

## REPORT

**SUBJECT: MID-YEAR TREASURY REPORT 2018/19**

**MEETING: Audit Committee**

**DATE: 8th November 2018**

**DIVISION/WARDS AFFECTED: Whole Authority**

### 1. PURPOSE:

- 1.1 To provide an interim mid-year update on treasury management activity for 2018/19 in accordance with the Authority's Treasury Management Strategy Statement for 18/19.

### 2. RECOMMENDATIONS:

- 2.1 That Members review the treasury management activities in the first half of 2018/19 using this report and discuss with Officers any changes to the process that should be considered for incorporation into the 2019/20 Treasury Management Strategy Statement.
- 2.2 To agree and recommend that Council amends the wording in Table 2 of the 2018/19 Treasury Management Strategy – 'Approved investment counterparties and limits', so that Pooled Funds can be used to increase investment income as in Point 3.14 below

### 3. KEY ISSUES:

- 3.1 Treasury Management is the management of the local authority's investments, borrowings 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.
- 3.2 The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy and, as a minimum, formally report on their treasury activities and arrangements at the mid-year point and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities, and enable those with ultimate responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives.
- 3.3 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.

- 3.4 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 as part of the 2019/20 budget papers for approval by full Council.
- 3.5 Audit Committee is identified as being the committee responsible for reviewing reports on the treasury function, given its overarching role in assessing the risk management arrangements for the Authority.
- 3.6 The mid-year Treasury report for 2018/19 is attached as appendix 1.
- 3.7 The Authority's treasury portfolio as at 30th September 2018 is illustrated in the tables 3 & 4 in Appendix 1. This shows that the Authority held £161.2m of external debt and £20.9m of investments, with a net borrowing position of £140.3m.

### **Borrowing Activity**

- 3.8 At 30<sup>th</sup> September 2018 the Authority held £161.2m of loans, an increase of £32.2m from 31<sup>st</sup> March 2018, as part of the strategy for funding previous and current years' capital programmes.
- 3.9 The Authority's chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs from short term loans and achieving cost certainty over the period for which funds are required at a higher cost. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective. The £32.2m of new loans since March 2018 have primarily been short term loans so the % of variable rate loans and hence interest rate exposure has increased during the period.
- 3.10 Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain for a significant period, lower than long-term rates, the Authority determined it was more cost effective in the short-term to firstly use internal resources (internal borrowing) and secondly borrow short-term loans.

### **Investment Activity**

- 3.11 At 30<sup>th</sup> September 2018 the Authority held £20.9m of invested funds, an increase of £3.7m from 31<sup>st</sup> March 2018, representing income received in advance of expenditure plus balances and reserves held. Since the introduction of Mifid II in January 2018, balances have risen so some longer term investments achieving higher returns are being used. These have been

maintained in investments meeting the criteria as set out in the treasury strategy.

- 3.12 The security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19.
- 3.13 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority will continue to assess its level of diversification across investment counterparties and if necessary explore more secure asset classes. Currently, the majority of the Authority's surplus cash is invested in short-term, unsecured bank & building society deposits including certificates of deposit, in money market funds and also in WG backed deposits and in other local authorities. This level of exposure is considered satisfactory given the levels of investments we are holding.
- 3.14 Due to the Authority's decision to comply with the requirements of a Professional Client as set out in the Mifid II regulations, the Authority is holding over £10m of investments for the majority of the year, a position that we intend to maintain for 3-5 years at least. In order to benefit from this situation, it is the intention of the Deputy S151 Officer and the Treasury team to look at investing in Pooled Funds. These have been used successfully by the Welsh Church Fund and Monmouthshire Farm School Endowment Trust Fund. The choice of words used in Table 2 of the Treasury Strategy have prevented us getting the required approval by Arlingclose, the Authority's Treasury Advisors, for the Authority to use pooled funds, so to ensure the process of approval is clear, an amendment to Table 2 of the Treasury Strategy is preferred. The proposal is to amend the wording following 'Pooled funds without credit ratings which are not classed as capital expenditure - if assessed by our Treasury advisers'...from 'as being of high credit worthiness' to 'as a suitable investment which is being managed in a way which is consistent with the objectives of the fund'. This is not a change in intention of this paragraph, just a more accurate choice of wording. Pooled Funds can not be of 'high credit worthiness' as the value of the Investment can go up or down but the total return over a 3-5 year period is expected to be 4-6%, so on an investment of £2.0m of principal, an income of £80,000 - £120,000 is anticipated, along with modest average increases in capital value.

### **2018/19 Revenue performance**

- 3.15 Interest payable & similar charges, Investment income and Minimum Revenue Provision (MRP) are all expected to be close to the budgeted amounts for 2018/19. Cost and timing certainty over the Authority's capital expenditure programme, in particular Band A of the future schools initiative meant that the treasury budget for 2018/19 was able to be calculated on a more certain outlook compared to previous years.

### **Prudential Indicators**

3.16 The Authority can confirm that it has complied with its Prudential Indicators for the first half of the 2018/19 financial year.

**4. REASONS:**

4.1 The Treasury Management Strategy for the Authority has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, which includes the requirement that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

**5. RESOURCE IMPLICATIONS:**

5.1 There are no specific resource implications as a result of the recommendations in this report. The resource implications of the Treasury management strategy being implemented and the environment in which the strategy is implemented are as outlined in the attached appendices.

**6. CONSULTEES:**

Technical performance report on matters of fact. No consultation necessary.

**7. BACKGROUND PAPERS:**

Appendix 1 – 'Mid-Year Treasury Report 2018/19'  
Appendix 2 – '2018 03 01 Council Report on Treasury Management Strategy - AMENDED 8.11.18'

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