

ACTION LIST UPDATE SHEET – 21ST APRIL 2016 MEETING

Ref	Action/Issue	Officer Response																									
2 i) & ii)	Liquidity Risk & Borrowing Strategy	<p>As at 31st March: Borrowing - £5m (£4m at 0.5% and £1m at 0.5%) No investments</p> <p>Long term borrowing:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="text-align: left;">BARCLAYS CAPITAL</td> <td style="text-align: right;">5,000,000</td> <td style="text-align: right;">4.71%</td> <td style="text-align: right;">01/05/2007</td> <td style="text-align: right;">04/05/2032</td> </tr> <tr> <td style="text-align: left;">PWLB- 15years</td> <td style="text-align: right;">15,000,000</td> <td style="text-align: right;">3.01%</td> <td style="text-align: right;">28/03/2012</td> <td style="text-align: right;">28/03/2027</td> </tr> <tr> <td style="text-align: left;">PWLB- 20years</td> <td style="text-align: right;">25,000,000</td> <td style="text-align: right;">3.30%</td> <td style="text-align: right;">28/03/2012</td> <td style="text-align: right;">28/03/2032</td> </tr> <tr> <td style="text-align: left;">PWLB- 25years</td> <td style="text-align: right;">40,000,000</td> <td style="text-align: right;">3.44%</td> <td style="text-align: right;">28/03/2012</td> <td style="text-align: right;">28/03/2037</td> </tr> <tr> <td style="text-align: left;">PWLB- 30years</td> <td style="text-align: right;">18,929,000</td> <td style="text-align: right;">3.50%</td> <td style="text-align: right;">28/03/2012</td> <td style="text-align: right;">28/03/2042</td> </tr> </tbody> </table> <p>The average short term borrowing in 2015/16 was £5.4m</p>	BARCLAYS CAPITAL	5,000,000	4.71%	01/05/2007	04/05/2032	PWLB- 15years	15,000,000	3.01%	28/03/2012	28/03/2027	PWLB- 20years	25,000,000	3.30%	28/03/2012	28/03/2032	PWLB- 25years	40,000,000	3.44%	28/03/2012	28/03/2037	PWLB- 30years	18,929,000	3.50%	28/03/2012	28/03/2042
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2 iv)	Benchmarking Borrowing yield	<p>Redditch BC's investment objective in paragraph 5 of the treasury strategy is "<i>to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield</i>". This is not just Redditch's individual objective, but is the objective of all local authorities in compliance of CIPFA's Code of Practice on Treasury Management. The yield on the Council's investments therefore has to be commensurate with the principles of security and liquidity of invested monies.</p>																									

If Redditch BC is to benchmark its investments against other local authorities, it would need to do so by also taking into consideration security and liquidity, not just yield.

As an Arlingclose client, Redditch will receive the quarterly investment benchmarking starting with the quarter ended March 2016 (we would, however, need from you the Council's investments as at 31/3/2016, so please email these details to me.) You can report the Arlingclose investment benchmarking on a **confidential** basis to members. Arlingclose's investment benchmarking takes into account all local authorities' investment objectives, i.e. Security, Liquidity and Yield.

- **Security** of in-house managed investments is measured by the credit quality of the investments. Credit quality is referenced by credit ratings which give an opinion on the likelihood of the Council's investments being repaid and the interest being received in full and on time. Across Arlingclose's client base this weighted average credit rating ranged from AA+ to A, with the average at AA-.
- Liquidity of investments is measured by how quickly the Council can have access to its invested monies. The shorter the average maturity of the investment portfolio, the higher would be the liquidity. However, the general trend is that the greater the liquidity, i.e. the smaller the number days to maturity, the lower will be the corresponding investment return or yield. At 31st December 2015, portfolio maturities across our client base ranged from 1 day to 1½ years with the average at 64 days. Many of our clients have much longer dated investment portfolios as they have cash available for the medium- to long-term which is invested in term deposits, certificates of deposit, bonds and pooled funds. I trust you can substantiate your decision for keeping Redditch's investments short-dated: if the Council needs to borrow and that borrowing is unsupported borrowing, the best use of cash resources is to use these resources in lieu of borrowing. This is consistent with the aim stated in section 4.2 of the Council's treasury strategy statement which relates to borrowing *"Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key*

		<p><i>issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.”</i></p> <ul style="list-style-type: none">- Yield: You will probably therefore find that the yield earned by Redditch is low as the Council’s monies are invested primarily in call accounts (I guess most of these would be paying base rate or less) and very short-dated fixed deposits as you are using cash resources in lieu of borrowing, as the latter is more expensive.
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