

**AUDIT, GOVERNANCE &  
STANDARDS COMMITTEE**

**19 November 2018**

**Treasury Management Mid-Year Review 2018/19**

<b>Final Decision-Maker</b>	Audit, Governance & Standards Committee
<b>Lead Head of Service/Lead Director</b>	Ellie Dunnet - Head of Finance
<b>Lead Officer and Report Author</b>	John Owen – Finance Manager
<b>Classification</b>	Public
<b>Wards affected</b>	All

**Executive Summary**

This report sets out the activities of the Treasury Management Function for the first 6 months of financial year 2018/19 in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities.

**This report makes the following recommendations to this Committee:  
That:**

1. The position of the Treasury Management Strategy as at 30 September 2018 be noted.
2. No amendments to the current procedures are necessary as a result of the review of activities in 2018/19.

**Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	19 November 2018

# Treasury Management Mid-Year Review 2018/19

## 1. INTRODUCTION AND BACKGROUND

- 1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.
- 1.2 The Authority's treasury management strategy for 2018/19 was approved at a meeting on 7 March 2018. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's treasury management strategy.
- 1.3 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England MHCLG published its revised Investment Guidance which came into effect from April 2018.
- 1.4 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority will be producing its Capital Strategy later in 2018/19 for approval by full Council.
- 1.5 This report sets out the activities of the Treasury Management function for the first 6 months of financial year 2018/19 in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 6 months.
- 1.6 Investment Strategy
  - 1.6.1 The key elements of the 2018/19 Strategy are:
    - to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and to minimise counterparty risk;
    - to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered. Greater use of Local Authority investments will be sought due to the high security of the borrower which enables investment over a longer period where funds are not required immediately.

1.6.2 The Treasury Management (TM) Strategy was approved by Council in March 2018 which outlined the Council's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

1.6.3 The Council will aim to achieve optimum return on investments after having satisfied proper levels of security and liquidity. It was agreed to keep investments short term with highly credit rated financial institutions, using the creditworthiness list, information provided by the Council's investment advisors, Arlingclose, along with information sharing from other local authorities and being mindful of market intelligence.

## 1.7 Borrowing Strategy

1.7.1 The maximum and expected prudential borrowing required to fund the capital programme was estimated at £3.94m approx., however due to capital slippage and the use of internal borrowing, in practice the borrowing requirement for 2018/19 will be nil. This is with the exception of short term borrowing for cash flow purposes only.

## 1.8 Economic Overview and Financial Markets

1.8.1 Oil prices rose by 23% over the six months to around \$82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year on year, above the consensus forecast and that of the Bank of England in its August Inflation Report, as the effects of sterling's large depreciation in 2016 began to fade.

1.8.2 The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975.

1.8.3 GDP growth in quarter rose to 0.4%, however the year on year growth of 1.2% remains below the normal trend.

1.8.4 The 5-year benchmark gilt only rose marginally from 1.13% to 1.16% during the first six months of the year, and there was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher in money markets rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

1.8.5 The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.

1.8.6 Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

1.8.7 The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.

1.8.8 Arlingclose's central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Ca	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

1.8.9 The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets.

## 1.9 Maidstone Borough Council Position

1.9.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balance ranged between £17.4 and £35.0 million due to timing differences between income and expenditure. Total investments as at 30<sup>th</sup> September 2018 were £27.395m. A full list of the Council's investments is shown in **Appendix A**. £11.395m of investments are in money market funds & notice accounts which can be called upon immediately or for a short notice period for daily cash flow purposes including precept payments and business rates pool funding. The remainder of investments are fixed term deposits with other Local Authorities which are deemed to be secure investments, along with two CDs with Rabobank which are tradable if necessary.

1.9.2 Investment income for this period is £93k against a current budget of £50k. The difference is due to the Bank of England increasing the bank rate during the year which in turn increases investment rates. There has also been larger sums of money to invest due to capital slippage.

1.9.3 The Council has borrowed funds for short term purposes to cover its cash flow liabilities during the first 6 months of the year. Details of these are as follows:

Lender	£m	%	Start Date	End Date
Rhondda Cynon Taff	2.5	0.35	22/05/2018	29/05/2018
Rhondda Cynon Taff	2.6	0.35	25/05/2018	29/05/2018
Rhondda Cynon Taff	3.94	0.35	22/06/2018	26/06/2018

Rhondda Cynon Taff	3.5	0.35	26/06/2018	27/06/2018
Newport City Council	2.5	0.45	23/07/2018	27/07/2018

The above was found to be the cheapest borrowing possible at the current time.

## 1.10 Prudential and Treasury Indicators

1.10.1 It is a statutory duty for the Council to determine and keep under review 'Affordable Borrowing Limits.' During the first six months of financial year 2018/19, the Council has operated within the prudential and treasury indicators set out in the Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury indicators can be found in **Appendix B**.

## **2. AVAILABLE OPTIONS**

- 2.1 The Audit, Governance and Standard Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities of the first 6 months of 2018/19.
- 2.2 The Audit, Governance and Standard Committee proposes changes to the current procedures as a result of a review of activities with the first 6 months of 2018/19.

## **3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 3.1 The Audit, Governance and Standard Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities of the first 6 months of 2018/19 as there are no justifications to make any changes.

## **4. RISK**

- 4.1 Risks related to this matter were detailed in the Treasury Management Strategy Statement 2018/19. Since that report the risks identified have not significantly changed.

## **5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 5.1 None.

## **6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

6.1 The Audit, Governance and Standards Committee agree that no amendments to current procedures of the Treasury Management function are necessary, there will be no further action.

## 7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims.	Head of Finance
<b>Risk Management</b>	Already covered in the risk section of the report.	Head of Finance
<b>Financial</b>	This report relates to the financial activities of the Council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Director of Finance & Business Improvement
<b>Staffing</b>	None	
<b>Legal</b>	Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management. The Treasury Management Review demonstrates the Council's commitment to fulfilling its duties under the Act. The report is in compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury management in local authorities.	Team Leader (Corporate Governance), MKLS
<b>Privacy and Data Protection</b>	There are no specific privacy or data protection issues to	Team Leader (Corporate Governance),

	address.	MKLS
<b>Equalities</b>	No impact identified	Equalities and Corporate Policy Officer
<b>Crime and Disorder</b>	None	
<b>Procurement</b>	None	

## **8. REPORT APPENDICES**

8.1 The following documents are to be published with this report and form part of the report:

- Appendix A: List of Council Investments as at 30<sup>th</sup> September 2018
- Appendix B: Prudential and Treasury Indicators

---

## **9. BACKGROUND PAPERS**

9.1 None