

**REPORT TO:** CABINET OVERVIEW WORKING GROUP

**DATE:** 28 NOVEMBER 2019

**TITLE:** TREASURY MANAGEMENT REVIEW

**LEAD OFFICER:** SIMON FREEMAN, DEPUTY TO THE CHIEF EXECUTIVE AND HEAD OF FINANCE AND PROPERTY (01279) 446228

**RECOMMENDED that:**

- A** The Working Group considers the report and the underpinning principles that support the Council's Treasury Management Strategy.
- B** The Working Group refers any specific issues identified as a result of the review to Cabinet for consideration.

**BACKGROUND**

1. The Council operates within the framework of CIPFA's 'Prudential Code for Capital Finance in Local Authorities', the 'Treasury Management Code of Practice' (the Code) and, the Ministry of Housing Communities and Local Government (MHCLG) Investment Guidance. Under the Code the minimum reporting requirements are that Full Council receives the following reports:
  - i) An annual treasury strategy in advance of the year.
  - ii) A mid-year treasury update report.
  - iii) An annual review following the end of the year describing the activity compared to the strategy.
2. The 2020/21 Treasury Management Strategy will be approved in February 2020 at the same time as the Medium Term Financial Strategy (MTFS), General Fund Budget, HRA estimates and rent levels and the Capital Programme. The Strategy supports the financial activities by setting out the investment and borrowing policy and it ensures that the Council's cash holdings are safeguarded as far as possible from loss in the current economic climate.
3. The strategy also contains the Prudential indicators required under the Prudential Code which set limits and boundaries for the capital expenditure of the Council. The Capital programme and borrowing activity must be constrained within the limits set by the indicators. It is intended that these limits ensure the Council operates within financial boundaries which it can afford in the context of its wider financial strategies. The current 2019/20 strategy is set out in Appendix 1 to the report.

4. The 2019/20 mid-year treasury management update report will be presented to Cabinet at its December meeting and is set out in Appendix 2 to the report.
5. The annual report for 2018/19 has been produced in compliance with the Code and was reported to Cabinet in September 2019. The full report is set out in Appendix 3 to the report. The regulatory environment governing treasury management places onus on Councillors for the review and scrutiny of treasury management policies and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the policies approved by the Council.

## **ISSUES/PROPOSALS**

### **2018/19**

6. As reported to Council in September, the Council complied with its Treasury Management Strategy Statement during 2018/19.
7. The Council held significant levels of invested funds, representing income received in advance of expenditure plus balances and reserves. During 2018/19 the Council's investment balances ranged between £31.7m (2018/19 closing balance) and £53.74m. The average return received by the Council was 0.83% which compared very favourably to the average 7 day LIBID rate of 0.51%.
8. Security of capital remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20.
9. During 2018/19 the Council continued to diversify its investments which now include the CCLA Property Fund and the Royal London Cash Plus Fund.
10. The Annual report shows that this diversification has seen a move away from the unsecured investments held with banks and building societies and has focus on replacing these investments with transactions with other local authorities. This is a trend that has also continued in to the 2019/20 financial year.
11. Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is A-across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
12. The end of bank bail-outs, the introduction of bail-ins, and the preference

being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options.

13. During 2018/19 the Council complied with the Prudential Indicators as set within the Council's Treasury Management Strategy Statement approved in February 2018. The indicators themselves are included as part of the Annual report attached.

### **2019/20**

14. The Council remains compliant with its Prudential Indicators for 2019/20, set in February 2019 as part of the Council's Treasury Management Strategy Statement and has continued to look to move its investments in to vehicles that remove or limit the exposure to unsecured investments which has also increasingly included the use of short term deposits with the Debt Management Office (DMO).
15. The ongoing uncertainty during 2019/20 regarding Brexit, the imminent general election in December and the Bank of England base rate remaining at 0.75% since August 2018 all continue to create difficult treasury dealing conditions. The market experts remain uncertain of the outcomes for long-term interest rates, exchange rates, budget cuts and bank defaults at the current time.
16. In response to this situation the Council has continued to proceed in its treasury activity with great caution and continues to maintain particular emphasis on its key priority of investment security. The Council has operated within the remit of the approved Treasury Management Strategy Statement (TMSS) and is utilising the lending list of approved institutions provided by the Council's treasury advisors, Arlingclose. This lending list is regularly updated (weekly) and amended by Arlingclose in response to changes in the status and ratings of institutions and in response to forecasts and events occurring within the markets. As a result the lending list has continued to experience a reduction in the options available for investing the Council's cashflow balances, as well as shortening of investment periods and investment limits.
17. The Council's overriding response to the current market conditions is to continue to ensure the security of investments above liquidity and yield. Officers aim to ensure that investments are made in the most cost efficient and effective manner. The current investments held by the Council as at 31 October 2019 are shown below –

<b>Investment held with -</b>	<b>Value £' millions</b>
Local Authorities	13.500
Money Market Funds	13.340
Banks (Councils own bank)	1.318
CCLA Property	2.000
Royal London Cash Plus Fund	2.000
<b>Total</b>	<b>32.158</b>

18. In order to further protect the Council's investment options, it may also be necessary to review some of the investment parameters within the TMSS (for example investment limits) if there are indications that future market events may constrict the lending list beyond what is manageable within the Council's treasury operations.
19. Further information regarding the current TMSS assumptions are contained within the report at Appendix 1 and verbal updates on current activity and how it may influence the 2020/21 TMSS will be provided at the meeting.

## **IMPLICATIONS**

### **Environment and Planning (includes Sustainability)**

None specific.

Author: **Andrew Bramidge, Head of Environment and Planning**

### **Finance (Includes ICT and Property & Facilities)**

As contained within the body of the report and appendices.

Author: **Simon Freeman, Deputy to the Chief Executive and Head of Finance and Property**

### **Housing**

None specific.

Author: **Andrew Murray, Head of Housing**

### **Community Wellbeing (includes Equalities and Social Inclusion)**

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

**Governance (includes HR)**

None specific.

Author: **Simon Hill, Head of Governance**

**Appendices**

Appendix 1 – Capital and Treasury Report 2019/20

Appendix 2 – Treasury Management Strategy Statement 2019/20: Mid-Year Review

Appendix 3 – Annual Treasury Management Report 2018/19

**Glossary**

DMO- Debt Management Office

MHCLG - Ministry of Housing Communities and Local Government

MTFS – Medium Term Financial Strategy

TMSS – Treasury Management Strategy Statement