TO: GOVERNANCE AND AUDIT COMMITTEE
30 JANUARY 2019

TREASURY MANAGEMENT REPORT 2019/20 AND 2018/19 MID-YEAR REVIEW
(Director of Finance)

1 PURPOSE OF DECISION

1.1 The Council must operate a balanced budget, which broadly means cash raised during the year plus any use of reserves will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering maximising investment return.

1.2 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 longer term cash flow planning needs to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

1.3 The Local Government Act 2003 requires a local authority to "have regard to" guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and the Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.4 The Code of Practice requires the Council's annual Treasury Management Strategy (and associated documents) to be examined and reviewed by a responsible body. An additional primary requirement of the code is for the receipt by Full Council of a Mid-Year Review of the Treasury Management activities of the authority.

1.5 This report seeks to achieve both these requirements of updating Members on progress in 2018/19 and to review the Treasury Management Report for 2019/20.

2 RECOMMENDATIONS

2.1 That the Committee consider and review the Mid-Year Review Report.

2.2 That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.

2.3 That the Committee review the Treasury Management Report for 2019/20 prior to its approval by Council and endorse the changes outlined in paragraph 5.15

3 REASONS FOR RECOMMENDATIONS

3.1 The reasons for the recommendations are set out in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body and for that body to review progress of the Council's treasury management activities. The Governance and Audit Committee has been nominated by Council to be that body.

5 SUPPORTING INFORMATION

Mid-Year Review

5.1 This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first nine months of 2018/19
- A review of the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy
- The Council's capital expenditure
- A review of the Council's investment portfolio for 2018/19
- A review of compliance with Treasury and Prudential Limits for 2018/19

Economic Update

5.2 After weak economic growth of only 0.1% in quarter one, growth picked up to 0.4% in quarter 2 and to 0.6% in quarter 3. However, uncertainties over Brexit look likely to cause growth to have weakened again in quarter four. After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August, it is little surprise that they have abstained from any further increases since then. There is unlikely to be any further action from the MPC until the uncertainties over Brexit clear. In the event of a disorderly exit, the MPC have said that rates could go up or down, though it is probably much more likely to be down so as to support growth. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.3%, (excluding bonuses), in the three months to October. The main issue causing this is a lack of suitably skilled people due to the continuing increase in total employment and unemployment being near to 43 year lows. Correspondingly, the total level of vacancies has risen to new highs.

5.3 As for CPI inflation, this has been on a falling trend, reaching 2.3% in November. However, in the November Bank of England Inflation Report, the latest forecast for inflation over the two year time horizon was raised to being marginally above the MPC's target of 2%, indicating a slight build up in inflationary pressures. The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between to two figures in now around 1%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

5.4 In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. If, however, the UK faces a general election in 2019, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

5.5 After the August increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has since then put any further action on hold, probably until such time as the fog of Brexit clears and there is some degree of certainty of what the UK will be heading into. It is particularly unlikely that the MPC would increase Bank Rate in February 2019 ahead of the deadline in March for Brexit, if no agreement on Brexit has been reached by then. The comments in this report are based on a central assumption that there is an agreement on a reasonable form of Brexit. In that case, then we think that the MPC could return to increasing Bank Rate in May 2019 but then hold fire again until February 2020. However, this is obviously based on making huge assumptions which could be confounded. In the event of a disorderly Brexit, then cuts in Bank Rate could well be the next move.

Treasury Management Strategy Statement Review

5.6 The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the Council on 24th February 2018. There are no policy changes to the TMSS.

Review of Investment and Debt Portfolio 2018/19

5.7 The Council held £12.197m of investments as at 31 December 2018 and the investment portfolio yield for the first nine months of the year is 0.65% against a benchmark (Local Authority 7-Day Rate) of 0.16%.

Investment	**Maturity**	**Amount (£'000)**	**Rate (%)**
Money Market Funds			
Aberdeen	1 Day	497	0.754
Black Rock	1 Day	2,800	0.699
Federated	1 Day	2,000	0.764
Federated Cash Plus	2 Day	4,967	0.852
Goldman Sachs	1 Day	50	0.681
Deutsche	1 Day	50	0.643
Total Investments		**10,364**	

5.8 The 2018/19 interest budget assumed that an average interest rate of 0.5% would be earned on the Council's investment portfolio. As such the interest earned on the years surplus cash should be in line with target

5.9 As at 31 December 2018 the Council's debt portfolio was as follows

Short Term Market Loans

Counterparty	**Amount £**	**Rate**	**Start Date**	**Maturity Date**
Derby	5,000,000	0.60%	16/07/2018	16/01/2019
St Helens	5,000,000	0.90%	20/08/2018	20/05/2019
Durham CC	5,000,000	0.90%	28/08/2018	30/04/2019
Somerset CC	3,000,000	0.95%	17/12/2018	17/06/2019
South Derbyshire	2,000,000	0.90%	20/12/2018	20/06/2019
	20,000,000			

PWLB Loans

PWLB	**Amount**	**Rate**	**Start Date**	**Maturity Date**
PWLB	10,000,000	2.60%	09/02/2017	31/03/2062
PWLB	10,000,000	2.60%	09/02/2017	31/03/2066
PWLB	10,000,000	2.42%	20/06/2017	31/03/2063
PWLB	10,000,000	2.41%	20/06/2017	31/03/2064
PWLB	20,000,000	1.85%	21/11/2017	21/11/2024

PWLB	10,000,000	2.50%	21/11/2017	21/11/2062
PWLB	10,000,000	2.14%	03/12/2018	03/12/2028
	80,000,000			

Compliance with Treasury and Prudential Limits for 2018/19

5.10 The Director of Finance can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2018/19 and no changes to these limits are proposed for the remaining 3 months.

Treasury Management Report 2019/20

5.11 The Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under these requirements the Council must set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. At its meeting on 2 March 2011 Council nominated the Governance and Audit Committee as the responsible body to examine and assess the effectiveness of the treasury management strategy and policies and recommend them to Council.

5.12 The attached Treasury Management Report 2019/20 (Annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 19 December 2017 and outlines the Council's Prudential Indicators for 2018/19 to 2020/21 in addition to setting out the expected treasury strategy and operations for this period. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review the Treasury Management Report and associated documents will be presented to Council for approval on 28 February 2018.

5.13 Since publication of the report further advice has been received from the Council's Treasury Management advisers regarding the Minimum Revenue Provision (MRP) policy adopted by the Council. The policy is set out and explained in Annex A(iii) and was updated to reflect the guidance issued by the Government in relation to assets purchased as investment properties. Prior to the new guidance issued in 2018 there was no requirement to set aside MRP on such assets, however in light of recent move by local authorities into this area of investment the Government wished to see local authorities address the risk associated with such expenditure.

5.14 This Council has prioritised risk management in defining its policy on commercial property investment however the Director of Finance, following advice taken from both the Council's Treasury Advisers and legal advice from Counsel, decided to introduce a partial deferral method for MRP as set out in the Policy attached to this report.

5.15 However, following further advice from our Treasury Advisers we believe this set-aside should be retained but under the auspices of Voluntary Revenue Provision (VRP) rather than MRP – providing additional flexibility to the Council to reverse this set-aside at a future date should the assets be sold or the value of the assets change. As such the MRP policy will be revised to implement this change and the changes are identified in the Annex to this report.

6 BOROUGH SOLICITOR'S COMMENTS

6.1 None.

7 BOROUGH TREASURER'S COMMENTS

7.1 The financial implications are contained within the report.

8 EQUALITIES IMPACT ASSESSMENT

8.1 None.

9 STRATEGIC RISK MANAGEMENT ISSUES

9.1 The Treasury Management Report deals directly with the strategic management of risk associated with the Council's treasury management activities

10 PRINCIPAL GROUPS CONSULTED

10.1 The Overview & Scrutiny Commission was consulted on the budget proposals, including the Treasury Management Strategy, in December.

11 BACKGROUND PAPERS

11.1 None

12 CONTACT FOR FURTHER INFORMATION

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