

Committee: **Corporate Overview Scrutiny Committee**

Date of meeting: **19<sup>th</sup> November 2019**

Report Subject: **Treasury Management Mid-Year Review Report - 1<sup>st</sup> April 2019 to 30<sup>th</sup> September 2019**

Portfolio Holder: **Leader, Corporate Services**

Report Submitted by: **Rhian Hayden, Chief Officer Resources**

Reporting Pathway								
Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Audit Committee	Democratic Services Committee	Scrutiny Committee	Executive Committee	Council	Other (please state)
	29.10.19	06.11.19			18.11.19		12.12.19	

**1. Purpose of the Report**

1.1 The purpose of the report is to give Members the opportunity to scrutinise the Treasury Management activities carried out by the Authority during the first half of the 2019/20 financial year.

**2. Scope and Background**

2.1 The report provides a summary of the Treasury Management activities carried out under delegated powers by the Chief Officer Resources in the period 1<sup>st</sup> April 2019 to 30<sup>th</sup> September 2019 in accordance with the CIPFA Treasury Management Code of Practice.

2.2 Treasury Management can be defined as:

“The management of the local authority’s 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.”

2.3 The primary requirements of the CIPFA Code of Practice are currently as follows:

- a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
- b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- c. Receipt by the Council of an annual Treasury Management Strategy report (including the annual investment strategy report) for the year ahead, a mid-year review and an annual review report of the previous year.

- d. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of treasury management decisions, which in this Council is now the Chief Officer Resources.
  - e. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body which in this Council is the Corporate Overview Scrutiny Committee.
- 2.4 In accordance with (e) above the Corporate Overview Scrutiny Committee is the committee with delegated responsibility for undertaking the scrutiny of the Treasury Management strategy and related reports.
- 2.5 This report is therefore presented to this scrutiny committee to provide an mid-year review report (attached as Appendix 1) of the Treasury Management activities for the 2019/2020 financial year, in accordance with (c) above, and to enable Members to scrutinise the contents prior to it being presented to full Council.
- 3. **Options for Recommendation**
- 3.1 Option 1  
Members scrutinise the activity undertaken during the first half of the 2019/2020 financial year and consider any amendments to the Treasury Strategy moving forward prior to its submission to full Council.
- 3.2 Option 2 (preferred option)  
Members scrutinise the activity undertaken during the first half of the 2019/2020 financial year and do not consider any amendments to the Treasury Strategy moving forward prior to its submission to full Council.
- 4. **Evidence of how does this topic supports the achievement of the Corporate Plan / Statutory Responsibilities / Blaenau Gwent Well-being Plan**
- 4.1 The report is written under legislation the Local Government Act 2003), Welsh Government guidance and CIPFA codes of practice.
- 4.2 This report also supports the Corporate Plan Priority of being an efficient Council.
- 5. **Implications Against Each Option**  
*Impact on Budget (short and long term impact)*
- 5.1.1 The Authority has complied with the CIPFA Treasury Management in the Public Services: Code of Practice 2017 and in doing so has strived for effective risk management and control, whilst at the same time pursuing best value as far as possible.

- 5.1.2 The Authority has effectively managed credit risk throughout the period, so ensuring that it has not been subjected to any financial loss as a result of the credit crisis.
- 5.1.3 The Authority has maximised investment returns as far as is possible whilst managing the associated risk and minimised borrowing costs throughout the period.
- 5.1.4 Investment returns of £35k have been achieved with an average interest rate of 0.55%. This is slightly below the benchmark rate of 0.57% but reflects the fact that the Authority can no longer invest in previous counterparties that paid higher rates, due to credit rating reductions. However, as the annual estimated investment interest was £11,000, it can be seen that this has been exceeded at the half year position.
- 5.1.5 An average interest rate of 0.85% has been paid on temporary borrowings against a benchmark of 1.00%, amounting to £259,000. The estimate for interest paid on short term borrowing is £428,000 for a full year.
- 5.1.6 A summary of the Treasury Management activities for the period are shown in the table below:

	Value	Interest	Average Interest Rate
	£m	£	%
Short Term Loans raised	118	259,000	0.85%
Short Term Investments made	170	35,000	0.55%
Long Term debt outstanding 30/9/18	108,700		3.89%
Short Term debt outstanding 30/9/18	51,650		0.85%

## 5.2 Risk including Mitigating Actions

- 5.2.1 The main risk in relation to Treasury Management is that of credit risk and protecting the Authorities cash. This is effectively managed through the Authority's risk averse Treasury Management policy that seeks to protect the capital sum rather than maximise investment returns.
- 5.2.2 In addition, on 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 1% on top of the current margin of 1.1% which this authority has paid prior to this date for new borrowing from the PWLB. There was no prior warning that this would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing. Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the

Government are keen to see move forward e.g. housing, should not be subject to such a large increase in borrowing.

5.2.3 Whereas this authority has in part previously relied on the PWLB as its source of funding, it now has to fundamentally reconsider alternative sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. We are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.

5.2.4 It is also possible that the Municipal Bond Agency will be offering loans to local authorities in the future. This Authority may make use of this new source of borrowing as and when appropriate.

5.3 *Legal*

5.4 *Human Resources*

5.4.1 There are no direct staffing implications to report. Staff directly involved with Treasury Management activities will continue to monitor the credit situation on a daily basis, and will notify the Chief Officer Resources accordingly. Any consequential changes required to be made to the borrowings or investment strategy as a result will be reported to the Council.

## 6. **Supporting Evidence**

6.1 *Performance Information and Data*

6.1.1 During the first half of the 2019/2020 financial year, due to the advantageous interest rates, the Authority entered into long term debt arrangements of £13m with the Public Works Loan Board (PWLB)/from other public authorities. These arrangements were made either to replace maturing loans or to finance capital expenditure.

6.1.2 Despite this financial climate, the Authority has performed well in terms of its Treasury Management activities during the first half of the year, as detailed in the report and summarised below:

- a. Investment returns of £35000 have been achieved with an average interest rate of 0.55%. This is below the benchmark rate of 0.57% but reflects the fact that the Authority cannot invest in counterparties that pay higher rates, due to credit rating reductions. This is however in line with the Authority's risk averse policy whereby the security of the capital sum is the number one priority at the expense of competitive investment returns.
- b. An average interest rate of 0.85% has been paid on temporary borrowings against a benchmark of 1.00%, so minimising as far as possible the interest payable by the Authority and is evidence of good performance.
- c. All of the Treasury limits and Treasury Management prudential indicators set for the financial year have been complied with during the year.

- d. No institutions in which investments were made during the period had any difficulty in repaying investments and interest in full, so the Authority has not been exposed to any financial loss as a result of the difficult economic climate.

6.2 ***Expected outcome for the public***

- 6.2.1 The Council's Treasury Management activities support delivery of services to the public.

6.3 ***Involvement (consultation, engagement, participation)***

- 6.3.1 Members of the Corporate Overview Scrutiny Committee and full Council are involved in developing and monitoring compliance with the Council's Treasury Management Strategy.

6.4 ***Thinking for the Long term (forward planning)***

n/a

6.5 ***Preventative focus***

The Authority's Treasury Management policy prioritises protecting the capital sum rather than achieving higher interest returns

6.6 ***Collaboration / partnership working***

n/a

6.7 ***Integration(across service areas)***

n/a

6.8 ***EqIA(screening and identifying if full impact assessment is needed)***

n/a

7. **Monitoring Arrangements**

- 7.1 As the nominated scrutiny Committee, Corporate Overview will receive three reports in every annual cycle:-

- A Treasury Management Policy report prior to the start of every financial year
- A mid-year progress report on Treasury Management activity
- An end of year out turn report on Treasury Management activity.

**Background Documents /Electronic Links**

- *Appendix 1*
- *Appendix A*
- *Appendix B*