CABINET
31 JULY 2018

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: TREASURY MANAGEMENT FIRST QUARTER 2018/19

REPORT OF: SERVICE DIRECTOR - RESOURCES
EXECUTIVE MEMBER : CLLR JULIAN CUNNINGHAM
COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 To inform Cabinet of the Treasury Management activities in the first quarter of 2018/19 to the end of June. The current forecast is that the amount of investment interest expected to be generated during the year is £0.255 million. This is an increase of £0.088 million on the original budget.

1.2 To inform Cabinet of the performance against the Prudential and Treasury indicators. During the first quarter the Council has operated within the treasury and prudential indicators as set out in the Treasury Management Strategy Statement and in compliance with the Council's approved Treasury Management Practices.

2. RECOMMENDATIONS

2.1 Cabinet is asked to note the position of Treasury Management activity as at the end of June 2018.

3. REASONS FOR RECOMMENDATIONS

3.1 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 The primary principle governing the Council's investment criteria is the security of its investments, which includes credit, liquidity and market risk (see section 8 below). After this the return (or yield) is then considered, which provides an income source for the Council. In relation to this the Council could take a different view on its appetite for risk (e.g. unrated Building Societies and non-UK investments), which would be reflected in the Treasury Strategy. In general, greater returns can be achieved by taking on greater risk. Once the Strategy has been set for the year, there is limited scope for alternative options as Officers will seek the best return that is in accordance with the Treasury Strategy. Our current strategy has meant that we have been able to achieve a yield that is above the average achieved by the Link Hertfordshire and Buckinghamshire Investment Benchmarking Group.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 There are quarterly updates with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link).

6. FORWARD PLAN

6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 5 June 2018.

7. BACKGROUND

7.1 Members adopted the 2018/19 Treasury Strategy at the meeting of full Council on the 8 February 2018.

7.2 Link Asset Services Ltd were first contracted to provide Treasury advice for the financial year 2012/13 and this arrangement has been extended until 2018/19. The service includes:

- Regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies
- Information on investment counterparty creditworthiness
- Technical updates
- Access to the Technical Advisory Group.

8. RELEVANT CONSIDERATIONS

8.1 In summary, during the first quarter the Council has operated within the treasury and prudential indicators as set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices.

8.2 The Council generated £0.52 million of interest during the first two months of 2018/19. The average interest rate on all outstanding investments at the 31 May was 1.00%.

8.3 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.

8.4 **Credit Risk** is the possibility that other parties fail to pay back amounts that have been invested by the Council. This risk is mitigated by assessing the counterparties with whom the Council invests. For banks and building societies that are credit rated by Fitch, they must have a rating of BBB or above. Where building societies do not have a credit rating, then the level of investment is assessed against the overall assets of the institution. Due to the different risks that they are exposed to, the Council splits its investments between banks and building societies and can have a maximum of 75% invested in each.

8.5 The Council also invests with other Local Authorities and Public Corporations (when appropriate opportunities are available) and in Money Market Funds. Money Market Funds are limited to 25% of total investments. A Money Market Fund is a regulated, stand-alone pooled investment vehicle which actively invests its assets in a diversified portfolio of mainly high grade, short-term money market instruments.

8.6 As at 31 May the split of investments was:

Banks	27%
Building Societies	38%
Local Authorities	27%
Money Market Funds	8%

8.7 **Liquidity Risk** is the possibility that the Authority may not have funds available to meet its commitments to make payments.

8.8 Cash flow forecasts are prepared to determine the level of funds required to meet the day to day commitments with investments split between the Cash Manager and the In-House team. The level of funds made available to the Cash Manager, currently a total balance of £13.0 million, is primarily determined by the level of expenditure on the Council's Capital programme. The In-House balance of investments at the end of May was £23.1 million.

8.9 **Market Risk** is the possibility that financial loss might arise as a result of changes in interest rates.

8.10 Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risk of long term deals are two fold:

(i) The longer the time period the longer the investment is exposed to default.
(ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.

8.11 Members have indicated that they are prepared to accept the market risk within the limits expressed in the Treasury Strategy, which allows up to 40% of investments to be invested for longer than 364 days at any one time. At the end of the first quarter the Council had 2.7% (£1.0 million) invested for longer than 364 days. During the first quarter, no new deals were placed for longer than a year (three £1.0 million deals were placed for one year).

8.12 The **return (or yield)** that the Council achieves is affected by both the level of risk as well as general market conditions. It continues to prove challenging to find acceptable counterparties willing to pay a reasonable return on cash investments, either long or short term. This issue is expected to continue during 2018/19 and beyond.

8.13 The Council had a negative **Capital Financing Requirement** (CFR) of £10.3 million (as at 31st March 2018), which means that it has a high level of cash investments. The CFR is expected to reduce to approximately £1.4 million by the end of the year if capital expenditure matches the current profile of spend. The Council currently only has historic borrowing which is not cost effective to repay early.

9. LEGAL IMPLICATIONS

9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.

9.2 Section 151 of the Local Government Act 1972 states that:
"every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

9.3 The Prudential Indicators comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

10.1 The amount of investment interest expected to be generated during the year is £0.255 million.

10.2 Potential options for inclusion in the Treasury Strategy are considered as and when identified. Any proposals to amend the Strategy are reported to Full Council, via Cabinet, for approval.

11. RISK IMPLICATIONS

11.1 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependant on banks and building societies need for borrowing. The introduction of the Funding for Lending Scheme which allows financial institutions access to low cost funding from Government for an extended period has impacted on their need to borrow and the rates at which they are prepared to borrow.

12. EQUALITIES IMPLICATIONS

12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 There are no direct equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

13.1 The Social Value Act and "go local" policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resource or equality implications.

15. CONTACT OFFICERS

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16. BACKGROUND PAPERS

Treasury Strategy 2018/19
CIPFA Prudential Code for Capital Finance in Local Authorities