**AUDIT COMMITTEE – 5 DECEMBER 2017**

**PART I – DELEGATED**

**8. TREASURY MANAGEMENT – 2017/18 MID YEAR REVIEW**

(DoF)

1. **Summary**

1.1 This report gives details of the 2017/18 Mid-Year Review of the Treasury Management function.

2. **Details**

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management 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”.

2.2 The Council’s 2017/18 Treasury Management Strategy (TMS) as approved by Council on 21 February 2017 (Minute No. CL74/16) is designed to ensure that cash flows are adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering optimising investment return.

2.3 This report updates the Committee with the progress on whether the Council is meeting the TMS and the policies contained therein for the first six months of 2017/18.

2.4 The Council has appointed treasury advisors to assit with our Treasury Manageemnt . These are Link Asset Services (formerly Capita Asset Services). The advisors have provided the following forecast:

*Interest rate forecasts*

|  |  |
| --- | --- |
| **Month & Year** | **Bank**  **Rate %** |
| Dec 2017 | 0.50 |
| Mar 2018 | 0.50 |
| Jun 2018 | 0.50 |
| Sep 2018 | 0.50 |
| Dec 2018 | 0.75 |
| Mar 2019 | 0.75 |
| Jun 2019 | 0.75 |

In November this year the Bank of England raised interest rates to 0.50%. The Bank has repeatedly stated that any further increases in Bank Rate will be slow and gradual. The Bank’s MPC is concerned about the impact of increases on the growth of the economy and also the many heavily indebted consumers, especially whilst growth in average disposable income is still weak and while inflation rises continue to exceed average pay increases.

2.5 *The Council’s Capital Position (Prudential Indicators)*

The Council’s capital expenditure plans are one of the key drivers of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans.

The capital expenditure plans are financed in full by capital receipts, grants or capital reserves. Over the next three years there are no planned shortfalls of resources which would result in a funding need (borrowing). The Council is currently debt free; however the major leisure project in South Oxhey may require significant funding and involve borrowing funds – the costs of which would be met from the increased income from the contractor.

2.6 *Capital Financing Requirement (CFR), External Debt and Operational Boundary*

The CFR and Operational Boundary estimates are shown below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Prudential Indicator** | **2017/18**  **Original**  **Estimate** | **Current**  **Borrowing**  **Position** | **2017/18**  **Revised**  **Estimate** |
| **Capital Financing Requirement** | £4.7m | £0.0m | £4.7m |
| **External Debt / the Operational Boundary** | | | |
|  |  |  |  |
| Borrowing | £10m | £0m | £10m |

2.7 *Limits to Borrowing Activity*

The first key control over the treasury activity is a Performance Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

2.8 *The Authorised Limit*

This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined undersection 3 (1) of the Local Government Act 2003.

|  |  |  |  |
| --- | --- | --- | --- |
| **Authorised Limit For**  **External Debt** | **2017/18**  **Original**  **Indicator** | **Current**  **Borrowing**  **Position** | **2017/18**  **Revised**  **Indicator** |
| Borrowing | £12m | £0m | £12m |

2.9 *Investment Portfolio* *2017/18*

In accordance with the Code, it is the Council’s priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council’s risk appetite. As set out in Section 2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

The Council held £26.6m of investments as at 30 September 2017 (see table below). This information is reported in the monthly Members Information Bulletin

|  |  |
| --- | --- |
| **Institution** | **Principal (£)** |
|
| Lloyds Bank plc | 5,500,000 |
| Lloyds Bank – Current Account | 13,144,000 |
| *Total Banks* | *18,644,000* |
|  |  |
|  |  |
| Nationwide Building Society | 2,000,000 |
| Principality Building Society | 2,000,000 |
| Skipton Building Society | 4,000,000 |
| *Total Building Societies* | *8,000,000* |
| *Total* | *26,644,000* |

The approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18.

2.10 *Security*

The Council’s maximum security risk benchmark for the current portfolio was set as 0.01% risk of default when compared to the whole portfolio. The benchmarks are an average risk of default measure, and would not constitute an expectation of loss against a particular investment. The benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members. As this data is collated, trends and analysis will be collected and reported. Where counterparty is not credit rated a proxy rating will be applied.

In line with the TMS, the Council has managed to invest with those institutions who offered the best rate and the investment portfolio is above the overall benchmark during the year to date.

2.11 *Liquidity*

The Council set liquidity facilities/benchmarks to maintain:

* Bank overdraft of £0m.
* The benefit of instant access to its funds on the general account with Lloyds.

The liquidity arrangements were adequate during the year to date.

2.12 *Yield*

The budget for interest earned on investments for 2017/18 is £139,000; interest received and accrued up to the end of September was £114,700. Due to the recent rise in interest rates and the returns available, it is expected that the budget will be exceeded.

The approved benchmark measure of yield is a return of 0.12% above the average bank rate of 0.25% (until November 2017, after which the bank rate was increased to 0.50%). The returns up to 30 September 2017 averaged 0.50%, against a benchmark rate of 0.37%.

The average yield return was higher than the benchmark for the year to date.

Table of Monthly Interest Rates to Date:

|  |  |
| --- | --- |
| **Month** | **Rate Achieved** |
| April | 0.51% |
| May | 0.51% |
| June | 0.50% |
| July | 0.50% |
| August | 0.50% |
| September | 0.48% |

The Council keeps all investments short term. There are no sums invested for greater than 364 days. Counterparties have been downgraded over the past few years; most investments have been limited to a 6 months period. This has resulted in lower interest rates being achieved.

The current investment counterparty criteria selection approved in the TMS is being met.

2.14 *Credit Ratings*

Fitch and Moody provide the Council with credit ratings for financial institutions,

The credit rating of counterparties is monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services Treasury Solutions as and when ratings change, and counterparties are checked promptly. The Council considers minimum short term ratings as key criteria in the choice of creditworthy investment counterparties. F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard and Poor's respectively. Minimum Short Term Ratings, where given, these must be met, for all categories.

3. **Options/Reasons for Recommendation**

3.1 The recommendation allows members to note the contents ofthe 2017/18 Mid Year Review of the Treasury Management function.

4. **Policy/Budget Implications**

4.1 The recommendations in this report are within the Council’s agreed policy and budgets.

5. **Financial Implications**

5.1 As continued in the body of the report.

6. **Legal Implications**

6.1 There is no requirement to make any amendments to the Treasury Management Strategy at this stage.

7. **Equal Opportunities, Staffing, Environmental, Community Safety, Customer Services Centre Implications and Website Implications**

7.1 None specific.

8. **Risk Management Implications**

8.1 There are no risks associated with the decision Members are being asked to make, i.e. to note this report.

9**. Recommendation**

* 1. That Members note the contents of the 2017/18 Mid-Year Review of the Treasury Management function.

**Background Papers:**

Treasury Management Strategy 2017/18;

UK Economic Forecasts provided by Link Asset Services Treasury Solutions;

**Report prepared by:** Bob Watson (Head of Finance) and Simon Alford (Section Head)

**Data source:** Logotech Treasury Management system

**Data checked by:** Bob Watson (Head of Finance)

Data rating

|  |  |  |
| --- | --- | --- |
| 1 Data rating: 1 | Poor |  |
| 2 | Sufficient |  |
| 3 | High | **✓** |