monmouthshire county council
sir fynwy

REPORT

SUBJECT:	**MID-YEAR TREASURY REPORT 2017/18**
MEETING:	**Audit Committee**
DATE:	**23rd November 2017**
DIVISION/WARDS AFFECTED:	**Whole Authority**

1. PURPOSE:

1.1 To provide an interim mid-year update on treasury management activity for 2017/18 in accordance with the Authority's Treasury Management Strategy Statement for 17/18.

2. RECOMMENDATIONS:

2.1 That Members review the treasury management activities in the first half of 2017/18 using this report and discuss with Officers any changes to the process that should be considered for incorporation into the 2018/19 Treasury Management Strategy Statement.

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 In November 2011 CIPFA released the revised Code of Practice for Treasury Management in the Public Services and accompanying Guidance Notes and the revised Prudential Code for Capital Finance in Local Authorities. The WG has issued Guidance on Local Authority Investments for Welsh authorities. These Codes/Guidance emphasise an appropriate approach to risk management, particularly in relation to the security and liquidity of invested funds. Authorities are required to demonstrate value for money when borrowing in advance of need and ensure the security of such funds.

3.4 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.

3.5 Revisions to the Treasury Management code and Prudential codes are anticipated towards the end of this financial year. The main impact on the Authority is the inclusion, under the umbrella of the Code, of Investment Properties not just investments of cash. A revision to the 2018/19 Treasury Strategy may be necessary should it not incorporate all the changes required by the new Code.

3.6 A second Markets in Financial Instruments Directive (MiFID II) comes into force on the 3rd January 2017. The main impact for the Authority is that if we do not 'act up' from being a Retail to being a Professional client of other Financial Institutions, that we deal with, by January, we may not have access to the Financial Institutions, including our Treasury management advisors, Arlingclose, that we have now. This could limit our Treasury management options. We are currently working towards Professional status.

3.7 The mid-year Treasury report for 2017/18 is attached as appendix 1.

Borrowing Activity

3.8 At 30th September 2017 the Authority held £105.3m of loans, an increase of £16.0m from 31st March 2017. This is mainly due to the higher than normal level of spend on the 21st Century School program during those 6 months and the utilization of capital receipts and grants received before the 31st March 2017 to finance these schemes.

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 £16m of new loans since March 17 have all 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. However to maintain an acceptable level of certainty, it has been agreed to take out £5m of 5 to 10 year borrowing in the second half of the year.

Investment Activity

3.11 The Authority held £4.4m of invested funds at 31st March 2017 & £7.2m at 30th September 2017, representing income received in advance of expenditure plus balances and reserves held. Cashflow forecasts indicated that during 2017/18 the Authority's investment balances would remain at this low level.

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 2017/18.

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, 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 The impact of the Financial Services (Banking Reform) Act 2013 is starting to be felt. By January 2019, the largest UK banks must separate core retail banking from investment banking. This ring-fencing of retail customers from 'more risky' investment activities will mean that there is a further choice of counterparties for the Authority to deal with going forward each with benefits and drawbacks. Our current account is with Barclays and they are implementing this in January 2018. Monmouthshire's bank account will be outside the ring-fenced bank which is fine. We will respond to each bank as the conditions of their split are announced and the credit worthiness of each establishment if better understood.

3.15 The Authority's treasury portfolio as at 30th September 2017 is illustrated in the tables 2 & 3 in Appendix 1. This shows that the Authority held £105.3m of external debt and £7.2m of investments, with a net borrowing position of £98.1m.

2017/18 Revenue performance

3.16 Interest payable and similar charges are expecting to under spend by £750,000, principally as a result of:

- A forecast saving of £550,000 due to total borrowing costs of MRP and interest relating to new capital schemes not having the expected impact in 2017/18 that was anticipated. The impact will emerge more slowly over a few years.

- A forecast saving of £200,000 due to the overall level of borrowing required reducing compared to that budgeted due to slippage in the capital programme and grants being received in advance of need.

3.17 Investment interest is expecting to be on target.

3.18 Minimum Revenue Provision (MRP) is expecting an underspend of £98,000, principally as a result of:

- An underspend of £348,000 as MRP on the Solar farm, J&E block and other smaller schemes will not be required till 2018/19

- Offset by an overspend of £250,000 as Set aside of capital receipts did not occur in 2016/17 which was intended to reduce MRP payable in 2017/18.

Prudential Indicators

3.19 The Authority can confirm that it has complied with its Prudential Indicators for the first half of the 2017/18 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 2011, 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 points 3.17 to 3.19 above and 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 2017/18

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