REPORT OF:	**FINANCIAL SERVICES MANAGER**
TO:	**ACCOUNTS & AUDIT COMMITTEE**
DATE:	**20th MARCH 2018**

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TREASURY MANAGEMENT
2017/18 QUARTER 4 MONITORING REPORT

PURPOSE OF REPORT

1. The purpose of this report is to advise the Committee of the treasury management activities of the Council in the final quarter of the current financial year.

RECOMMENDATIONS

2. It is recommended that the Committee note the work on the Council's treasury management activities in the period.

ISSUE

Introduction

3. The Council's Treasury Management policy requires that at least twice a year, a report be submitted to the Executive on the Council's Treasury Management activities. It also represents good practice to report on treasury activities to the Accounts and Audit Committee. This report provides a summary view of the activity undertaken in the year to date in relation to the Council's debt and investment.

Long Term Borrowing

4. At the beginning of this financial year, the Council held loans of £16.359m, comprised wholly of Public Works Loan Board (PWLB) debt. During the first quarter 2017/18, the Council undertook new borrowing in the sum of £3m, (comprised of three separate £1m loans) again from PWLB to fund the acquisition of Number One Market Street. An existing maturity loan of £1m with the PWLB falls due for repayment on the 31st March 2018. However, owing to the Easter holiday period this loan will technically not be repaid until Tuesday 3rd April. In substance, the Council will hold loan debt of £18.359m with the PWLB at the end of this financial year at an average cost of 3.16%. An analysis of this long-term debt is provided at **Appendix A** with a maturity profile provided at **Appendix B**. No further borrowing is expected to be undertaken in the remainder of this financial year.

Temporary (or Short-term) Borrowing

5. Temporary borrowing relates to loans which are repayable:-

   a) Without notice or
   b) At less than 12 months' notice or
   c) Within 364 days of the date of borrowing.

   In the year to-date, the Council has undertaken temporary borrowing once when we borrowed £1m from Bridgend County Borough Council for a period of 8 days at the rate of 0.20% incurring interest charges of £44. This transaction was undertaken to cover a temporary cashflow deficit and represented a more cost effective short-term borrowing option than agreeing an increase to the agreed overdraft level with the Council's bankers.

Temporary (or Short-term) Investments

6. The Council's cashflow position is generally such that it has scope to undertake the short-term investment of surplus funds, i.e. as represented by balances, reserves etc. The Council started the year with investments of £17.5m. The balance of investments as at the date of writing this report (11th March) was £18.0m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

Table 1: Analysis of Investments at 11th March 2018

	£m	No.
Opening Balance of Investments	17.50	9
New Investments	168.30	65
Investments Realised	(167.80)	63
Balance of Investments at 11th March 2018	**18.00**	**11**

Note: The amounts and volumes shown above for 'New Investments' and 'Investments Realised' reflect cumulative values for transactions in the year to date as illustrated by way of the following example:

- Make a new investment of £2m (counts as 1 new investment);
- Recall £0.5m from this investment (counts as the realisation of original investment of £2m and the making of 1 new investment of £1.5m);
- In summary this would be shown as 2 'new' investments with a combined value of £3.5m and 1 'realised' investment of £2m;
- The reported net position would be 1 outstanding investment with a current balance of £1.5m.

The 11 investments comprising the balance of £18.0m were placed with the following sectors:

	£m	%	
a. Local Authorities	10.0	55.56	(Principal Councils (4))
b. UK Banks	5.5	30.55	(Lloyds (3) / Santander (2))
c. Building Societies	2.5	13.89	(Coventry (2))
	18.0	**100.00**	

7. Unlike interest rates for long-term borrowing, rates for short-term investments are generally linked more closely to the prevailing Bank of England rate. As Councillors will be aware the Bank rate was increased on 2nd November 2017, from 0.25% to 0.50%. In terms of the relative performance of the Council's investment portfolio, the average return on investments in the year to date is 0.41%, which is marginally above the budgeted rate of return of 0.38%. The underlying strategy remains one of protecting the capital invested whilst optimising, not maximising, returns on investment. The investment rates on offer have remained low during the year primarily as a consequence of general economic conditions and the access that financial institutions have to low cost funds.

8. Total investments comprised fixed term deposits of £13.5m ranging between 50 to 364 days in duration for amounts between £1m to £2.5m at interest rates of 0.40% and 0.85% and instant access deposits of £4.5m at a rate of 0.25%. In addition the Council had a balance of £1.67m on its current account with Lloyds Bank pending a major payment in the week commencing 12th March.

9. The Council maintains an approved lending list which specifies the counterparties and types of investment that can be made. The list is reviewed regularly drawing on credit rating information provided by Link Asset Services (LAS), formerly Capita Asset Services.

10. Indications are that investment returns will remain relatively low for some time. The Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. At its February 2018 meeting, there was no change in Bank Rate but the forward guidance changed significantly to warn of “earlier, and greater than anticipated” rate of increases in Bank compared to their previous forward guidance. The latest forecast by Link Asset Services predicts increases in the Bank Rate of 0.25% in May and November 2018, November 2019 and August 2020.

Governance

11. Treasury management activities are undertaken within the Council’s agreed Treasury Management Policy and where necessary, advice is sought from LAS. The revenue budgets associated with Treasury management activity, namely debt charges (comprising interest and provision for principal repayment) and investment income are monitored on an ongoing basis and reported quarterly to management Team and the Executive. The revised budgets for these items as recently approved by the Executive in December 2017 are £1.120m and £75k respectively.

12. The annual Treasury Management Strategy Statement for 2018/19 has recently been drafted and reported to the Executive in March prior to Council on the 21st March for formal approval. Arising from this update is a review of the Council’s Treasury Management Practices (TMPs) and these are reported elsewhere on the agenda for this meeting for Councillors to consider.

IMPLICATIONS

Policy

13. Treasury Management activities are carried out in accordance with the Annual Treasury Management Strategy which is produced in compliance with the requirements of the Council’s Treasury Management policy.

Financial

14. The financial implications are as given in the report.

Legal

15. In accordance with the Local Government Act 2003, Members are required to approve the Annual Treasury Management Strategy incorporating the Annual Investment Strategy, the prudential indicators, and the authorised limit for external debt. The Strategy for the current year was approved by Council in March 2017.

Risk Management

16. Councillors will be aware of the uncertainty in the financial markets and the economy as a whole and the potential risks this may have in general. In this context, Councillors should note that treasury activities are undertaken within the Council's Treasury Management Policy and risk is managed through the application of requirements of Treasury Management Practice Notes (TMPs). Updated TMP documents are presented elsewhere on the agenda for this meeting following a recent revision to CIPFA's Treasury Management Code of Practice.

Health and Safety

17. There are no health and safety implications arising directly from the contents of this report.

Sustainability Implications

18. There are no sustainability implications arising directly form this report.

Community Safety

19. There are no community safety issues arising directly from the contents of this report.

Equality and Diversity

20. There are no equality and diversity implications arising from the contents of this report.

APPENDICES

Appendix A – PWLB long-term debt as at 31st March 2018 (Projected)
Appendix B – Maturity profile of PWLB long-term debt as at 31st March 2018 (Projected)

LIST OF BACKGROUND PAPERS

None.