

AUDIT COMMITTEE – 3 DECEMBER 2019

PART I - DELEGATED

5. TREASURY MANAGEMENT MID-YEAR REPORT 2019/20 (DoF)

1 Summary

1.1 This report gives details of the 2019/20 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 2019/20 Treasury Management Strategy (TMS) as approved by Council on 29 February 2019 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 2019/20.

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 2019	0.75
March 2020	0.75
June 2020	0.75
September 2020	0.75
December 2020	0.75
March 2021	1.00
June 2020	1.00

2.5 The Council’s Capital Position (Prudential Indicators)

2.6 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.

2.7 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).

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

The CFR and Operational Boundary estimates are shown below:

Prudential Indicator	2019/20 Original Estimate	Current External Borrowing Position	2019/20 Revised Estimate
Capital Financing Requirement	£32.5m	£8m	£27.3m
External Debt / the Operational Boundary			
Borrowing	£15m	£8m	£15m

2.9 **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 2019/20 and next two financial years. This allows some flexibility for limited early borrowing for future years. The borrowing in relation to the loans to Housing Associations does not count against the external borrowing limit as this has a neutral impact on net debt (the borrowing is cancelled out by the onward loan).

2.10 **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	2019/20 Original Indicator	Current Borrowing Position	2019/20 Revised Indicator
Borrowing	£17m	£8m	£17m

2.11 **Investment Portfolio 2019/20**

2.12 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.

2.13 The Council held £10.144m of investments as at 30 September 2019 (see table below). This information is reported in the monthly Members Information Bulletin. An investment of £8m to Thrive Homes Ltd. Was made in October 2018 for 3 years.

Institution	Principal (£)
Lloyds Bank – Current Account	8,144,363.03
Total Banks	8,144,363.03
Principality Building Society	2,000,000.00
Total Building Societies	2,000,000.00
Total	10,144,363.03

2.14 The approved limits within the Annual Investment Strategy were not breached during the first six months of 2019/20.

2.15 **Security**

2.16 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.

2.17 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.

2.18 **Liquidity**

2.19 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.

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

2.21 **Yield**

2.22 The budget for interest earned on investments for 2019/20 is £90,000; interest received and accrued up to the end of September was £44,036. On current trends it is expected that the budget will be exceeded.

2.23 The Approved benchmark measure of yield is a return of 0.12% above the average bank rate of 0.75%. The cumulative return up to 30 September 2019 was 3.99%, the performance against benchmark reflects the loans to the housing associations.

2.24 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 on investments held within banks and building societies.

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

2.26 **Credit Ratings**

2.27 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 2019/20 mid-year review of the Treasury Management function.

Report prepared by: Alison Scott, Head of Finance

Data Quality

Data sources:

KPI monitoring information to SSOB

Link reports

Data checked by:

Bhavani Mohan, Finance Manager

Data rating: Tick

1	Poor	
2	Sufficient	
3	High	x

Background Papers

None

APPENDICES / ATTACHMENTS

None