

TREASURY MANAGEMENT MID-YEAR REVIEW 2018/19

Executive Summary

To comply with the 2009 CIPFA (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management, the Council has agreed that the Overview and Scrutiny Committee would be responsible for ensuring effective scrutiny of the treasury management strategy and policies. In addition, the publication of comprehensive Treasury Management information in the Green Book enables scrutiny to be undertaken throughout the year.

This report to the Overview and Scrutiny Committee provides an overview of Treasury Management for the first six months of the year against the Treasury Management Strategy and Prudential Indicators for 2018/19.

The Strategy has been complied with, and there are no matters to report to the Committee.

Recommendations

The Committee is requested to:

RESOLVE that the report be received and compliance with the Council's approved strategy be noted.

The Committee has the authority to determine the recommendation set out above.

Background Papers: None.

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1.0 Introduction

- 1.1 The 2009 CIPFA (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management introduced the requirement for formal scrutiny of the Treasury Management function. In 2010/11, Council agreed that the Overview and Scrutiny Committee would be responsible for ensuring effective scrutiny of the treasury management strategy and policies. This report to the Overview and Scrutiny Committee provides an overview of Treasury Management for the first six months of the year against the Treasury Management Strategy and Prudential Indicators for 2018/19.
- 1.2 The monthly Green Book reports on total interest receipts and payments and also contains a comprehensive section on Treasury Management, detailing external commitments (borrowing, deposits and investments in and other advances to group companies, joint ventures and external organisations), details of long term loans, deals outstanding at the month end and any new deals taken in the month. The level of detail contained in these reports, and the frequency with which the information is published, goes beyond that suggested in the guidance issued by CIPFA.
- 1.3 Updated versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Service Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code) were issued in December 2017. Both of these codes are effective for the 2018/19 financial year.
- 1.4 There has been no change in the definition of Treasury Management in the Treasury Management Code, but the term “investments” has been specifically qualified to include non-financial assets which are held primarily for financial returns, such as investment property portfolios. The revised codes (in contrast to the draft codes on which the consultations were based) draw a clearer separation between treasury and non-treasury investments and the role of the treasury management team. In as much as the treasury management team are now clearly recognised as being unlikely to have specialist skills in such areas as property investment, reporting will focus solely on treasury (financial) investments, therefore the Treasury Management Strategy will not include any level of detail on non-treasury investments.
- 1.5 Alongside this, the new codes require all local authorities to produce a separate Capital Strategy report from 2019/20, or as soon as is practicable. The Capital Strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future sustainability. The aim of this report is to ensure that members fully understand the overall strategy, governance procedures and risk appetite entailed by this strategy. The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.
- 1.6 Revised Investment Guidance and MRP Guidance was issued in February 2018, which are effective from the 2018/19 financial year. Both focused on non financial asset investments.

2.0 Treasury Management Prudential Indicators

- 2.1 On 8 February 2018 the Council approved Prudential Indicators for the period 2017/18 to 2020/21 as part of the annual budget process. Performance as at 30th September 2018 against the approved limits is shown below.

Treasury Management Mid-Year Review 2018/19

	2018/19	2018/19
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000
	Approved limit	Actual at 30/9/18
Authorised limit for external borrowing -		
Borrowing	£1,405,568	£846,029
Other long term liabilities	£27,373	£28,215*
Total authorised limit for external borrowing	£1,432,941	£874,244
Operational boundary for external borrowing -		
Borrowing	£1,395,568	£846,029
Other long term liabilities	£27,373	£28,215*
Total operational boundary for external borrowing	£1,422,941	£874,244
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	70%	0%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£3,000	£0

* Estimate based on September 2018 projections. The PFI Finance Lease Liability will reduce during 2018/19 and the budget reflects the end of year position.

3.0 Current Treasury Position

3.1 The Council's treasury position at 30th September 2018 comprised:

	Principal	Ave Rate
<u>Borrowing</u>	£000	%
Long term borrowing	774,027	3.19%
Short term borrowing	72,000	0.81%
Mayoral Charities (including Hospice)	2	0.20%
Total Borrowing	846,029	
<u>Deposits</u>		
External Investments		
- Short term on advice of TUK	0	0.00%
- Short term WBC Treasury	0	0.00%
- on call with Lloyds TSB	7,015	0.50%
Total External Deposits	7,015	
Long Term Investments in Group Companies/ Joint Ventures/External Organisations	416,016	3.89%

4.0 Borrowing Requirement

4.1 The borrowing requirement set out in the 2018/19 strategy was £271m, comprising all new borrowing and no replacement borrowing. The lack of replacement borrowing reflected that there are no step up dates on the Council's market loans (Lender Option Borrower Option – LOBO) in 2018/19, so the LOBOs could not be called.

4.2 Due to the low interest rates available on short term borrowing, the use of temporary borrowing (less than one year) has been continued at favourable interest rates. The mix of

Treasury Management Mid-Year Review 2018/19

long and short term borrowing is continually being reviewed to ensure an appropriate balance is maintained.

- 4.3 The following fixed rate loans have been taken from the Public Works Loan Board (PWLB) during the first six months of 2018/19:-

Loan number	Start date	Principal	Interest Rate	Type of Loan	Borrowing Period
507445	31/5/2018	£10,000,000	2.49%	Annuity	50 years
507623	27/7/2018	£10,000,000	2.53%	Annuity	50 years

Full details of the Council's loans are reported monthly in the Green Book.

5.0 Debt Rescheduling

- 5.1 No debt rescheduling has taken place to date in the 2018/19 financial year and therefore the Treasury Management Panel has not met.

6.0 Investment Strategy

- 6.1 The Council's investment priorities are the security of its capital, the liquidity of its investments and finally the return on the investment. The balances held in the last year have been minimised to assist in delaying the need to borrow, and so it has not been necessary to use the range of investments available in the strategy.

- 6.2 The investments used to manage cash flow to date in 2018/19, and the limits applied, are as indicated below.

- Money market funds – four funds, three with a limit of £30m per fund and one with a limit of £20m
- Deposits with other local authorities – up to £4m per authority
- Deposits with Lloyds Bank – no limit as this is the Council's banker

- 6.3 Whilst deposits with other local authorities and Building Societies are permitted by the Strategy it has not been necessary to make such investments or place funds on the advice of Tradition UK (TUK) during the year to date.

Creditworthiness Policy

- 6.4 The Council uses Fitch ratings to derive its investment criteria for investments other than with other local authorities and Building Societies. Where a counterparty does not have a Fitch rating, the equivalent Moodys rating will be used.

- 6.5 The Council takes account of Link Asset Services' creditworthiness service, and receives notification of changes to ratings as well as a comprehensive weekly list. This service uses credit ratings from all three rating agencies (Fitch, Moodys and Standard and Poors), but also takes account of credit watches, credit outlooks and other information. These factors are combined to indicate the relative creditworthiness of counterparties and provide a recommended duration for investments.

Country Limits

- 6.6 Under the 2009 Code of Practice, the Council should determine the minimum credit limit on a country basis as well as for institutions. The Treasury Management Strategy sets out that the Council will only use approved counterparties from countries with a minimum sovereign

Treasury Management Mid-Year Review 2018/19

credit rating of AA- from Fitch Ratings (or equivalent agencies if Fitch does not provide). It should be noted that the UK is excluded from the minimum country limit as per the Executive decision on 30th June 2016; without this decision, the Council would have been unable to place investments in the UK.

6.7 Information on changes to country ratings is received as part of the Link Asset Services creditworthiness service, and records are updated by Treasury Management staff.

6.8 In the six months to 30th September, no deposits were placed outside of the UK.

7.0 Use of External Service Providers

7.1 The Council uses Link Asset Services as its external treasury management advisors.

8.0 Implications

Financial

8.1 The financial implications are implicit in the body of this report.

Human Resource/Training and Development

8.2 The CIPFA code requires members and staff involved in treasury management to receive training and the Council's training requirements will be reviewed in order to provide appropriate training.

8.3 The contract with Link Asset Services provides for staff attendance at various conferences and seminars as well as providing a helpline facility, and Treasury Management staff have attended seminars and courses run by Link Asset Services during the year.

Community Safety

8.4 There are no community safety implications arising directly from this report.

Risk Management

8.5 An objective of the treasury management strategy is to maximise the return on the Council's investments subject to minimising the level of risk of incurring losses, as described in paragraph 6.1.

Sustainability

8.6 There are no sustainability implications arising directly from this report.

Equalities

8.7 There are no equalities implications arising directly from this report.

Safeguarding

8.8 There are no safeguarding implications arising directly from this report.

9.0 Conclusions

9.1 The Treasury Management position during the first half of the year and as at 30th September 2018 is set out in this report. The actions taken have been within the approved Treasury Management Strategy and Prudential Indicators for 2018/19 and there are no matters to report to the Committee.

REPORT ENDS