monmouthshire county council
sir fynwy

REPORT

SUBJECT:	**TREASURY OUTTURN 2017/18**
MEETING:	**Audit Committee**
DATE:	**5th July 2018**
DIVISION/WARDS AFFECTED:	**Countywide**

1. PURPOSE:

1.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to annually produce Prudential Indicators and a Treasury Management Strategy Statement on their likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Head of Finance, as S151 Officer, reports twice a year (mid-year and after the year-end) on Treasury activity to the Audit Committee who provide scrutiny of treasury policy, strategy and activity on behalf of the Council.

2. RECOMMENDATIONS:

2.1 That Members note the results of treasury management activities and the performance achieved in 2017/18 below and in the two Appendices.

3. KEY ISSUES:

3.1 **External Context**

Both the CIPFA code and Welsh Government's Guidance on Investments, require the Authority to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The Authority's strategy has always adopted a risk averse approach which compliments this guidance.

2017/18 has brought a significant number of events relating to treasury management, which are detailed in Appendix 1 including -

- A Push-pull effect from expectations of Quantitative Easing and from geopolitical tensions & import tariffs.
- The effects of the EU referendum in June 16 such as the fall in Sterling causing a rise in CPI up to 3.1% in November and continued uncertainty over implementation despite an agreement in March 17 to a transition phase.

- The UK economy proved more resilient after EU referendum in June 16 than many thought but still slowed down, helped by improvements in EU and US economies.
- Uncertainty from surprise General Election in June 17 and reduction in Government majority.
- The UK Bank Rate was increased in November 2017 by 0.25% for the first time in 10 years reversing the cut in August 2016 with indications of further rises ahead, resulting in an increase in money market rates.
- CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017 which Monmouthshire will be implementing through 2018/19.
- The Welsh Government published the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 in March 2018.
- These changes to the regulatory environment will result in a change to treasury management reporting such that there will need to approve a more holistic capital strategy informing and supporting the traditional treasury strategy for 2018/19 onwards.
- Barclays, the Authority's banker, was one of the first to implement ring-fencing of its retail customers during Easter 2018.
- The EU Money market fund regulations were approved with implementation by January 2019 which may result in some funds closing & possibly a reduction in returns.
- Monmouthshire CC successfully opted up to Professional Status in relation to Mifid II by the deadline of 3rd January and committed to a balance of £10 million of investments as such.
- Northamptonshire CC issued a section 114 notice during 2017/18 due to severe financial difficulties.

3.2 **Prudential Indicators and Treasury Management Indicators**

All investments made during the year complied with the Council's agreed Treasury Management Strategy. Maturing investments were repaid to the Council in full and in a timely manner. Counterparty credit quality has been maintained through the period.

The Authority has operated within the set prudential indicators, as outlined in the Treasury Management Strategy approved by Council for the year.

The detailed Prudential Indicator Outturn Report for 2017/18 is attached as Appendix 2.

3.3 **Borrowing and Investment Activity**

External borrowing

	£m	£m	
	April 17	**Mar 18**	**Average Rate**
Short Term	19.5	52.6	0.55%
Long Term	69.8	76.4	3.7%
Total Borrowing	89.3	129.0	
Investments			
Short Term & Cash & Cash Equivalents	4.5	17.1	0.24%
Net Borrowing	84.8	111.9	

For more detail, see Annual Treasury Management Outturn report for 2017/18 in Appendix 1.

3.4 Capital Financing Requirement (CFR)

The total capital financing requirement is the underlying need to borrow as a result of all past capital expenditure financed by borrowing. So if the expenditure is financed by capital grant or receipts it has no effect on the calculation. The CFR is reduced when the Council makes repayments, these repayments are termed “minimum revenue provision” in the Accounts.

Between 1st April 2017 and the 31st March 2018, the CFR has increased by £11.5m due to the £15.4m of borrowing funded capital expenditure incurred within 2017/18, offset by the £3.9m of minimum revenue provision made in year.

Capital Financing Requirement	£m
31 March 2018	146.1
1 April 2017	134.6
Movement	11.5

The difference between the capital financing requirement at 31st March 18 of £146.1m and the net borrowing of £111.9m at the end of that financial year reflects the level of "internal borrowing" utilized (£34.2m). Internal borrowing reflects the fact that as part of treasury activities, cash balances held as a result of having unused capital receipt and other earmarked reserves as well as working capital are temporarily used to avoid formal borrowing where possible.

The CFR at 31 March 2018 was £11.8m higher than estimated largely due to the CFR at 1st April 2017 being higher than forecast.

3.5 **Interest payable and receivable**

Net external borrowing has increased by £27.5m during the year. This is due to a rise in CFR and a reduction in useable reserves, mainly the capital receipts reserve, used to fund the 21C schools program.

Interest on external debt was £2.9m against a budget of £3.4m.

£5.9m of 3 year debt from a Local Authority was taken out in 2017/18 to reduce interest rate risk to an acceptable level.

4. REASONS:

4.1 The Authority's Treasury Management Strategy for 2017/18 was underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011.

4.2 The code includes the requirement for determining a treasury strategy on the likely financing and investment activity for each financial year.

4.3 The Code also recommends 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:

The outturn position is explained in the report, there are no other resource implications arising directly from this report.

6. EQUALITY AND SUSTAINABLE DEVELOPMENT IMPLICATIONS: None

7. CONSULTEES: Mark Howcroft – Assistant Head of Finance; Arlingclose – Treasury Management Advisors to Monmouthshire CC.

8. BACKGROUND PAPERS:

Appendix 1 – 2017/18 Treasury Management Outturn report;
Appendix 2 - The Prudential Indicator Outturn Report for 2017/18

9. AUTHOR:

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