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|--------------------------|--|---|---------------------------|
| <b>Subject:</b>          | <b>Treasury Management Policy Statement 2017/18 –<br/>End of year review</b> |   |                           |
| <b>Date of Meeting:</b>  | <b>12 July 2018</b>  |   |                           |
| <b>Report of:</b>        | <b>Executive Director of Finance &amp; Resources</b>                         |   |                           |
| <b>Contact Officer:</b>  | <b>Name:</b>   | <b>James Hengeveld</b>                      | <b>Tel: 01273 29-1242</b> |
|                          | <b>Email:</b>  | <b>james.hengeveld@brighton-hove.gov.uk</b> |                           |
| <b>Ward(s) affected:</b> | <b>All</b>   |   |                           |

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 The 2017/18 Treasury Management Policy Statement (TMPS) and Treasury Management Practices (TMPs) were approved by the Policy, Resources & Growth Committee on 23 March 2017. The TMPS sets out the role of Treasury Management, whilst the TMPs and accompanying schedules identify the practices and procedures that will be followed to achieve the aims of the TMPS and that underpin the council's Treasury Management function.
- 1.2 The TMPS includes the Annual Investment Strategy (AIS) which sets out the key parameters for investing council cash balances and was approved by Full Council on 6 April 2017.
- 1.3 The TMPS complies with the Chartered Institute of Public Finance & Accountancy's (Cipfa) code of practice for Treasury Management in the Public Services which recommends that periodic performance updates are provided to members to provide effective oversight and assurance over treasury management activities.

**2. RECOMMENDATIONS:**

- 2.1 That Policy, Resources & Growth Committee notes the key actions taken during the second half of 2017/18 to meet the TMPS and practices (including the investment strategy) as set out in this report.
- 2.2 That Policy, Resources & Growth Committee notes the reported compliance with the AIS for the six month period up to end of March 2018.
- 2.3 That Policy, Resources & Growth Committee notes that the approved maximum indicator for investment risk of 0.05% has been adhered to and the authorised borrowing limit and operational boundary have not been exceeded.

**3. CONTEXT/ BACKGROUND INFORMATION*****Economic Background***

- 3.1 The council's treasury advisors, Link Asset Services have provided their assessment of the UK and global economic landscapes (Appendix 3).
- 3.2 The Bank of England base rate remained at 0.25% coming into 2017/18 as a result of the emergency rate cut following the EU referendum result in June 2016. The Bank of England's Monetary Policy Committee (MPC) reversed this rate cut in November 2017, increasing the official interest rate back to 0.50% in response to higher levels of inflation caused by devaluation of sterling.
- 3.3 The increase in base rate has resulted in a corresponding increase in short term interest rates for both borrowing and investments; short term investment rates have increased, and the council's average investment rate is improving as maturing investments are being replaced with those at a higher interest rate. Short term borrowing rates have risen, whilst there has been little change in the longer term rates (albeit increased volatility).

### ***Treasury Management Strategy***

- 3.4 A summary of the action taken in the 6 months to March 2018 is provided in Appendix 1 to this report and further information on borrowing and investment performance is shown in the March 2018 Treasury Management statistics at Appendix 2. The main points are:
- The council entered into £4.0m of new borrowing during the period to support the HRA Capital Programme;
  - The highest risk indicator during the period was 0.032% which is below the maximum benchmark of 0.050%;
  - The return on investments by the cash manager has exceeded the target benchmark rates;
  - The return on investments by the in-house treasury team has exceeded the target benchmark rates in two of the 6 months – there has been a slight lag in the other four months as the average rate in the investment portfolio has taken time to catch up with the change in interest rate;
  - The two borrowing limits approved by full Council have not been exceeded.
- 3.5 Treasury management activity for the half-year has focused on a short-term horizon as summarised in the table below:

|                            | <b>Amount invested 1 Oct 2017 to 31 Mar 2018</b> |                           |                |             |
|----------------------------|--|---------------------------|----------------|-------------|
|                            | <b>Fixed deposits</b>                            | <b>Money market funds</b> | <b>Total</b>   |             |
| Up to 1 week               | -  | £266.7m                   | £266.7m        | 79%         |
| Between 1 week & 1 month   | -  | -                         | -              | 0%          |
| Between 1 month & 3 months | £13.0m   | -                         | £13.0m         | 4%          |
| Over 3 months              | £58.0m   | -                         | £58.0m         | 17%         |
|                            | <b>£71.0m</b>                                    | <b>£266.7m</b>            | <b>£337.7m</b> | <b>100%</b> |

### ***Budget versus Outturn 2017/18***

- 3.6 The following table summarises the performance achieved on investments compared to the budgeted position and approved benchmark for the whole year.

|                  | In-house Investments |              | Cash Manager investments (net of fees) |              |
|------------------|----------------------|--------------|--|--------------|
|                  | Average Balance      | Average rate | Average Balance                        | Average rate |
| Budget 2017/18   | £57.7m               | 0.50%        | £25.9m                                 | 0.77%*       |
| Actual 2017/18   | £116.8m              | 0.56%        | £25.9m                                 | 0.48%*       |
| Benchmark Rate** |                      | 0.46%        |  | 0.21%        |

\* net of fees (previously reported as gross of fees)

\*\* Cash Manager Benchmark rate is set at 105% of 7 Day LIBID, whereas in-house benchmark rate was set at 7 Day LIBID +0.25% for 2017/18

- 3.7 The Financing Costs budget variance in 2017/18 was £0.280m underspent. The key variance is an over-achievement of investment income primarily as a result of higher balances (predominantly due to high levels of capital receipts in the year that have not yet been applied), but also due to achievement of higher investment rates than budgeted.

### **Summary of Treasury Activity October 2017 to March 2018**

- 3.8 The following table summarises the treasury activity in the half year to March 2018 compared to the corresponding period in the previous year:

| October to March                          | 2015/16   | 2016/17   | 2017/18   |
|---|-----------|-----------|-----------|
| Long-term borrowing raised (i360)         | (£8.5m)   | -         | -         |
| Long-term borrowing raised (General Fund) | (£15.0m)  | -         | -         |
| Long-term borrowing raised (HRA)          | -         | -         | (£4.0m)   |
| Long-term borrowing repaid (i360)         | £0.3m     | £0.5m     | £0.5m     |
| Long-term borrowing repaid (General Fund) | -         | -         | £0.5m     |
| Long-term borrowing repaid (HRA)          | £3.0m     | -         | £0.5m     |
| Short-term borrowing (raised)/repaid      | £1.0m     | £1.0m     | (£0.5m)   |
| Investments made                          | £277.6m   | £292.0m   | £337.7m   |
| Investments maturing                      | (£286.4m) | (£306.2m) | (£322.9m) |

- 3.9 The following table summarises how the day-to-day cash flows in the second half-year have been funded compared to the same period in the previous year:

| October to March                              | 2015/16         | 2016/17         | 2017/18       |
|---|-----------------|-----------------|---------------|
| <b>Net cash flow (shortage)/surplus</b>       | <b>(£27.2m)</b> | <b>(£12.9m)</b> | <b>£12.1m</b> |
| Represented by:                               |                 |                 |               |
| Increase/(reduction) in long-term borrowing   | £20.2m          | (£0.5m)         | £2.5m         |
| Increase/(reduction) in short-term borrowing* | (£1.0m)         | (£1.0m)         | £0.5m         |
| Reduction/(increase) in investments           | £8.8m           | £14.2m          | (£14.8m)      |
| Reduction/(increase) in bank balance          | (£0.8m)         | £0.2m           | (£0.3m)       |

\*South Downs National Park external investments

### **Security of Investments**

- 3.10 A summary of investments made by the in-house team and outstanding as at 31 March 2018 in the table below shows that investments continue to be held in good quality, short term instruments. The funds invested in BBB rated institutions included in the table below are invested in the part-nationalised banks which are backed by Government guarantees in line with the AIS.

|   |                 |             |
|---|-----------------|-------------|
| 'AAA' rated money market funds              | £23.20m         | 19%         |
| 'AA' rated institutions                     | £31.00m         | 25%         |
| 'A' rated institutions                      | £64.00m         | 51%         |
| 'BBB' rated institutions                    | £6.00m          | 5%          |
| <b>Total</b>                                | <b>£124.20m</b> | <b>100%</b> |
|   |                 |             |
| Period – less than one week                 | £28.20m         | 23%         |
| Period – between one week and one month     | £13.00m         | 10%         |
| Period – between one month and three months | £24.50m         | 20%         |
| Period – between three months and 1 year    | £58.50m         | 47%         |
| <b>Total</b>                                | <b>£124.20m</b> | <b>100%</b> |

### **Risk**

- 3.11 As part of the investment strategy for 2017/18 the Council agreed a maximum risk benchmark of 0.050% i.e. there is a 99.95% probability that the council will get its investments back. The benchmark is a simple target that measures the risk based on the financial standing of counterparties and the length of each investment based on historic default rates. The actual risk indicator has varied between 0.020% and 0.032% between October 2017 and March 2018. It should be remembered however that the benchmark is an 'average risk of default' measure and does not constitute an expectation of loss against a particular investment.
- 3.12 The treasury management service is subject to detailed audit each year. This includes the testing of the control environment and the management of risk. A 'substantial' level of assurance was provided during the most recent audit (October 2017).

### **Compliance with the Annual Investment Strategy**

- 3.13 During the reporting period, the information in this report provides assurance that the Annual Investment Strategy has been complied with in full.

### **Borrowing Strategy**

- 3.14 Planned General Fund borrowing of £20.0m has been entered into over the last two years. This borrowing was undertaken to reduce the council's internal borrowing position (i.e. the extent to which the council was borrowing cash from its own reserves) in light of interest rate forecasts and the reduction in certain reserves expected over the medium term.
- 3.15 For the Housing Revenue Account (HRA), £10m of external borrowing has been taken together with £3.2m of borrowing from the General Fund to support the HRA Capital Programme. An additional £4.0m of external borrowing was

undertaken in March 2018 to further support the HRA capital programme. No other external borrowing was entered into during 2017/18, as planned, due to increased levels of cash balances, removing the need for further external borrowing at this time.

- 3.16 The Treasury Team, along with the council's treasury advisors, monitor interest rates and will seek to externalise the HRA's borrowing from the General Fund at a time which would be optimal for both the HRA and the General Fund. The Treasury Team are also exploring alternative borrowing sources, such as forward market borrowing for future capital investment plans.
- 3.17 A summary of the council's debt portfolio is summarised in Appendix 1.

### ***Treasury Advisors***

- 3.18 The council has a three year contract for treasury advisory services with Link Asset Services (LAS) to November 2018.
- 3.19 The council recognises that responsibility for decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. It also recognises that there is value in employing external providers of treasury management services in order to access specialist skills and resources.

## **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 This report sets out actions taken in the 6 months to March 2018. Treasury management actions have been carried out within the parameters of the AIS, TMPS, and Prudential Indicators. Therefore no alternative options have been considered.

## **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 The council's external treasury advisors have been consulted over the content of this report. No other consultation has been undertaken.

## **6. CONCLUSION**

- 6.1 Local authority treasury management is governed by the Cipfa code of practice that is recognised as "best and proper practice" under the Local Government Act 2003. The Code requires a minimum of two reports per year, one of which is required to review the previous year's performance. This report fulfils this requirement.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 7.1 The revenue budget implications of treasury management activity are reflected in the financing costs budget as set out in paragraph 3.7.

*Finance Officer Consulted: James Hengeveld*

*Date: 02/07/18*

### Legal Implications:

- 7.2 The TMPS is approved and associated actions carried out under powers given to the council by Part 1 of the Local Government Act 2003, which includes the power for a local authority to invest for the purposes of the prudent management of its financial affairs (section 12).
- 7.3 Regulations made under the Local Government Act 2003 (Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146) require local authorities to have regard to the CIPFA Code of Practice referred to in para 1.3 above when carrying out their functions under Chapter 1 of Part 1 of the 2003 Act.
- 7.4 The council's policy and the actions outlined in the report are considered to comply with the council's obligations under the Act and with the afore-mentioned Code.

*Lawyer Consulted:*

*Victoria Simpson*

*Date: 27/06/2018*

### Equalities, Sustainability and other significant implications:

- 7.5 There are no direct implications arising from this report.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. A summary of the action taken in the period October 2017 to March 2018
2. March 2018 Treasury Management Statistics
3. The Economy & Interest Rates – Link Asset Services

### **Documents in Members' Rooms**

None.

### **Background Documents**

1. Part I of the Local Government Act 2003 and associated regulations.
2. The Treasury Management Policy Statement, Treasury Management Practices and associated schedules 2017/18 approved by Policy, Resources & Growth Committee on 23 March 2017.
3. The Annual Investment Strategy 2017/18 approved by full Council on 6 April 2017.

4. Treasury Management Policy Statement 2017/18 (including Annual Investment Strategy 2017/18) – Mid-Year Review approved by Policy, Resources & Growth Committee on 30 November 2017.
5. Papers held within Finance, Finance & Resources Directorate.
6. The Prudential Code for Capital Finance in Local Authorities published by CIPFA (2017 edition).

