
REPORT OF THE REVIEW COMMITTEE**1 TREASURY MANAGEMENT 2018/19 MID-YEAR REVIEW**

1.1 This item of business was referred by the Review Committee on 4 December 2018 to Full Council with a recommendation on the Mid Year Treasury Management Report.

1.2 An extract of the key elements of the report of the Section 151 Officer to the Review Committee is appended.

1.3 In response to Member questions, the following was noted:

- All of the treasury management activity detailed in the report, including the investment in the Money Market Prime counterparty, complied with the Council's Treasury Management Statement, which allowed for investment in money market funds to a value of £5 million.
- Money Market Prime is an AAA cash investment fund that spreads risk by investing in a number of institutions. The total value of the Money Market Prime fund is £3.8bn as at the day of the meeting; the Council's investment represents 0.13% of this fund. Although there could be no guarantee that a local authority investment placed with a counterparty was completely risk free, this investment was extremely low risk and accorded with the Council's treasury management low risk strategy. Money market funds provided a better return than would be achieved by investing in an instant access account with a bank, although the rate of return was subject to fluctuation.
- The Council had invested in a Federated Prime Rate Fund for a number of years. Three money market accounts had been established, although currently only one of these was used.
- The interest rates achieved by the three investments detailed in the report were: Santander 90 day account 1%; Svenska Handelsbanken 0.65% and Money Market Prime approximately 0.73% (but this is a variable).
- The forecast of Bank of England base rate and Public Works Loan Board rates was provided by Link Asset Services, the Council's professional treasury management providers.
- The Council's investments were monitored on a daily basis.
- It was not necessary to agree a Minimum Revenue Provision (MRP) policy prior to the Council having a specific borrowing need as the policy would relate to the specifics of the capital investment required. Should the Council wish to borrow externally in the future for a strategic project, for example, there would be sufficient time in which to implement an MRP policy. The issue of an MRP policy had been raised by the Audit

Committee.

- The Council had seen an increase in its current accounts interest rates, reflecting the recent increase in the Bank of England base rate.

1.4 It is proposed that Council **RESOLVES** that the Treasury Management 2018/19 Mid Year Report be noted.

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TREASURY MANAGEMENT 2018 /19 MID YEAR REVIEW

1 SUMMARY

- 1.1 The purpose of the report is to provide an update of the Council's Treasury Management activity for the period 1 April 2018 to 30 September 2018 in accordance with the Council's Treasury Management Policy and good practice in treasury management.
- 1.2 It is recommended that the Review Committee notes the Council's treasury activities for the period ending 30 September 2018 and provides comments on the information presented in this report, before it is presented for approval by Full Council on 11 December 2018.

2 INTRODUCTION

- 2.1 The Council has adopted the Code of Practice on Treasury Management and a requirement of this is to produce a mid year review looking at the Authority's performance in line with the strategy considered by this Committee in January 2018.
- 2.2 The Council operates a balanced budget, which broadly means that cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 2.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending liabilities.
- 2.4 Accordingly treasury management is defined as:
"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 2.5 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
- An economic update for the 2018/19 financial year to 30 September 2018;
 - A review of the Treasury Management & Capital Strategy Statement and Annual Investment Strategy;
 - The Council's capital expenditure (prudential indicators);
 - A review of the Council's investment portfolio for 2018/19;
 - A review of the Council's borrowing strategy for 2018/19;
 - A review of compliance with Treasury and Prudential Limits for 2018/19.

- 2.6 The Council employs treasury advisors, Link Asset Services Ltd, formerly known as Capita Asset Services Ltd, to provide advice on its treasury management strategy and analysis of the economy and expectations for interest rates.

3 ECONOMIC UPDATE

- 3.1 The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest, at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecasts that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.
- 3.2 The latest Link Asset Service's forecast of Bank of England Base Rate and Public Works Loan Board (PWLB) rates is shown in the table below. The overall longer run trend is likely to be for PWLB and base rate to rise, albeit slowly.

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

4 KEY MOVEMENT / CHANGES TO THE CAPITAL AND TREASURY STRATEGIES

- 4.1 The Treasury Management & Capital Strategy Statement (TMCSS) for 2018/19 was approved by Full Council in February 2018 as part of the Medium Term Financial Strategy.
- 4.2 There are no policy changes to the TMCSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5 PRUDENTIAL INDICATOR FOR CAPITAL INVESTMENT

- 5.1 This table shows the forecasted outturn for capital expenditure as at 30 September 2018 and the changes since the Capital Programme was agreed in February 18, as well as the indicative financing for the programme.

Capital Expenditure	2018/19 Original Estimate £'000s	2018/19 End of Year Forecast £'000s
Total	3,102	2,835
Financed by:		
Disabled Facilities Grant via Better Care Fund	408	408
Insurance Claim	6	6
Capital Finance Reserve	979	712
Air Quality Grant Income	1,258	1,258
Repairs & Maintenance Reserve	3	3
IT Reserve	213	213
Transformation Reserve	235	235
Total Financing	3,102	2,835

Changes to the Prudential Indicators for the Capital Financing requirement and the Operational Boundary

- 5.2 Net external borrowing should not, except in the short term, exceed the total of Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. The Council currently has no external borrowing.

£000s	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
CFR	777	773	777	777
Movement in CFR	-	-	-*	-*

* No movement is projected in the current estimates.

- 5.3 The 2008 Capital Finance and Accounting Regulations include a requirement to make prudent annual provision for repayment of debt arising from capital expenditure (known as a Minimum Revenue Provision or MRP). This is to ensure that debt is repaid over a period commensurate with that over which the capital expenditure provides benefits. If the Council does decide to borrow externally in future an MRP policy will need to be agreed and implemented. This would be set out in the relevant Treasury Management Strategy Statement for the year.
- 5.4 There are no changes to the authorised and Operational limits (upper limit beyond which external debt is prohibited) which is outlined in the Treasury Management Strategy and can only be revised by Full Council.

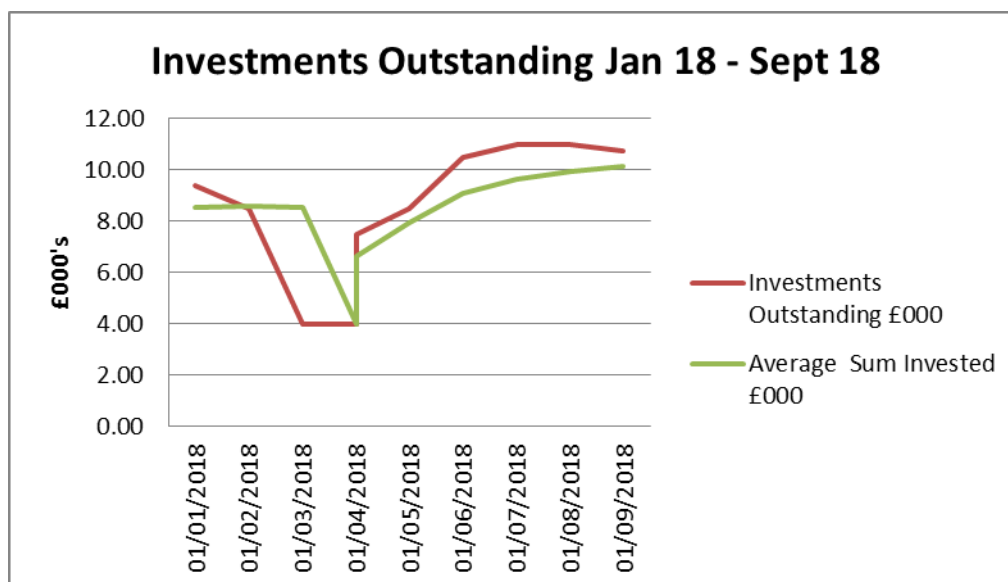
6 INVESTMENT PORTFOLIO 2018/19

- 6.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return that is consistent with the Council's risk appetite. Given this risk environment, investment returns are likely to remain low.
- 6.2 The Council started the year with £4.0m of investments and £2.654m in its main current account. The balance of investments held as at 30 September 2018 was £10.75m, plus £0.129m in the main current account. The increase is mainly due to cash flow timings as detailed in paragraph 6.3. The table below summarises the investment transactions that have taken place.

	Investments £000's	Current Account £000's	No. of Investments
Balance on Investments 1 April 2018	4,000	2,654	2
Investments placed 01/04/18 – 30/09/18	24,200		
Investments realised 01/04/18 – 30/09/18	17,450		
Balance on Investments 30 Sept 2018	10,750	129	3

- 6.3 The graph below shows the Council's average balances between January and September 2018. The reason for the variation in average balances is mainly due to cash flow driven by the timings of when payments are made and income is received. The total investments at 1 April were lower than at

most other points during the previous financial year due to large payments made to preceptors at the end of March 2018, combined with lower than average Council Tax income due to most residents' payment profiles being over 10 months rather than 12. The cash balances at 1 September reflect a return to the overall trend for the Council.



- 6.4 The three investments comprising the balance of £10.75m were placed with the following counterparties:

Counterparty	£000's of Investments	% of Investments
Santander 90 day account	3,350	31
Svenska Handelsbanken	2,400	22
Money Market Prime	5,000	47

- 6.5 Forecast investment return for 2018/19 is £50,000 - £55,000, in line with that originally anticipated. The investment rates on offer for short term deposits have remained in line with the Bank of England base rate, whilst longer term investment provides a slightly higher rate.
- 6.6 The Section 151 Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2018/19. A review of the Council's investment strategy will be undertaken in the New Year and reported in the 2019/20 Treasury Management & Capital Strategy.

Investment Counterparty Criteria

- 6.7 The current investment counterparty criteria selection approved in the TMS is meeting the requirement of the treasury management function.

- 6.8 The financial institutions with which the Authority is investing are monitored on a regular basis in line with the risk document issued by Link, the treasury advisors.

7 RISK IMPLICATIONS

- 7.1 There are no new risk management implications arising from the contents of this report. However, Members will be aware of the uncertainty in the financial markets and the economy as a whole and the potential risks that this may have in general. The Council's TMS outlines the risks involved in the investments made by the Council and there have been no changes to the assessment of risk.
- 7.2 It should be noted that the new IFRS9 accounting standard came into effect from 1 April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact on the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. Given Rochford Council's current investment portfolio, there is no impact for the Council in 2018/19.

8 EQUALITY & DIVERSITY

- 8.1 None

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