes to the 2017/18 Treasury Management Strategy Statement as detailed in section 3 of the report.

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