

| Report of       | Meeting              | Date             |
|-----------------|----------------------|------------------|
| Chief Executive | Governance Committee | 21 November 2018 |

## **TREASURY MANAGEMENT ACTIVITY MID-YEAR REVIEW 2018/19**

### **PURPOSE OF REPORT**

1. To report on Treasury Management performance in financial year 2018/18 to the end of September.

### **RECOMMENDATION(S)**

2. That the report be noted.
3. That Council is recommended to add Low Volatility Net Asset Value (LVNAV) Money Market Funds to the list of approved Investment Counterparties with a limit of £3m per fund.

### **EXECUTIVE SUMMARY OF REPORT**

4. Updated Prudential Indicators will be presented in the Treasury Strategy report to Full Council on 26 February 2019. These will take account of the latest CIPFA guidance.
5. Average interest earned is 0.52% to the end of September, which is more than the target of 0.49%. As in 2017/18, cash balances have been used as a source of internal borrowing to minimise external borrowing at higher rates of interest, thereby achieving revenue budget savings.
6. Low Volatility Net Asset Value (LVNAV) Money Market Funds should be added to the list of approved Investment Counterparties. The current CNAV MMFs will convert to LVNAV in early 2019, so their use needs to be approved so that the council can continue placing cash sums in MMFs.

|  |     |    |
|--|-----|----|
| <b>Confidential report</b><br>Please bold as appropriate | Yes | No |
|--|-----|----|

### **CORPORATE PRIORITIES**

7. This report relates to the following Strategic Objectives:

|  |  |   |  |
|--|--|---|--|
| Involving residents in improving their local area and equality of access for all |  | A strong local economy  |  |
| Clean, safe and healthy communities  |  | An ambitious council that does more to meet the needs of residents and the local area |  |

## BACKGROUND

8. Special Council of 27 February 2018 approved the Treasury Management Policy Statement; Treasury Management Practices; Prudential Indicators for 2018/19 to 2020/21; the Treasury Management Strategy and Treasury Indicators for 2018/19; the Annual Investment Strategy 2018/19; and the Annual Minimum Revenue Provision (MRP) Policy for 2018/19.
9. The Treasury Management Annual Report for 2017/18 was presented to Governance Committee of 25 July 2018.
10. The Code of Practice for Treasury Management requires Councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

## NEW CIPFA PRUDENTIAL CODE GUIDANCE

11. In 2017 the Chartered Institute of Public Finance and Accountancy (CIPFA) revised its Prudential Code for Capital Finance in Local Authorities, in particular to take account of the increased commercialisation of local authorities. In September 2018, CIPFA published its Guidance Notes for Practitioners on the Prudential Code.
12. During October 2018, CIPFA issued a statement on Borrowing in Advance of Need and Investment in Commercial Properties. The statement indicated that CIPFA will issue more guidance about the practice of borrowing to invest in commercial property, and reminded local authorities to have regard to the Statutory Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG).
13. CIPFA have indicated that the current guidance in support of the Prudential Code will be augmented and strengthened to ensure that assistance is provided to local authorities.
14. The revised Prudential Indicators for 2018/19 and those for 2019/20 onwards will take account of the latest CIPFA guidance available.

## TREASURY ACTIVITY

15. Investment activity up to the end of September 2018 is summarised in the following table.

| <b>Table 1 - Investment Activity</b> | <b>Average Daily Investment<br/>£000</b> | <b>Earnings to 30 September 2018<br/>£</b> | <b>Average Rate<br/>%</b> |
|--------------------------------------|--|--|---------------------------|
| Fixed Term Deposits                  | -  | -  | -                         |
| Call Accounts                        | 1,845                                    | 4,617                                      | 0.50                      |
| Money Market Funds                   | 4,355                                    | 11,494                                     | 0.53                      |
| <b>Total</b>                         | <b>6,200</b>                             | <b>16,111</b>                              | <b>0.52</b>               |

As in 2017/18, the average balance available to invest has remained relatively low, and no sums have been invested as fixed term deposits. This is because cash balances are generally available only for short periods, and therefore need to be held in highly liquid accounts, which pay lower rates of interest than term deposits.

A full list of investments as at 30 September 2018 is shown below.

| <b>Table 2 - Investments as at 30 September 2018</b> |              |                     |                      |                      |
|--|--------------|---------------------|----------------------|----------------------|
| <b>Counterparty</b>                                  | <b>Type</b>  | <b>Amount<br/>£</b> | <b>Invested date</b> | <b>Maturity date</b> |
| BlackRock  | MMF          | 2,900,000           | Various              | On call              |
| Bank of Scotland                                     | Call account | 2,000,000           | Various              | On call              |
| Barclays BPA   | Call account | 866,006             | Various              | On call              |
| <b>Total</b>   |              | <b>5,766,006</b>    |                      |                      |

16. To qualify as a professional investor under MiFID II requirements, the council needs to invest at least £10m, as well as meeting other requirements. The £10m threshold was exceeded on a number of days in August and September in the first half of the year, the maximum sum being £11.685m on 10 September 2018.
17. The average interest earned of 0.52% exceeds the target of 0.49% (being the average LIBID 7-day rate plus 15%). However, to date the average interest earned has not exceeded the Link Asset Services suggested earnings rate of 0.75% for 2018/19 (see Table 3 below). This is because the Link rate is based on 3-month term deposits, whereas this council's deposits have been placed only in call accounts and money market funds. It is unlikely that Link's suggested earnings rate will be achieved during 2018/19.
18. As explained in Appendix A, which presents advice from Link Asset Services, it is necessary to add Low Volatility Net Asset Value (LVNAV) Money Market Funds (MMFs) to the list of approved Investment Counterparties. The Constant NAV MMFs used by the council to date have to convert to LVNAV status as a result of EU requirements. The updated list of Investment Counterparties is presented as Appendix B.

19. No new long-term borrowing has been taken to the date of preparing this report. Financing of the 2018/19 Capital Programme requires long-term borrowing, and the interest payable has been included in the revenue budget for the year. Savings arising from the rephasing of borrowing have been taken into account in revenue budget monitoring.

## **TREASURY CONSULTANTS' ADVICE**

20. Appendix C presents the advice of Link Asset Services in respect of economic matters and interest rates in the first half of 2018/19.
21. In addition, a detailed comparison of interest rate forecasts is presented as Appendix D. Bank rate and PWLB borrowing rate forecasts are given from December quarter 2018 through to March quarter 2022.
22. The next increase in Bank Rate from 0.75% to 1.00% is now expected in the June quarter of 2019. When this year's Treasury Strategy was prepared, it was expected that Base Rate would reach 1.00% in this current quarter.
23. Link's suggested budgeted investment earning rates for investments up to about three months duration in each financial year are as follows:

| <b>Table 3 - Average Earnings in each financial year</b> |                                      |                                    |                                       |
|--|--------------------------------------|------------------------------------|---------------------------------------|
|  | <b>Revised<br/>November<br/>2018</b> | <b>Revised<br/>August<br/>2018</b> | <b>Original<br/>February<br/>2018</b> |
| 2018/19  | 0.75%                                | 0.75%                              | 0.60%                                 |
| 2019/20  | 1.00%                                | 1.00%                              | 0.90%                                 |
| 2020/21  | 1.50%                                | 1.50%                              | 1.25%                                 |
| 2021/22  | 1.75%                                | 1.75%                              | 1.50%                                 |
| 2022/23  | 1.75%                                | 1.75%                              | 1.75%                                 |
| 2023/24  | 2.00%                                | 2.00%                              | 2.00%                                 |
| Later years  | 2.50%                                | 2.75%                              | 2.75%                                 |

24. The most recent estimate is compared to the estimated earnings rate available at the time the Treasury Management Strategy was presented for approval in February 2018, and Link's update in August 2018. The suggested earnings rates have increased from 0.60% to 0.75% in this financial year. It is unlikely to be achievable because this council cannot commit cash for term deposit investments and the highly liquid accounts used pay a lower rate of interest than the Link target.
25. Compared to the previous interest rates forecast, PWLB borrowing rates are currently a little lower than expected when the Treasury Strategy for 2018/19 onwards was prepared. Gradually increases through to March quarter of 2020 are still forecast. Should rates begin to increase more steeply, it may become advisable to take additional borrowing sooner rather than later to achieve longer term savings.

## IMPLICATIONS OF REPORT

26. This report has implications in the following areas and the relevant Directors' comments are included:

|  |   |  |  |
|--|---|--|--|
| Finance                                  | ✓ | Customer Services                      |  |
| Human Resources                          |   | Equality and Diversity                 |  |
| Legal                                    |   | Integrated Impact Assessment required? |  |
| No significant implications in this area |   | Policy and Communications              |  |

## COMMENTS OF THE STATUTORY FINANCE OFFICER

27. This report complies with the statutory requirement to review treasury strategies and activities half yearly.

## COMMENTS OF THE MONITORING OFFICER

28. The Monitoring Officer has no comments.

GARY HALL  
CHIEF EXECUTIVE

There are no background papers to this report.

| Report Author   | Ext  | Date             | Doc ID  |
|-----------------|------|------------------|---|
| Michael Jackson | 5490 | 12 November 2018 | Treasury Management Activity Mid-Year Review 2018-19.docx |