

<b>REPORT TO</b>	<b>ON</b>
Governance Committee	22 November 2018



<b>TITLE</b>	<b>REPORT OF</b>
Treasury Management Activity Mid-year review 2018/19	Deputy Chief Executive (Resources & Transformation)

Is this report confidential?	No
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## 1. PURPOSE OF THE REPORT

To report on Treasury Management performance in financial year 2018/18 to the end of September.

To propose a further amendment to the Investment Strategy for 2018/19, which requires the approval of Full Council.

## 2. RECOMMENDATIONS

2.1 That the report be noted.

2.2 Members are asked to recommend to Council that Low Volatility Net Asset Value (LVNAV) Money Market Funds should be added to the list of approved Investment Counterparties with a limit of £5m per fund..

## 3. EXECUTIVE SUMMARY

Updated Prudential Indicators will be presented in the Treasury Strategy report to Council on 27 February 2019. These will take account of the latest CIPFA guidance.

Average interest earned is 0.66% to the end of September, which is more than the target of 0.49%. The earnings rate suggested by Link Asset Services for 2018/19 is 0.75% and it is anticipated that this will be exceeded by the end of the financial year by placing cash in higher interest term-deposits in the second half of the year.

Low Volatility Net Asset Value (LVNAV) Money Market Funds should be added to the list of approved Investment Counterparties. The current CNAV MMFs will convert to LVNAV in early 2019, so their use needs to be approved so that the Council can continue placing cash sums in MMFs.

#### **4. CORPORATE PRIORITIES**

The report relates to the following corporate priorities:

Excellence and Financial Sustainability	✓
Health and Wellbeing	
Place	

Projects relating to People in the Corporate Plan:

People	
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#### **5. BACKGROUND TO THE REPORT**

The Annual Investment Strategy for 2018/19 was included in the Treasury Strategy 2018/19 to 2022/23, which was approved by Council on 28 February 2018. The report emphasised that the Council's investment priorities will be **Security first, portfolio Liquidity second, and only then return (Yield)**.

The Treasury Management Annual Report 2017/18 was presented to Governance Committee on 26 July 2018. The report indicated that an average return on investments of 0.49% had been achieved, which exceeded the target rate of 0.24%, being seven day LIBID plus 15%. In the first quarter of 2018/19, the average return had increased to 0.63%.

A review of investment counterparties was carried out and reported to Governance Committee of 20 September 2018. The report will go to the Council meeting of 5 December 2018 with the recommendation that the maximum amount which should be invested in the Government's DMADF, with UK local authorities, and UK banks and building societies should be increased from £5m to £6m.

The Code of Practice for Treasury Management requires Councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

#### **6. NEW CIPFA PRUDENTIAL CODE GUIDANCE**

In 2017 the Chartered Institute of Public Finance and Accountancy (CIPFA) revised its Prudential Code for Capital Finance in Local Authorities, in particular to take account of the increased commercialisation of local authorities. In September 2018, CIPFA published its Guidance Notes for Practitioners on the Prudential Code.

During October 2018, CIPFA issued a statement on Borrowing in Advance of Need and Investment in Commercial Properties. The statement indicated that CIPFA will issue more guidance about the practice of borrowing to invest in commercial property, and reminded local authorities to have regard to the Statutory Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG).

CIPFA have indicated that the current guidance in support of the Prudential Code will be augmented and strengthened to ensure that assistance is provided to local authorities.

The revised Prudential Indicators for 2018/19 and those for 2019/20 onwards will take account of the latest CIPFA guidance available. It is not anticipated that the revised guidance will have any impact on this Council's treasury management or capital investment activities, but additional reporting requirements may be introduced.

## 7. TREASURY ACTIVITY

Investment activity up to the end of September 2018 is summarised in the following table.

Table 1 - Investment Activity	Average Daily Investment £000	Earnings to 30 September 2018		
		2018 £	Average Rate %	
Debt Management Office	0	0	0.00	
Other fixed term deposits	16,858	57,334	0.68	
Notice Accounts	8,590	33,795	0.78	
Call accounts	2,024	4,989	0.49	
Money Market Funds	9,819	26,775	0.54	
<b>Total</b>	<b>37,291</b>	<b>122,893</b>	<b>0.66</b>	

The DMO's Debt Management Account Deposit Facility (DMADF) was not used in the first half of the financial year. Subsequently it has been used for short periods when all MMFs were at the permitted maximum balance and pending cash being invested as term deposits.

The average daily investment of £37.291m continues to be well above the £10m minimum balance invested for the Council to qualify as a professional investor under MiFID II requirements.

A full list of investments as at 30 September 2018 is presented as Appendix E. At that date all investments were within the maximum permitted by the approved Investment Strategy for 2018/19. However, on one day in June 2018 and eight days in September, the maximum held by the Council's own bank Barclays exceeded the £5m limit. The maximum held by Barclays was £5.935m. A number of operational difficulties, which subsequently have been addressed, meant that cash could not be placed with other counterparties when MMFs and other liquid accounts had reached the maximum permitted. Access to the DMADF has been reinstated, for use whenever unavoidable, and cash has been placed as fixed term deposits. The financial consequences of exceeding the £5m limit were minor – interest receivable would have been a little lower for a few days – but the purpose of the limit is to spread risk. Exceeding the limit was drawn to the attention of Shared Assurances Services promptly and will be taken into account in the audit of treasury management activities.

The investment durations per bank or building society suggested by Link Asset Services as at 12 November 2018 are presented in Appendix F. The Council receives weekly updates, and suggested durations are checked online at the time of placing any term deposits with banks or building societies. The limit per institution is as approved by Council on 28 February 2018. Appendix B includes the proposed increases in limits to be considered by Council for approval on 5 December 2018.

The average interest earned of 0.66% exceeds the target of 0.49% (being the average LIBID 7-day rate plus 15%). However, to date the average interest earned has not exceeded the Link Asset Services suggested earnings rate of 0.75% for 2018/19 (see Table 3 below). High

balances were held in highly liquid accounts such as MMFs and call accounts, and few term deposits were placed in the first half of the year. Subsequently term deposits have been made at higher interest rates and it is anticipated that the Ling suggested earnings target will be exceeded by the end of the financial year.

The comparison to the interest receivable budget is as follows:

<b>Table 2 - Interest Receivable Budget</b>	<b>Budget for 2018/19 £000</b>	<b>Actual to 30 September 2018 £000</b>	<b>Forecast for year £000</b>
Interest earned	105	123	220
<b>Total</b>	<b>105</b>	<b>123</b>	<b>220</b>

As explained in Appendix A, which presents advice from Link Asset Services, it is necessary to add Low Volatility Net Asset Value (LVNAV) Money Market Funds (MMFs) to the list of approved Investment Counterparties. The Constant NAV MMFs used by the Council to date have to convert to LVNAV status as a result of EU requirements. The updated list of Investment Counterparties is presented as Appendix B.

No long-term borrowing has been taken to the date of preparing this report. Financing of the 2018/19 Capital Programme requires long-term borrowing, and the interest payable has been included in the revenue budget for the year. Savings in interest payable may be achieved by delaying external borrowing, or using the Council's cash balances as an alternative to taking loans from the Public Works Loan Board (PWLB). Interest earned on cash balances would reduce as a consequence, but the Council would lose interest receivable at say 0.75% but avoid paying interest to the PWLB at say 2.50%.

## **8. TREASURY CONSULTANTS ADVICE**

Appendix C presents the advice of Link Asset Services in respect of economic matters and interest rates in the first half of 2018/19.

In addition, a detailed comparison of interest rate forecasts is presented as Appendix D. Bank rate and PWLB borrowing rate forecasts are given from December quarter 2018 through to March quarter 2022.

The next increase in Bank Rate from 0.75% to 1.00% is now expected in the June quarter of 2019. When this year's Treasury Strategy was prepared, it was expected that Base Rate would reach 1.00% in the December quarter of 2019. This was brought forward to the September quarter of 2019 when the forecast was updated by Link in August.

Link's suggested budgeted investment earning rates for investments up to about three months duration in each financial year are as follows:

	Revised November 2018	Revised August 2018	Original February 2018
2018/19	0.75%	0.75%	0.60%
2019/20	1.00%	1.00%	0.90%
2020/21	1.50%	1.50%	1.25%
2021/22	1.75%	1.75%	1.50%
2022/23	1.75%	1.75%	1.75%
2023/24	2.00%	2.00%	2.00%
Later years	2.50%	2.75%	2.75%

The most recent estimate is compared to the estimated earnings rate available at the time the Treasury Management Strategy was presented for approval in February 2018, and Link's update in August 2018. The suggested earnings rates have increased from 0.60% to 0.75% in this financial year. This has not yet been achieved in 2018/19, the average to 30 September 2018 being 0.66%, but the target should be exceeded by the end of the financial year if more cash is placed in higher interest rate term-deposits with suitable counterparties.

Compared to the previous interest rates forecast, PWLB borrowing rates are currently higher than expected when the Treasury Strategy for 2018/19 onwards was prepared.

## **9. CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION**

No consultation has been undertaken in preparing this report.

## **10. FINANCIAL IMPLICATIONS**

The addition of LVNAV Money Market Funds to the list of approved Investment Counterparties is necessary for the continued use of MMFs from January onwards, when the CNAV MMFs used at present convert to being LVNAV funds. Should it not be possible to use LVNAV funds, the likelihood is that cash would have to be placed with the Debt Management Office at a lower rate of interest than earned in MMFs.

## **11. LEGAL IMPLICATIONS**

Please see the Monitoring Officer comments.

## **12. COMMENTS OF THE STATUTORY FINANCE OFFICER**

The proposed change will help the Council to achieve its interest receivable target for the financial year. Appendix A explains the nature of LVNAV MMFs which replace the current CNAV MMFs.

## **13. COMMENTS OF THE MONITORING OFFICER**

The Monitoring Officer has no concerns or issues with what is proposed in this report.

## **14. OTHER IMPLICATIONS:**

<ul style="list-style-type: none"><li>▶ <b>HR &amp; Organisational Development</b></li><li>▶ <b>ICT / Technology</b></li><li>▶ <b>Property &amp; Asset Management</b></li><li>▶ <b>Risk</b></li><li>▶ <b>Equality &amp; Diversity</b></li></ul>	LVNAV MMFs replace the current CNAV funds and are not considered to be of greater risk as an investment option.
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## **15. BACKGROUND DOCUMENTS**

Treasury Strategy 2018/19 to 2022/23

(Council 28/2/18)

## **16. APPENDICES**

- Appendix A Money Market Fund Reform  
Appendix B Proposed Revisions to Investment Counterparties 2018/19  
Appendix C Economics and Interest Rates – Treasury Advisors' advice  
Appendix D Comparison of Interest Rates Forecasts  
Appendix E List of Investments as at 30 September 2018  
Appendix F Suggested Investment Durations as at 12 November 2018

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