Agenda Item No. 8

OVERVIEW AND SCRUTINY COMMITTEE - 27 NOVEMBER 2017

TREASURY MANAGEMENT MID-YEAR REVIEW 2017-18

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 2017/18.

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.

Background Papers:

Sustainability Impact Assessment
Equalities Impact Assessment

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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 2017/18.

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.

2.0 Treasury Management Prudential Indicators

2.1 On 2 February 2017 the Council approved Prudential Indicators for the period 2016/17 to 2019/20 as part of the annual budget process. Performance as at 30th September 2017 against the approved limits is shown below.

	2017/18	**2017/18**
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**
	Approved limit	**Actual at 30/9/17**
Authorised limit for external borrowing -		
Borrowing	£1,163,450	£610,531
Other long term liabilities	£28,296	£29,124*
Total authorised limit for external borrowing	£1,191,746	£639,655
Operational boundary for external borrowing -		
Borrowing	£1,153,450	£610,531
Other long term liabilities	£28,296	£29,124*
Total operational boundary for external borrowing	£1,181,746	£639,655
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 2017 projections. The PFI Finance Lease Liability will reduce during 2017/18 and the budget reflects the end of year position.

3.0 Current Treasury Position

3.1 The Council's treasury position at 30th September 2017 comprised:

	Principal	*Ave Rate*
Borrowing	£000	%
Long term borrowing	600,654	3.36%
Short term borrowing	39,000	0.33%
Mayoral Charities (including Hospice)	1	0.08%
Total Borrowing	**639,655**	
Deposits		
External Investments		
- Short term on advice of TUK	0	0.00%
- Short term WBC Treasury	38,000	0.20%
- on call with Lloyds TSB	1,073	0.25%
Total External Deposits	**39,073**	
Long Term Investments in Group Companies/ Joint Ventures/External Organisations	**276,264**	5.27%

4.0 Borrowing Requirement

4.1 The borrowing requirement set out in the 2017/18 strategy was £208m, comprising £198m new borrowing and £10m replacement borrowing. The replacement borrowing reflected that there were step up dates on two of the Council's market loans (Lender Option Borrower Option – LOBO) in April 2017, however the LOBOs were not 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 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 2017/18:-

Loan number	Start date	Principal	Interest Rate	Type of Loan	Borrowing Period
506000	19/4/2017	£5,000,000	2.50%	Annuity	50 years
506120	9/6/2017	£4,500,000	2.28%	Maturity	48 years
506121	9/6/2016	£5,000,000	2.52%	Annuity	50 years
506306	31/8/2017	£50,000,000	2.52%	Annuity	50 years
506347	12/9/2017	£10,000,000	2.50%	Annuity	50 years
506421	27/9/2017	£8,000,000	1.95%	Maturity	8 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 2017/18 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 During the first six months of 2017/18, it has been necessary for the Chief Finance Officer to review the internally set limits applicable to the Council's money market funds. This is permitted under the Treasury Management Practices, and will allow Treasury Management Officers to deal with the short term timing differences which occur between funds being received (largely from PWLB borrowing) and expenditure being incurred on major Council projects. The investments used to manage cash flow to date in 2017/18, and the new 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.

<u>Creditworthiness Policy</u>

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 Capita 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.

<u>Country Limits</u>

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 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 Capita 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 Capita Asset Services as its external treasury management advisors.

7.2 Although it is outside the period of this report, Capita Asset Services was acquired by the Link Group in November 2017, and is now known as Link Asset Services. In terms of the Council's dealings with the Treasury Advisors, the same teams and services continue.

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 Capita 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 Capita 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.

9.0 Conclusions

9.1 The Treasury Management position during the first half of the year and as at 30th September 2017 is set out in this report. The actions taken have been within the approved Treasury Management Strategy and Prudential Indicators for 2017/18 and there are no matters to report to the Committee.

REPORT ENDS

Equality Impact Assessment

The purpose of this assessment is to improve the work of the Council by making sure that it does not discriminate against any individual or group and that, where possible, it promotes equality. The Council has a legal duty to comply with equalities legislation and this template enables you to consider the impact (positive or negative) a strategy, policy, project or service may have upon the protected groups.

		Positive impact?			**Negative impact?**	**No specific impact**	**What will the impact be? If the impact is negative how can it be mitigated? (action)** **THIS SECTION NEEDS TO BE COMPLETED AS EVIDENCE OF WHAT THE POSITIVE IMPACT IS OR WHAT ACTIONS ARE BEING TAKEN TO MITIGATE ANY NEGATIVE IMPACTS**
		Eliminate discrimination	Advance equality	Good relations			
Gender	Men					√	
	Women					√	
Gender Reassignment						√	
Race	White					√	
	Mixed/Multiple ethnic groups					√	
	Asian/Asian British					√	
	Black/African/Caribbean/ Black British					√	
	Gypsies / travellers					√	
	Other ethnic group					√	

		Positive impact?			Negative impact?	No specific impact	What will the impact be? If the impact is negative how can it be mitigated? (action) **THIS SECTION NEEDS TO BE COMPLETED AS EVIDENCE OF WHAT THE POSITIVE IMPACT IS OR WHAT ACTIONS ARE BEING TAKEN TO MITIGATE ANY NEGATIVE IMPACTS**
		Eliminate discriminatio n	Advance equality	Good relations			
Disability	Physical					√	
	Sensory					√	
	Learning Difficulties					√	
	Mental Health					√	
Sexual Orientation	Lesbian, gay men, bisexual					√	
Age	Older people (50+)					√	
	Younger people (16 - 25)					√	
Religion or Belief	Faith Groups					√	
Pregnancy & maternity						√	
Marriage & Civil Partnership						√	
Socio-economic Background						√	

The purpose of the Equality Impact Assessment is to improve the work of the Council by making sure it does not discriminate against any individual or group and that, where possible, it promotes equality. The assessment is quick and straightforward to undertake but it is an important step to make sure that individuals and teams think carefully about the likely impact of their work on people in Woking and take action to improve strategies, policies, services and projects, where appropriate. Further details and guidance on completing the form are available.

Sustainability Impact Assessment

Officers preparing a committee report are required to complete a Sustainability Impact Assessment. Sustainability is one of the Council's 'cross-cutting themes' and the Council has made a corporate commitment to address the social, economic and environmental effects of activities across Business Units. The purpose of this Impact Assessment is to record any positive or negative impacts this decision, project or programme is likely to have on each of the Council's Sustainability Themes. For assistance with completing the Impact Assessment, please refer to the instructions below. Further details and guidance on completing the form are available.

Theme (Potential impacts of the project)	Positive Impact	Negative Impact	No specific impact	What will the impact be? If the impact is negative, how can it be mitigated? (action)
Use of energy, water, minerals and materials			√	
Waste generation / sustainable waste management			√	
Pollution to air, land and water			√	
Factors that contribute to Climate Change			√	
Protection of and access to the natural environment			√	
Travel choices that do not rely on the car			√	
A strong, diverse and sustainable local economy			√	
Meet local needs locally			√	
Opportunities for education and information			√	
Provision of appropriate and sustainable housing			√	
Personal safety and reduced fear of crime			√	
Equality in health and good health			√	
Access to cultural and leisure facilities			√	
Social inclusion / engage and consult communities			√	
Equal opportunities for the whole community			√	
Contribute to Woking's pride of place			√	