

**TREASURY MANAGEMENT 2018-19: MID YEAR REVIEW**

**1 Purpose**

- 1.1 The Authority's Treasury Management Policy requires that an annual report be brought to Council after each year end and a mid year report for the current year. This report sets out the performance of the Treasury Management section for the first six months of the 2018/19 financial year.
- 1.2 At the time of writing the report, the Secretary of State has confirmed his decision to create a single Unitary District Council for Buckinghamshire which will come into existence in May 2020.
- 1.3 At this early stage, the financial implications of the announcement are yet to be fully understood. In the short term, the investment principles of security over return will remain.
- 1.4 Future investment and borrowing decisions may be influenced by the outcome of the unitary arrangements.

**2 Recommendations/for decision**

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| 2.1 To note the performance against the Treasury Management action plan for 2018/19. |
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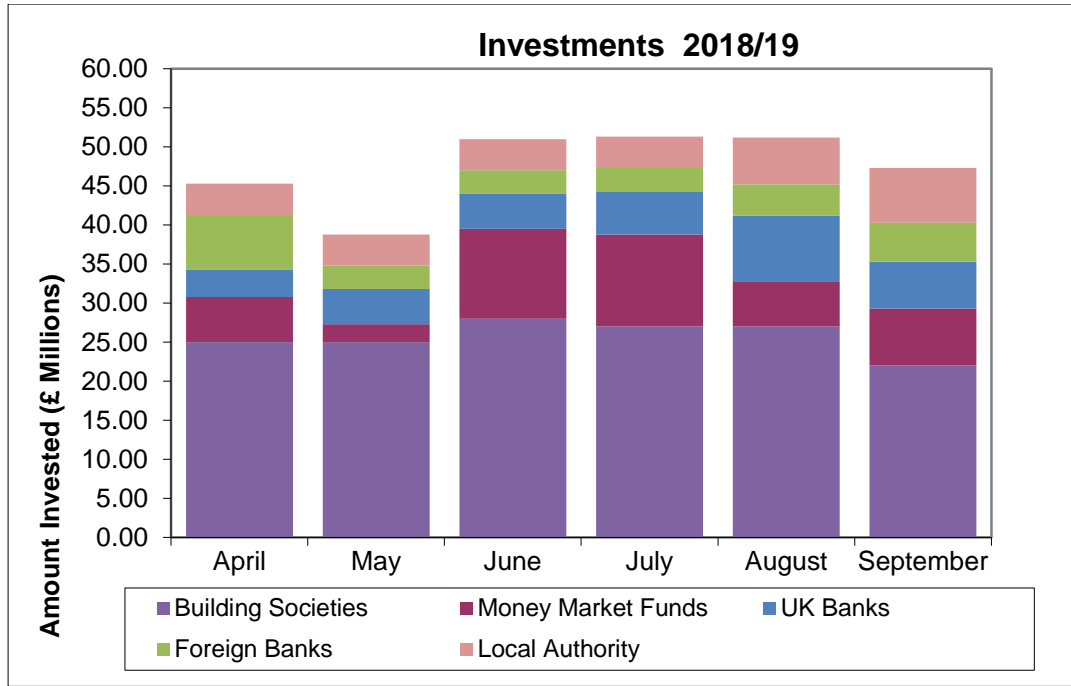
**3 Mid Year Review of 2017/18 Treasury Management**

- 3.1 There is a requirement that Council receives a mid year review of its Treasury Management functions.
- 3.2 A synopsis of the Treasury management activities is also presented in the Quarterly Financial Digest.
- 3.3 The amount of money deposited with banks and building societies at the end of September 2018 was £40 million with another £7.3 million held in the two Money Market Funds.
- 3.4 At the time of writing no new borrowing has been taken out, leaving the balance outstanding at £18.5million. £5m was repaid back to London Borough of Newham Council in May 2018/19 using investment balances.
- 3.5 As there has been no new borrowing then there is no change to the council's Authorised and Operational Limits.
- 3.6 The impact of the announcement of a single Unitary District Council for Buckinghamshire on the Treasury Management of the Council will need to be assessed over the coming months.

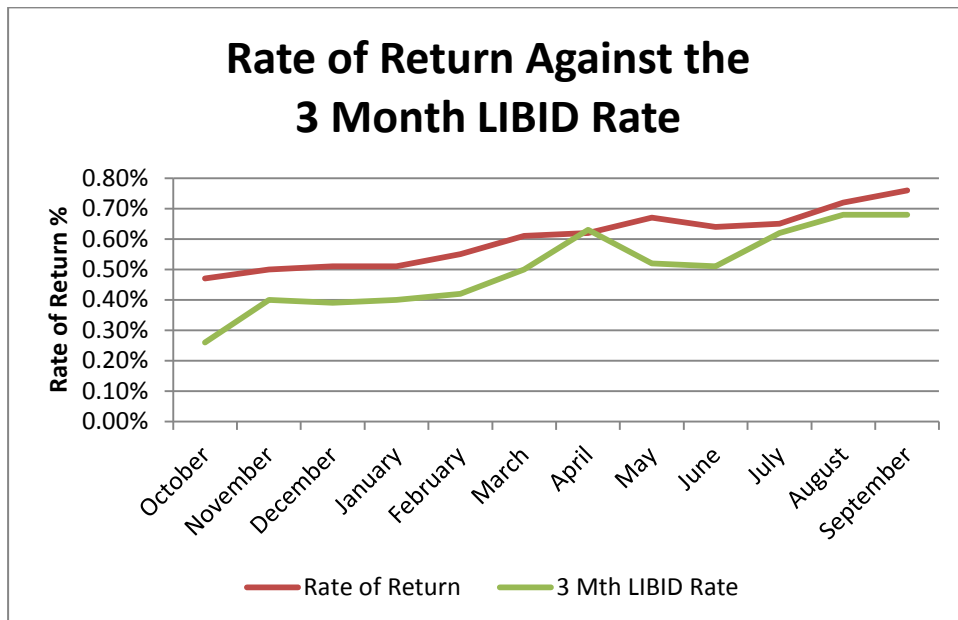
**4 Review of 2018/19 Treasury Management**

- 4.1 The objectives for the Treasury Management team for 2018/19 were laid out in the Treasury Management Strategy agreed by Council in February 2017.
- 4.2 The main activities continue to be:

- Foremost, to maintain, the security of the Council's deposits by only depositing with trusted financial institutions and limiting the size and length of deposit with each organisation.
  - To directly manage a range of deposits in order to provide sufficient flexibility to meet day to day operational needs.
  - To only undertake new long term borrowing where the business case justifies it.
- 4.3 The Treasury Management team continue to invest money in line with its list of approved (safe) institutions, varying the amounts and length of deposit according to the institution and the cash flow requirements at the time.
- 4.4 Historically, the majority of the Council's lending has been with Building Societies but over the last year the Council has invested more of it's portfolio with major UK banks and has also began depositing funds with other Local Authorities as a more secure option. The lending list is monitored throughout the year to take account of any changes within the sector i.e. building society mergers / conversions to banks, and ratings changes.
- 4.5 Actual performance is largely in line with the plan.
- The Council placed deposits by spreading its deposits thinly across many trusted institutions in accordance with its policy in order to minimise potential risk.
  - The authority did not undertake any new long term borrowing.
  - The in-house team achieved interest rates above the 3 month LIBID rate.
- 4.6 With interest rates still at a low level, the actual amount of deposit income generated exceeded expectations by £1,454.17. The amount of interest received was £166, 4564.17 against a half year target of £165,000. The target for 2018/19 was increased to reflect historic activity and anticipated changes in the market.
- 4.7 Generally interest rates are improving. For the first 6 months of 2017/18, the weighted rate of return on the investment portfolio was 0.48% compared to 0.76% for April – September 2018.
- 4.8 The interest rate increased in August 2018 and the market indications are that there may be further interest rate changes in 2019/20. There are however a number of economic factors e.g. Brexit which may influence interest rate changes over the coming months.
- 4.9 The Council ability to manage capital spend without additional borrowing has resulted in financial efficiencies and savings on the cost of borrowing.
- 4.10 The average monthly balances deposited by the in house team are set out in the bar chart below:



4.11 The graph below details average weighed rate of return received over the financial year compared to the 3 month LIBID rates available. (LIBID: Interest rate at which London banks are willing to borrow from one another in the inter-bank market)



4.12 For the 6 months to the end of September 2018, the weighted average rate of return for the Council was 0.76% on investments of £47.3m compared to

average of 61% (on investment of £45.4m) during 2017/18. The performance to date in 2018-19 compares to Benchmarking data where, across 227 Authorities, Weighted average rate of return was 0.79%, on investment average of £79.8m. (Source of data: Link Asset Services)

## **5 Money Market Funds**

- 5.1 The council continues to operate two Money Market Funds to give the in-house team easy access to surplus funds.
- 5.2 Whilst, Money Market Funds have the highest credit ratings, the interest rates offered are typically 15-25 basis points below those of Fixed term Deposits. However MMFs offer the most effective fund structure to manage the council's daily cash flow requirements.

## **6. Fund Manager Performance**

- 6.1 The council does not use fund managers to aid its investment decisions.

## **7 Property Funds**

- 7.1 Property Funds still offer some of the best returns on your capital and investing in a Property Fund is within the strategy but as yet the council has decided not to invest.
- 7.2 Any investment would have to be for a minimum of five years in order to maximise the return, if there was any change and an investment was being considered then a report would be brought to Council for consideration.

## **8.0 Scrutiny**

- 8.1 Finance and Services Scrutiny Committee now receive the Treasury Management Strategy prior to Council.

## **9 Reasons for Recommendation**

- 9.1 Under the terms of the Statutory Code of Practice for Treasury Management, the Council is required to receive a mid term report on the current year. This report represents the fulfilment of that requirement.

## **10 Resource implications**

- 10.1 The authority continues to operate an Interest Equalisation Reserve to smooth out fluctuations in interest rates.
- 10.2 Despite the reduced interest rates available to the Council for its investments, the interest generated, although low compared to previous year, is meeting expectations.
- 10.3 There is no anticipated movement to the Interest Equalisation Reserve for 2018-19. This means that at the end of 2018/19, the interest equalisation reserve is forecast to be £2.053 million.

- 10.4 With the need to resource an implementation plan for the new council and the need to manage staffing costs across this transition period, it is proposed that this equalisation fund be repurposed and made available to offset the transition costs associated with local government reorganisation, subject to any demands being placed upon them in 2019/20. This will provide initial flexibility, but there is no clear sense at this stage whether this is sufficient (when pooled with the other councils) to see through the reorganisation. As a consequence, this will need to be revisited.
- 10.5 In addition to unitary, there remain a number of other key uncertainties in relation to e.g. Brexit. It is currently assumed that there will be no adverse impact on investment returns in the current financial year.

Contact Officer  
Background Documents

Nuala Donnelly  
Treasury Management Strategy 2018/19  
CIPFA Prudential Code  
Statutory Code of Practice for Treasury Management