

AUDIT COMMITTEE

PART I - DELEGATED

10. TREASURY MANAGEMENT MID-YEAR REPORT 2018/19 (DoF)

1 Summary

1.1 This report gives details of the 2018/19 mid-year review of the Treasury Management function.

2 Details

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: “the management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2.2 The Council’s 2018/19 Treasury Management Strategy (TMS) as approved by Council on 30 January 2018 has the primary objectives of safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective.

2.3 This report updates the Committee with the progress on whether the Council is meeting the TMS and its policies for the first six months of 2018/19.

2.4 The Council has appointed treasury advisors to assist with our treasury management, Link Asset Services. The advisors have provided the following forecast:

Interest rate forecasts

Month & Year	Bank Rate %
Dec 2018	0.75
March 2019	0.75
June 2019	0.75
Sept	1.00
Dec	1.00
March 2020	1.00
June 2020	1.25

2.5 In August this year the Bank of England raised interest rates to 0.75%. The Bank has repeatedly stated that any further increases in Bank Rate will be at a gradual pace and to a limited extent. In November 2018 the Bank’s Monetary Policy Committee (MPC) central projection identified a gently rising path of bank rate implied by market yields and a smooth adjustment to the average of a range of

possible outcomes for the UK's eventual trading relationship with the European Union.

2.6 The Council's Capital Position (Prudential Indicators)

2.7 The Council's capital expenditure plans are one of the key drivers of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.8 The capital expenditure plans are financed in full by capital receipts, grants or capital reserves. When the Treasury Management Statement was prepared in December 2017 there were no planned shortfalls of resources over the next three years which would result in a funding need (borrowing).

2.9 Capital Financing Requirement (CFR), External Debt and Operational Boundary

The CFR and Operational Boundary estimates are shown below:

2.10

Prudential Indicator	2018/19 Original Estimate	Current External Borrowing Position	2018/19 Revised Estimate
Capital Financing Requirement	£8.6m	£0m	£31.7m
External Debt / the Operational Boundary			
Borrowing	£10m	£0m	£8m

2.11 The revised CFR figure includes £18M expenditure on the Property Investment Portfolio and £3.5M related to South Oxhey that was not in the original CFR estimate.

2.12 Limits to Borrowing Activity

The first key control over the treasury activity is a Performance Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years.

2.13 The Authorised Limit

This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit For External Debt	2018/19 Original Indicator	Current Borrowing Position	2018/19 Revised Indicator
Borrowing	£10m	£0m	£10m

2.14 **Investment Portfolio 2017/18**

2.15 In accordance with the CIPFA Prudential Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 2 of the Code, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.75% Bank Rate. Indeed, the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

2.16 The Council held £3.652m of investments as at 30 September 2018 (see table below). This information is reported in the monthly Members Information Bulletin. An investment of £8m to Thrive Homes Ltd. was paid on the 10th October 2018. At the 30th September this was held by the Council's solicitor, on behalf of the Council pending completion of the loan. The Council did not borrow until the loan was enacted. As a result the working balance fell temporarily below the £10M working capital requirement set out in the Treasury Management Strategy.

Institution	Principal (£)
Lloyds Bank – Current Account	3,652,368.98
Total Banks	3,652,368.98
Nationwide Building Society	-
Principality Building Society	-
Skipton Building Society	-
Total Building Societies	-
Total	3,652,368.98

2.17 The approved limits within the Annual Investment Strategy were not breached during the first six months of 2018/19.

2.18 **Security**

2.19 The Council uses benchmarks as simple guides to maximum risk, and these may be breached from time to time, depending on movements in interest rates and counterparty criteria. Any breach of the benchmarks will be reported, with supporting reasons, in this report. There were no breaches to report in the first six months of 2018/19.

2.20 In line with the TMS, the Council has managed to invest with those institutions who offered the best rate and the investment portfolio is above the overall benchmark during the year to date.

2.21 **Liquidity**

2.22 The Council set liquidity facilities/benchmarks to maintain:

Authorised bank overdraft of £nil.

Liquid short term deposits of at least £5m available with a week's notice.

Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 10 years for an individual loan with a public body.

2.23 The liquidity arrangements were adequate during the year to date. The loan to Thrive is excluded in this liquidity calculation.

2.24 **Yield**

2.25 The budget for interest earned on investments for 2018/19 is £70,000; interest received and accrued up to the end of September was £41,113. On current trends it is expected that the budget will be exceeded.

2.26 The approved benchmark measure of yield is a return of 0.12% above the average bank rate. The bank rate was 0.5% until 1 August 2018, when it rose to 0.75%.

2.27 The returns up to 30 September 2018 averaged 0.54%, against a benchmark rate of 0.70%.

2.28 The average yield return was lower than the benchmark for the year to date, although the loan to Thrive will result in the benchmark being exceeded for the year.

Table of monthly interest rates to date:

Month	Rate Achieved
April 2018	0.42%
May 2018	0.48%
June 2018	0.52%
July 2018	0.50%

August 2018	0.65%
September 2018	0.65%

2.29 The Council keeps all investments short term. There are no sums within the TMS invested for greater than 364 days. Counterparties have been downgraded over the past few years; most investments have been limited to a 6 months period. This has resulted in lower interest rates being achieved.

2.30 The current investment counterparty criteria selection approved in the TMS is being met.

2.31 **Credit Ratings**

2.32 Credit rating information is supplied by our treasury consultants, Link Asset Services, on all counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

3 Financial Implications

3.1 As continued in the body of the report.

4 Legal Implications

4.1 There is no requirement to make any amendments to the Treasury Management Strategy at this stage.

5 Equal, Staffing, Environmental, Community Safety, Public Health, Customer Services Centre, Communications & Website, Risk Management and Health & Safety Implications

5.1 None specific.

6 Recommendation

6.1 That the Committee notes the contents of the 2018/19 mid-year review of the Treasury Management function.

Report prepared by: Alison Scott, Head of Finance

Data Quality

Data sources:

Please list the sources of any data provided in the report

Data checked by:

Insert name and title of officer who has checked data.

Data rating: Tick () one box in table below – see below for definitions.

Poor – data is collected manually, or electronic records are manually analysed. No data quality checks are made.

Sufficient – data is collected electronically, and basic analysis is electronically calculated. No data quality checks are made.

High – data is collected electronically, data samples are checked for validity, and errors corrected before final electronic calculation of results. Data quality checks are systematically applied e.g. to Market Research Society standards.

1	Poor	
2	Sufficient	
3	High	

Background Papers

(Please remember to include Contract Implications and Parish Council comments where appropriate.)

APPENDICES / ATTACHMENTS