monmouthshire county council sir fynwy

REPORT

SUBJECT:	**MID-YEAR TREASURY REPORT 2016/17**
MEETING:	**Audit Committee**
DATE:	**17th November 2016**
DIVISION/WARDS AFFECTED:	**Whole Authority**

1. PURPOSE:

1.1 To provide an interim mid-year update on treasury management activity for 2016/17 in accordance with the Authority's treasury management strategy statement and investment strategy 2016/17.

2. RECOMMENDATIONS:

2.1 That Members note the results of treasury management activities during the first half of 2016/17.

3. KEY ISSUES:

3.1 Treasury Management is defined 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".

3.2 The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy and now, 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 update reports on the treasury function, given its overarching role in assessing the risk management arrangements for the Authority.

3.5 The mid-year Treasury report for 2016/17 is attached as appendix 1.

Borrowing Activity

3.6 At 30th September 2016 the Authority held £85.9m of loans, a decrease of £7.0m from 31st March 2016. This is due to a large capital receipt received in September 2016 and grant funding relating to the 21C schools program coming in in advance of need during the first half year.

3.7 The Authority's chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

3.8 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 use internal resources and borrow short-term loans instead.

Investment Activity

3.9 The Authority held £11.4m of invested funds at 31st March 2016 & £22.5m at 30th September 2016, representing income received in advance of expenditure plus balances and reserves held. Cashflow forecasts indicated that during 2016/17 the Authority's investment balances would remain at this low level. The level of investments has increased in September and October temporarily, due to a large capital receipt with uncertain timing, coming in late September. Levels will fall again towards the end of the year.

3.10 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 2016/17.

3.11 The transposition of European Union directives into UK legislation places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors through potential bail-in of unsecured bank deposits including certificates of deposit.

3.12 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 as the levels of investments are expected to reduce to lower levels reducing risk further.

Prudential Indicators

3.13 The Authority can confirm that it has complied with its Prudential Indicators for the first half of the 2016/17 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 The Authority's treasury portfolio as at 30th September 2016 is illustrated in the tables in sections 4 & 5 of Appendix 1. This shows that the Authority held £89m of external debt and £22.5m of investments, with a net borrowing position of £66.5m.

2016/17 Mid-year performance

5.2 Interest payable and similar charges are forecasting at month 6 to under spend by £540,000, principally as a result of:

- A forecast saving of £293,000 due to an average of £12m of long term debt not being taken out due to the lower short term rates available.

- A forecast saving of £147,000 due to the interest rates on short term borrowing being considerably lower than budgeted prior to the financial year.

- A forecast saving of £89,000 due to the overall level of borrowing required reducing compared to that budgeted due to slippage in the capital programme.

5.3 At month 6 the Authority is forecasting an investment interest outturn of £61,000, against a budget of £55,000, a surplus of £6,000.

6. CONSULTEES:

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

7. BACKGROUND PAPERS:

Appendix 1 – Mid-Year Treasury Report 2016/17

8. AUTHOR:

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9. CONTACT DETAILS:

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