



<b>Report of:</b>	<b>Meeting</b>	<b>Date</b>	<b>Item no.</b>
Cllr Alan Vincent, Resources Portfolio Holder and Clare James, Head of Finance	Council	7 December 2017	14

<b>Treasury Management Activity April 2017 to September 2017</b>
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**1. Purpose of report**

- 1.1 To report on the overall position and activities in respect of Treasury Management for the first half of the financial year 2017/18.

**2. Outcomes**

- 2.1 An informed Council who have an understanding of Treasury Management activity, in line with the approved Treasury Management Policy and Strategy Statements and Treasury Management Practices.

**3. Recommendation/s**

- 3.1 That the Annual Report on Treasury Management Activity for the first half of the 2017/18 financial year be approved.

**4. Background**

- 4.1 In order to demonstrate compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management a review of the Treasury Management Policy Statement, Treasury Management Procedures, Strategy and Minimum Revenue Provision Policy Statement is undertaken each year and reported to Cabinet in March. The Council, in accordance with legislation is also formally required to approve the formulation of the plan or strategy for the control of the authority's borrowing, investments or capital expenditure and for the determination of the authority's minimum revenue provision. This is agreed by Council in April.

- 4.2** A requirement of the Treasury Management Code of Practice is the reporting of the results of treasury management activity twice a year. This report covers the six months ending 30 September 2017. A further report including activity for the 2017/18 financial year in its entirety will be considered by Council in July 2018.
- 4.3** The Treasury Management Procedures indicate that the report should include the following issues, where relevant:
- a) Total debt and investments at the beginning and end of the review period and average interest rates;
  - b) Explanations for variance between original strategies and actual;
  - c) Debt rescheduling done in the year;
  - d) Actual borrowing and investment rates achieved through the year;
  - e) Comparison of return on investments to the investment benchmark; and
  - f) Compliance with Prudential and Treasury Indicators.
- 4.4** CIPFA have recently consulted with the public sector on proposed changes to both their Prudential Code and their Treasury Management Code and Cross-Sectoral Guidance Notes. The results of these consultations are awaited and any changes will be incorporated into the relevant Council Policies in line with any timescales imposed.

## **5. Key issues and proposals**

- 5.1** The EU has now set a deadline of 3 January 2018 for the introduction of regulations under Markets in Financial Instruments Directive II (MIFIDII). These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. Financial Services officers have been co-ordinating the administrative impact of the new Directive which requires the authority to 'opt up' to Professional Status in order to continue to be able to invest in Money Market Funds. The majority of local authorities are in a similar position and will also be opting up in order to maintain the diversity of investment opportunities available and maximise their return.
- 5.2** The Monetary Policy Committee (MPC) meeting of 14 September 2017 took a more forceful tone when warning of the need to increase the Bank Rate. As such, it looks very likely that the MPC will increase the Bank Rate to 0.5% in November or if not then, in February 2018. This may result in slightly increased interest rates from the councils' counterparties and a higher return on investments.
- 5.3** The table below illustrates the council's debt and investment position at the beginning of the 2017/18 financial year and as at 30 September 2017:

	1 April 2017	30 September 2017
	£	£
Loans - Temporary	0	0
- Cash Overdrawn	179,366	121,403
<b>Total Short-Term Debt</b>	<b>179,366</b>	<b>121,403</b>
Loans - Long-Term Borrowing	1,552,000	1,552,000
<b>Total Long-Term Debt</b>	<b>1,552,000</b>	<b>1,552,000</b>
Investments - Temporary	19,191,041	21,020,873
<b>Total Short-Term Investments</b>	<b>19,191,041</b>	<b>21,020,873</b>
Cash in Bank	0	0
Cash held by the Authority	2,547	2,567
<b>Total Cash and Cash Equivalents</b>	<b>2,547</b>	<b>2,567</b>

- 5.4** The Prudential Code for Capital Finance aims to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. The Code sets out indicators that must be used and requires local authorities to set relevant limits and ratios. The indicators for the 2017/18 financial year were originally considered by Cabinet 15 February 2017 and agreed at Council on 2 March 2017. During the six months to 30 September 2017 the council operated within these treasury limits and Prudential Indicators.
- 5.5** The 2017/18 Budget assumed no additional long-term borrowing and that capital schemes were to be funded instead by grants and contributions, capital receipts and the Capital Investment Reserve.
- 5.6** From 1 September 2011, and following a cost/benefit analysis it was decided to cease the formal overdraft facility. The formal overdraft facility used to cost the council £2,000 plus 1% over the base rate for overdrawn net balances over £500,000. The new arrangement now incurs charges at 4% over the current base rate for net overdrawn balances with no annual arrangement fee. The council's net bank account position was overdrawn on one occasion during the period April to September 2017. An overdrawn balance of £1,467,893 in August occurred when the Bank of Scotland failed to action a recall of funds. This was picked up the following working day and the Bank of Scotland transferred funds immediately and the overdrawn interest charge of £512.75 was refunded.
- 5.7** There were no short-term borrowing transactions (i.e. less than 365 days) during the first six months of 2017/18.
- 5.8** Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates. No debt rescheduling has been undertaken during the 6 months to 30 September 2017.

- 5.9** Interest payments in respect of short-term and long-term borrowing for the first half of the financial year are on target and total £34,415 compared to a budgeted figure of £68,830 for the full year. Including miscellaneous payments in 2017/18 the actual at 30 September is £34,425 compared to a full year budget of £69,850. The budget includes £1,000 for interest in the latter part of the financial year owing to potential temporary borrowing requirements as income from Council Tax reduces in February and March.
- 5.10** The council has continued to invest any surplus balances with the council's Bank, NatWest on call deposit facility, Money Market Funds (MMF) with Prime Rate Capital Management and Legal and General Investment Management (LGIM), the Bank of Scotland (Overnight/Call account and fixed rate 6 month notice facilities), Goldman Sachs International Bank (3 month and 6 month fixed notice facilities), Santander (60 day and 95 day corporate notice facility) and Qatar National Bank (1 month and 3 month fixed notice facilities).
- 5.11** There have been two occasions where funds greater than £100,000 have remained in the council's accounts overnight as a surplus balance in the first six months of 2017/18. To address this, the council has set up a new control account that will off-set any funds remaining in the NatWest accounts at the end of the day and roll up balances into the interest bearing Liquidity account. Once activated by the bank this new facility should prevent any excess balances being held in the current account overnight.
- 5.12** The current investment counterparty selection criteria approved in the Treasury Management Strategy is meeting the requirement of the treasury management function.
- 5.13** The equated investments for the first half of 2017/18 are detailed in the following table:-

	Equated Investment Principal	Interest Due	Rate of Return
	£	£	
NatWest Liquidity Account	768,996	77	0.01%
Money Market Funds	2,547,102	5,744	0.23%
Bank of Scotland Call Account	1,147,735	1,249	0.11%
Bank of Scotland 6 month Fixed	452,055	2,713	0.60%
Qatar 1 month Fixed	360,959	1,277	0.36%
Qatar 3 month Fixed	202,740	912	0.45%
Goldman Sachs IB 3 month Fixed	152,055	745	0.49%
Goldman Sachs IB 6 month Fixed	1,255,480	9,219	0.73%
Santander (60 Day Notice)	1,504,110	6,017	0.40%
Santander (95 Day Notice)	1,504,110	7,270	0.48%
<b>Total</b>	<b>9,895,342</b>	<b>35,223</b>	<b>0.36%</b>

The table above reflects that investments earned an average return of 0.36% against a benchmark LIBID (London Interbank Bid Rate) 7-day average of 0.11%.

**5.14** Interest receivable on investments for the first half of the financial year is £31,071 (or £33,618 including miscellaneous items) compared to an annual budget of £60,810. The rate of interest received is expected to reduce through the second part of the year owing to the funds available for investment diminishing as a result of increased capital expenditure and reduced levels of Council Tax income in the last quarter of the year.

**5.15** Within the Council's current Annual Investment Strategy, the Investment Policy criteria are based on Sector's creditworthiness service and it is meeting the requirement of the treasury management function. The council, to date, has adopted a very cautious approach and regularly monitors organisations with which investments are held to ensure they meet the Investment Policy criteria.

<b>Financial and legal implications</b>	
Finance	Considered in detail in the report above.
Legal	The approval of the recommendations will ensure compliance with the CIPFA Code of Practice.

#### **Other risks/implications: checklist**

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with an x.

<b>risks/implications</b>	<b>✓ / x</b>
community safety	<b>x</b>
equality and diversity	<b>x</b>
sustainability	<b>x</b>
health and safety	<b>x</b>

<b>risks/implications</b>	<b>✓ / x</b>
asset management	<b>x</b>
climate change	<b>x</b>
data protection	<b>x</b>

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<b>List of background papers:</b>		
name of document	date	where available for inspection
None		

#### **List of appendices**

None

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