Finance and Services Scrutiny Committee
11 November 2019

TREASURY MANAGEMENT 2019-20: 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 2019/20 financial year.

2 Recommendations/for decision

2.1	To note the performance against the Treasury Management action plan for 2019/20.

3 Mid Year Review of 2019/20 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 2019 was £33million with another £3.2million 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.

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 is being assessed through a working group and will be progressed over the coming months.

4 Review of 2019/20 Treasury Management

4.1 The objectives for the Treasury Management team for 2019/20 were laid out in the Treasury Management Strategy agreed by Council in February 2019.

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.

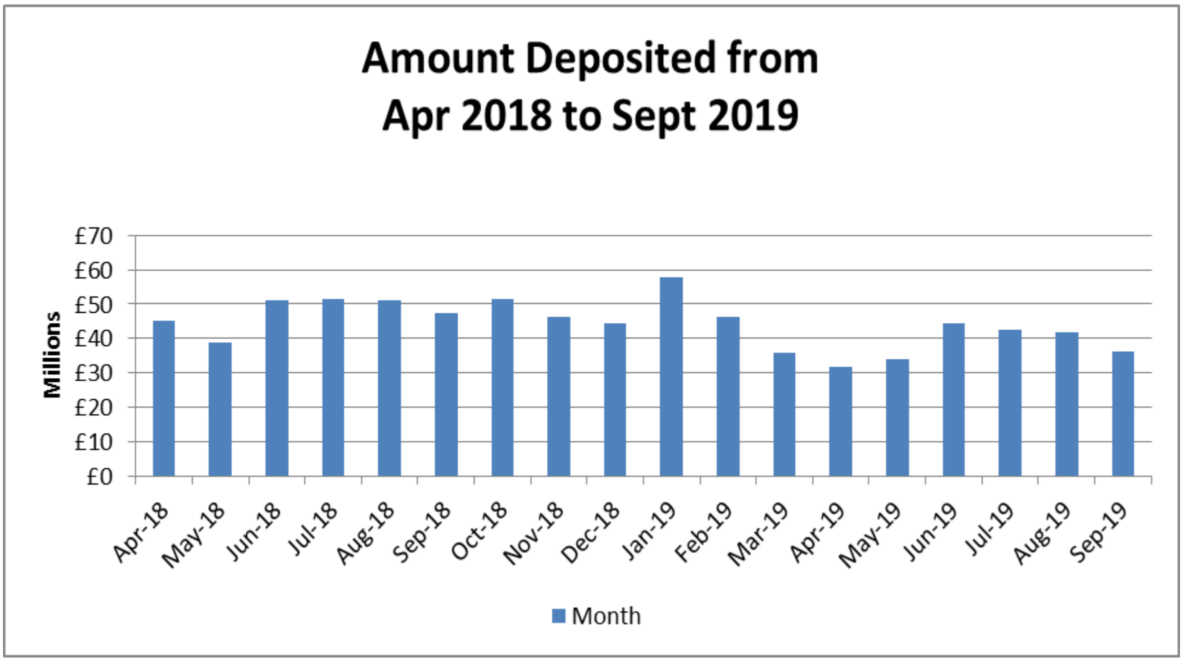
4.5 Actual performance, on interest earned, is behind target for the year to date.

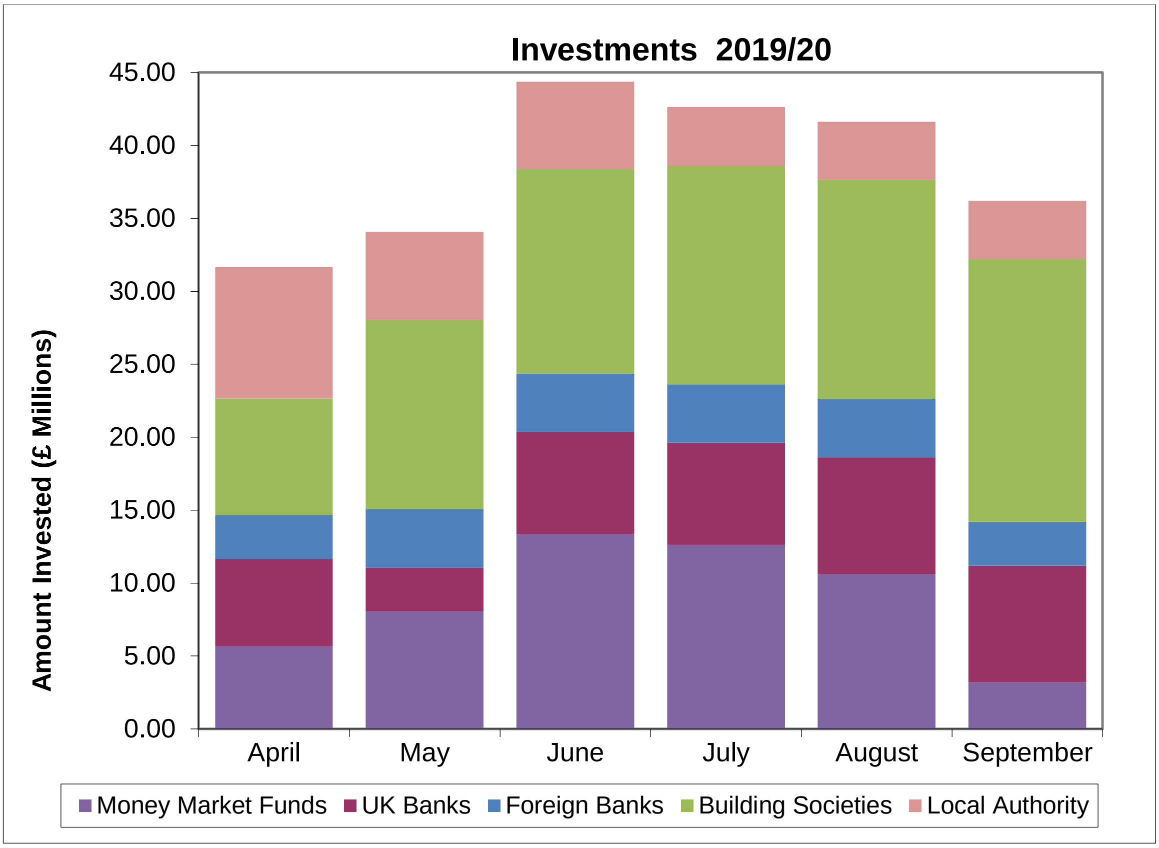
- The Council placed deposits by spreading its deposits thinly across many trusted institutions in accordance with its policy in order to minimise potential risk.
- The authority did not undertake any new long term borrowing.
- The in-house team achieved interest rates above the 3 month LIBID rate.

4.6 Interest rates remain at a low level. The actual amount of deposit income generated is reported as £104,488 for the first six months of the year. This is behind target by £100k.

4.7 The variance to plan is largely a factor of reduced levels of investment available to generate income. The Council have used balances in lieu of borrowing. This reflects the prudent approach of the Council.

4.8 The levels of investment are detailed below in total, and by type.





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 variance on income generated is offset by savings on interest charges due, due to lower than planned level of borrowing. In the six months of the financial year, a saving of £123,000 is reported on bank charges payable.

4.11 The local government landscape for borrowing may change over time. In early October 2019, Whitehall announced a whole percentage point increase in the rate of borrowing from the Public Works Loan Board (PWLB), for new loans. This may impact on future borrowing plans by Councils.

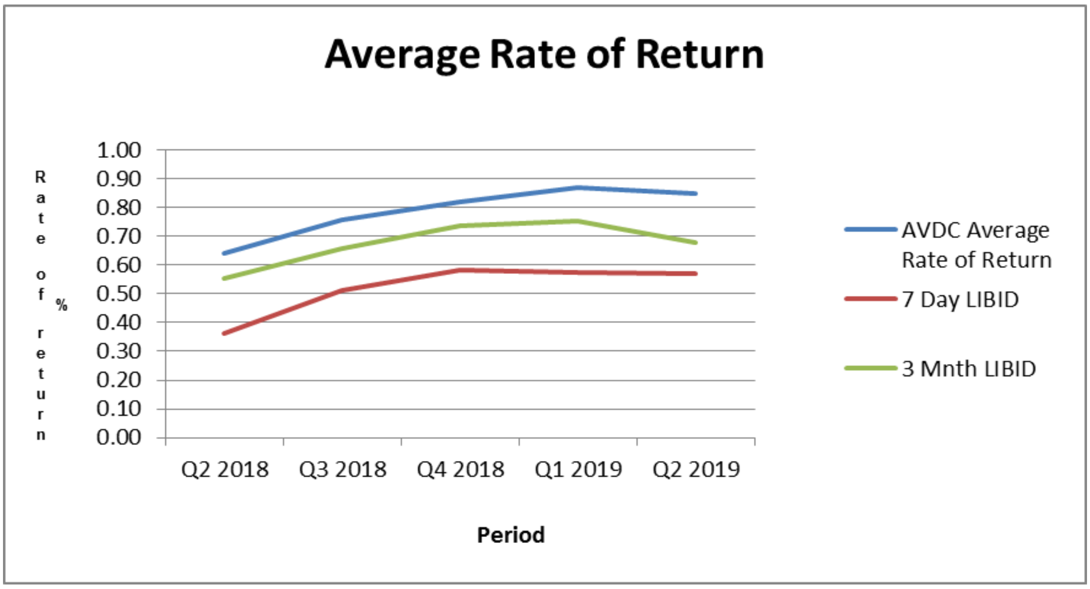
4.12 Although the levels of investment balances are reducing, the rates of return earned are assessed as being above average. The table below details average weighted rate of return received over the financial year compared to the 7 day and 3 month LIBID rates available. (LIBID: Interest rate at which London banks are willing to borrow from one another in the inter-bank market)

Period	AVDC Average Rate of Return	7 Day LIBID	3 Mnth LIBID
Q2 2018	0.64	0.36117	0.55265
Q3 2018	0.76	0.51084	0.65849
Q4 2018	0.82	0.58332	0.73598
Q1 2019	0.87	0.57347	0.75452
Q2 2019	0.85	0.57083	0.67878

4.13 For the 6 months to the end of September 2019, the weighted average rate of return for the Council was 0.85% on investments of £36.2m. The performance to date in 2019-20 is in line with the model band of all Non-Metropolitan Districts (90 authorities) which ranged between 0.84%-0.94% (*source of data: Link Asset Services)*

4.14 After raising interest rates in August 2018, the Monetary Policy Committee voted unanimously to hold rates in their subsequent meeting to September 2019. There are however a number of economic factors e.g. Brexit which may influence interest rate changes over the coming months.

4.15 The average monthly balances deposited by the in house team are set out in the bar chart below:



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 the council is unlikely to invest given changes as a result of the Unitary decision.

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 With the need to resource an implementation plan for the new council and the need to manage staffing costs across this transition period, the Interest Equalisation Reserve was repurposed and has been made available to offset the transition costs associated with local government reorganisation. .An Interest Equalisation Reserve was previously held to smooth out fluctuations in interest rates.

10.2 The forecast position for the Council for 2019-20 reflects both the deficit on interest earned and savings on interest charges due to lower than planned level of borrowing.

10.3 In addition several economic factors including Brexit and downward pressure on rates from the US government, have had an adverse effect on returns across the market.

Contact Officer	Nuala Donnelly
Background Documents	Treasury Management Strategy 2019/20 CIPFA Prudential Code Statutory Code of Practice for Treasury Management