Report

Audit Committee

Part 1

Date: 6 June 2019

Item no 11

Subject **Report on Treasury Management covering the Financial Year 2018/19**

Purpose This report is to inform the Council of treasury activities undertaken for the financial year ending 31 March 2019.

Author Head of Finance / Assistant Head of Finance

Ward All

Summary

In line with the agreed Treasury Management Strategy, the Council continues to be both a short-term investor of cash and borrower to manage day-to-day cash flows. Current forecasts indicate that in the future, temporary borrowing will continue to be required to fund normal day-to-day cash flow activities and longer-term borrowing will increase to fund new commitments in the current capital programme as well as the impact of reduced capacity for 'internal borrowing'.

Near the end of the financial year, the Council undertook additional borrowing of £40m in advance of the maturity, and subsequent re-financing, of the £40m stock issue in early 2019/20. This is reflected by increased borrowing level at 31 March 2019, however this is offset by an increase in investment over the same period.

All borrowing and investments undertaken during the first half of the year was expected and within the Council's agreed limits.

Proposal That Audit Committee:

1. **note and provide comment on the Annual Report on Treasury Management for the Financial Year 2018/19.**

2. **note and provide comment that 2018/19 Prudential Indicators for Treasury Management were in line with those set by Council in February 2018.**

Action by Head of Finance / Assistant Head of Finance

Timetable Immediate

This This report was prepared after consultation with:

- Treasury Advisors
- Head of Finance

Signed

Background

1. In June 2009 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

2. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

3. The Authority has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

4. The 2018/19 Treasury Management Strategy was approved by the Council as part of the overall Medium Term Financial Plan and 2018/19 budget in February 2018 and can be viewed via the following link

   https://democracy.newport.gov.uk/documents/s14606/Item%207%20-%20TREASURY%20-%20REPORT%20and%20APPENDICES.pdf

5. This report presents the following information.

   - details of capital financing, borrowing, debt rescheduling and investment transactions
   - reports on the risk implications of treasury decisions and transactions
   - details the outturn position on treasury management transactions in 2018/2019
   - confirms compliance with treasury limits set and Prudential code

BORROWING STRATEGY / ACTIVITY

Short and Long Term Borrowing

1. Whilst the Council has significant long term borrowing requirements, the Council's current strategy of funding capital expenditure is through reducing investments ('internal borrowing') rather than undertaking new borrowing where it can i.e. we defer taking out new long term borrowing and fund capital expenditure from the Council's own cash resources – which it has because of its 'cash-backed' reserves and, to a lesser extent, day to day positive cash-flows, for as long as we can. The Council may undertake borrowing early if, there is the need for future borrowing and it feels it can minimise risk of future interest rate rises while providing value for money, this will be in line with advice from our treasury advisors.

   By using this strategy the Council can also minimise cash holding at a time when counterparty risk remains relatively high. The interest rates achievable on the Council's investments are also significantly lower than the current rates payable on long term borrowing and this remains the main reason for our current 'internally borrowed' strategy.

2. Whilst the strategy minimises investment counterparty risk, the risk of interest rate exposure is increased as the current low longer term borrowing rates may rise in the future. The market position is being constantly monitored in order to minimise this risk.

3. On 14 March 2019, in line with advice from the Authority's treasury advisors, the Council undertook £40m of borrowing in advance of the re-financing of the £40m stock issue to be re-paid on 10 April

2019. The possibility of taking this action was reported to Audit Committee in the half-year report brought in November 2018. The decision to undertake borrowing early was made due to the imminent decision on Brexit and the possibility of the UK leaving without a deal and the economic uncertainty that was surrounding the decision. The level of borrowing undertaken was in line with the long-term liability projection and within budgets set for 2019/20 and the authorised limits for 2018/19.

4. As shown in Appendix B, as at 31 March 2019 the level of borrowing has increased, but so has the level of investments by a similar value (held as cash and cash equivalents). On the repayment date of the stock issue of 10 April, the level of borrowing would fall by £40m as would the level of investments – as we will be liquidating our investments into cash and using this to then repay the Bond loan . The net borrowing of the Council has increased by £5.1m, this is in line with expectation due to funding the current capital programme, and is anticipated to increase further over future years.

5. In regards to LOBOs, no loans were called during the period. All £30m outstanding is subject to potential change of interest rates by the lender (which would automatically trigger a right to the Council to repay these loans) prior to the end of this financial year. Should a change of interest rate be requested, then it will be considered in detail and a decision on how we proceed will be made in conjunction with our treasury advisors.

INVESTMENTS ACTIVITY / POSITION

6. The Council's strategies in this area of Treasury Management are (i) to be a short term and relatively low value investor and (ii) investment priorities should follow the priorities of security, liquidity and yield, in that order.

   The Council's strategy of being a short-term investor has been maintained, though the early borrowing of £40m in relation to the re-financing of the stock has increased cash holdings temporarily. If this is excluded, investments in-year would have decreased by £5m. This is in-line with our expectations at the half-year report, and it is anticipated that this will continue to reduce in 2019/20 until we reach the balance of £10m, which will be invested for compliance with MiFIDII. The balance of investments as at 31 March 2019 is £56.2m (£16.2m excluding £40m set aside for refinance of the stock issue).

7. All investments are currently placed on a temporary basis and are placed in high security institutions, in line with our other strategy in this area, dealing with our investing priorities of (i) security (ii) liquidity and (iii) yield, in that order. At the 31 March 2019 £48.5m was placed with various local authorities, £1.0m with Santander Call Account, £5m with Barclays Corporate and £5m with Bank of Scotland. The maximum maturity date of any investment held is 14 June 2019.

8. January 2018 saw the implementation in the UK of the second Markets in Financial Instruments Directive (MiFID II), where firms will be obliged to treat all local authorities as retail clients unless they opt up to professional client status and meet certain criteria. These criteria include holding a minimum of £10m investment balance and employing knowledgeable and experienced staff to carry out investment transactions. It is anticipated that our investment balances will remain well above the minimum £10m.

9. The Council does not hold any long-term (more than 364 days) investments as at 31 March 2019.

OTHER YEAR-END TREASURY MATTERS

Economic background and Counter Party Update

10. Appendix A outlines the underlying economic environment during the financial year, as provided by the Council's Treasury Management Advisors 'Arlingclose'.

11. As discussed previously in this report the Council does not have any long-term investments, and the investments that it currently undertakes is mainly with other local authorities which are deemed very

secure, therefore the risk is currently ‘low’. There were no significant changes in credit ratings advised in the first half of the financial year that had implications for the approved lending list. The long-term rating of Santander UK, the Council’s bankers, remains at A; above the Council’s minimum level of A-.

Compliance with Prudential Indicators approved by Council

12. The Authority measures and manages its exposures to treasury management risks using various indicators which can be found in Appendix B. The Authority has complied with the Prudential Indicators for 2018/19, set in March 2018 as part of the Treasury Management Strategy. Details of treasury-related Prudential Indicators can be found in Appendix B.

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Investment counterparty not repaying investments	High but depending on investment value	Low	The Council only invests with Institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds available for investment will also alleviate the risk.	Members, Head of Finance, Treasury staff, based on advice from treasury advisors
Interest Rates moving adversely against expectations	Low	Low	Future expectations for higher short term rates are subdued. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates.	Head of Finance, Treasury staff, treasury advisors

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

It is the Council’s policy to ensure that the security of the capital sums invested is fully recognised and has absolute priority. The Council follows the advice of the Welsh Governments that any investment decisions take account of security, liquidity and yield in that order.

Options Available and considered

The Prudential Code and statute requires that, during and at the end of each financial year, reports on these matters are presented to Council for approval. Thus the only option available is consider the report and provide comments to the Council.

Preferred Option and Why

Note the contents of the report in relation to Treasury activities and all Treasury Indicators met.

Provide any comments necessary to Cabinet and Council on the contents of the report.

Comments of Chief Financial Officer
Decisions made on treasury matters will be made with a view to comply with the Treasury Management Strategy, Prudential Indicators, taking advice, where needed, from our Treasury Advisers.

Comments of Monitoring Officer
There are no legal implications. The in year and annual treasury management report is consistent with relevant Chartered Institute of Public Finance and Accountancy Guidance, Treasury Management principles and the Council's investment Strategy.

Comments of Head of People and Business Change

There are no direct HR implications associated with the report.

The Council is required to approve a treasury management annual report at the end of each financial year. The Well-being of Future Generations Act requires public bodies to balance short-term needs with the needs to safeguard the ability to meet long-term needs. As stated in this report, the Council continues to be both a short-term investor of cash and borrower to manage day-to-day cash flows but current forecasts indicate that in future temporary borrowing will continue to be required and longer-term borrowing will increase to fund the capital programme. This annual report fits in with the well-being goal of a Prosperous Wales.

Comments of Cabinet Member
The Leader of the Council, as lead member for strategic finance confirms she has been consulted on the report.

Local issues
N/A

Scrutiny Committees
N/A

Equalities Impact Assessment and the Equalities Act 2010
The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

Children and Families (Wales) Measure
N/A

Wellbeing of Future Generations (Wales) Act 2015

This report is a backwards looking report of the treasury management activities of the Council. It shows that we followed the treasury management strategy and the compliance with prudential code and treasury management indicators. This links into the long-term objectives of the authorities and ensures that the councils activities are carried out in an affordable, prudent and sustainable manner.

Crime and Disorder Act 1998

Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.

Consultation

N/A

Background Papers

Set out a list of any relevant background papers and whether they are available to the public.

Dated: