

**Report to:** Audit Committee

**Date of meeting:** 5 December 2019

**Report of:** Alison Scott – Head of Finance

**Title:** **Treasury Management mid-year report 2019/20**

1.0 **SUMMARY**

1.1 This report gives details of the 2019/20 mid-year review of the Treasury Management function.

2.0 **RISKS**

2.1 There are no risks associated with the decisions members are being asked to make.

3.0 **RECOMMENDATIONS**

3.1 That the Committee notes the contents of the 2019/20 mid-year review of the Treasury Management function.

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**Report approved by:** Alison Scott, Head of Finance

#### 4.0 DETAILS

- 4.1 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”.
- 4.2 The Council’s 2019/20 Treasury Management Strategy (TMS) as approved by Council in January 2019 has the primary objectives of safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective.
- 4.3 This report updates the Committee with the progress on whether the Council is meeting the TMS and its policies for the first six months of 2019/20.
- 4.4 The Council has appointed treasury advisors to assist with our treasury management, Link Asset Services. The advisors have provided the following forecast:

##### Interest rate forecasts

Month & Year	Bank Rate %
Dec 2019	0.75
March 2020	0.75
June 2020	0.75
September 2020	0.75
December 2020	0.75
March 2021	1.00
June 2020	1.00

#### 4.5 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.

#### 4.6 Capital Financing Requirement (CFR), External Debt and Operational Boundary

The CFR and Operational Boundary estimates are shown below:

Prudential Indicator	2019/20 Original Estimate	Current Borrowing Position	2019/20 Revised Estimate
Capital Financing Requirement	£87.7m	£0.0m	£71.8m
External Debt / the Operational Boundary			
Borrowing	£56m	£0.0m	£40m

#### 4.7 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 2019/20 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.

#### 4.8 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 under section 3 (1) of the Local Government Act 2003.

Authorised Limit For External Debt	2019/20 Original Indicator	Current Borrowing Position	2019/20 Revised Estimate
Borrowing	£60m	£0.0m	£45m

#### 4.9 Investment Portfolio 2019/20

In accordance with the CIPFA Prudential 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. 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 0.75% Bank Rate. Given this risk environment, investment returns are likely to remain low.

As part of the acquisition of Croxley Park, the Council received £24M in respect of a rent guarantee and £68M in respect of future planned programme maintenance. The Council's treasury advisers, Link, are currently advising the Council on the investment of this sum in order to best match the drawdown profile under the financial model and to balance the inflation and property risks inherent in the underlying investment. This property is held within the Government's DMO on the advice of Link.

#### 4.10 Security

The Council uses benchmarks as simple guides to maximum risk, and these may be breached from time to time, depending on movements in interest rates and counterparty criteria. Any breach of the benchmarks will be reported, with supporting reasons, in this report.

During the period the counterparty limit for Lloyds was breached on one occasion due to difficulties in finding alternative investments as banks and building societies are no longer willing to accept overnight or short term investments. As a result the Council is now using the Government's Debt Management Office for overnight and short term deposits in order not to breach the Council's counterparty limit with its bankers, Lloyds.

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.

#### 4.11 **Liquidity**

The Council set liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft of £nil.
- Liquid short term deposits of at least £5m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 10 years for an individual loan with a public body (excluding loans to institutions the Council has an interest in).

The liquidity arrangements were adequate during the year to date.

#### 4.12 **Yield**

The approved benchmark measure of yield is a return of 0.12% above the average bank rate. The bank rate is 0.75%. The returns up to 31 October 2019 averaged 0.72%. The average yield return was lower than the benchmark for the year to date. In order to mitigate the low yields received on cash investments the Council has continued to seek alternative investments. The yields below reflect the return on the investment of short term, highly liquid, cash required to meet working capital requirements.

#### 4.13 **Credit Ratings**

Credit rating information is supplied by our treasury consultants, Link Asset Services, on all counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

### 5.0 **IMPLICATIONS**

#### 5.1 **Financial**

5.1.1 As continued in the body of the report.

#### 5.2 **Legal Issues** (Monitoring Officer)

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

#### 5.3 **Equalities**

None Specific.