CYNGOR Sir y Fflint
Flintshire
COUNTY COUNCIL

AUDIT COMMITTEE

Date of Meeting	Wednesday 20th November 2019
Report Subject	Treasury Management Mid-Year Review 2019/20 & Quarter 2 update
Report Author	Corporate Finance Manager

EXECUTIVE SUMMARY

This report presents the draft mid-year Treasury Management report 2019/20 for review and seeks the Committee's recommendation for approval to Cabinet.

The report provides an update on matters relating to the Council's Treasury Management activity during the period 1st June to 30th September 2019.

RECOMMENDATIONS	
1	Members review the draft Treasury Management Mid-Year Report 2019/20 and identify any matters to be drawn to the attention of Cabinet on 17th December 2019.

REPORT DETAILS

1.00	EXPLAINING THE MID YEAR REVIEW
1.01	The Council has nominated Audit Committee to be responsible for ensuring effective scrutiny of Treasury Management Strategy and Policies. The Audit Committee has previously agreed to include Treasury Management as a standing item on each quarterly agenda to receive an update.
1.02	On 19th February 2019, the Council approved the Treasury Management Strategy 2019/20, following the recommendation of the Cabinet and consideration by the Audit Committee.

	Treasury Management Mid-Year Report 2019/20
1.03	The Treasury Management Mid-Year Report for 2019/20 is attached as Appendix 1 for review. As required by the Council's Financial Procedure Rules, this review will be reported to the Cabinet and Council.
	Summary of Key Points
1.04	The Bank of England made no change to monetary policy at its meetings and have maintained a Bank Rate of 0.75%. The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically. The Council's treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. The Brexit leaving deadline has been extended to the 31st of January 2020. In readiness for Brexit, the Council will ensure the Council's investment portfolio will remain secure and liquid by only investing in Money Market Funds which are domiciled in the United Kingdom to avoid any international payment disruption that may occur in the few days after the leaving date. The remaining investment portfolio will be held with the Central Government Debt Management Account Deposit Facility (DMADF). In the outcome that another extension is agreed this operational policy at the new leave date will continue to apply.
1.05	New long term borrowing was arranged during the first half of the year 2019/20. The Council has taken two new long-term loans from the Public Works Loans Board (PWLB) in 19/20: • £10m Equal instalment of Principle Loan at 1.65% for 15 years, and; • £7.5m Equal instalment of Principle Loan at 1.28% for 18 years. The decision to take long term loans took into consideration our long term borrowing requirement resulting from our capital programme. As interest rates from central government borrowing were low at these points due to the volatility of Gilt yields, the PWLB rates were at a level which meant that fixing long term offered financial value to the Council. Short term borrowing was undertaken as necessary in accordance with the 2019/20 borrowing strategy. The total short term borrowing as at 30th September 2019 was £19.0m with an average rate of 0.76%. Section 4 provides more information on borrowing and debt management during the period.

1.06 1.07	The treasury function has operated fully within the limits detailed in the Treasury Management Strategy 2019/20. Section 6 of the Mid-Year Report provides information on regulatory changes coming into force in the near future.
	Treasury Management 2019/20 – Quarter 2 update
1.08	Investments Update A statement setting out the Council's investments as at 30th September 2019 is attached at Appendix 2. The investment balance at this time was £19.5m, spread across 8 counterparties and the average investment rate was 0.69% for the period.
1.09	Borrowing Update Appendix 3 shows the Council's long term borrowing as at 30th September 2019. The total amount of loans outstanding was £290.2m with an average interest rate payable of 4.57%. New long term borrowing of £7.5m was arranged during the quarter, an equal instalment of principle loan at 1.28% for 18 years. Appendix 4 shows the Council's short term borrowing as at 30th September 2019. The total amount of loans outstanding was £19.0m with an average interest rate payable of 0.76%.
1.10	The Council's capital expenditure plans will continue to be monitored throughout 2019/20 to inform and assess the Council's long term borrowing need. This is to ensure that the Council does not commit to long term borrowing too early and refinance unnecessarily which will be costly and have significant revenue implications. The continued use of short-term borrowing will assist with this. This will be balanced against securing low long term interest rates currently being forecast and assessing the affordability of long-term borrowing in the short term against the savings made over the life of the loan.
1.11	Changes to Public Works Loans Board (PWLB) Rates: As at the 9th of October 2019 the PWLB has increased the margin applied to loan rates by 100 basis points. Meaning the new margin above gilts is now 180 basis points for the certainty rate loans which the Council qualifies for. This move has increased the cost of borrowing from PWLB. For example, on the day of the change a new 50-year maturity loan moved from an interest rate of 1.81% to 2.82% overnight. This move has been in response to Council's substantially increasing their use of PWLB loans, as the cost of borrowing had fell to record lows. This was done without any prior notice. The Council has taken advantage of these low rates where they offered financial value long term during 2019/20 and the latter part of 2018/19. In the context of the Council's revenue budget, it has been assumed that new long-term loans will be borrowed at an average rate of 3% to finance the

	Capital Programme. Taking this prudent approach to the budget has meant whilst there has been an increase in rates, it does not exceed the amount forecasted for the future costs of financing the Council's Capital Programme at this time. Consideration is being given to financing options from the market following the changes made by HM Treasury. Indications are that rates could be lower than borrowing from PWLB. This needs to be balanced against the increased administrative costs associated with lending from the market, which is driven by the additional lead in time to arrange borrowing (approximately 4 to 6 weeks) and higher brokerage costs. The creditworthiness of the Council will be assessed which will impact on rates offered. No such considerations are required when borrowing from the PWLB. The Council will continue to assess all financing options when making long term borrowing decisions to achieve best financial value for the Council.
1.12	<u>Member Training – Treasury Management</u> A Treasury Management Member training workshop has been arranged for 11th December 2019 10am – 12:30pm which will be presented by Arlingclose Ltd. The session will be hosted by the Audit Committee but will be open to all Members.

2.00	**RESOURCE IMPLICATIONS**
2.01	Financial implications are addressed in the report; no other resource implications directly as a result of this report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Arlingclose Ltd, being the Council's treasury management advisors.

4.00	**RISK MANAGEMENT**
4.01	Risk Management directly addressed within the report and appendices including identification of risks and measures to mitigate likelihood and impact of risks identified.

5.00	**APPENDICES**
5.01	1. Draft Treasury Management Mid-Year Report 2019/20 2. Investment Portfolio as at 30th September 2019 3. Long term borrowing as at 30th September 2019 4. Short term borrowing as at 30th September 2019

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	**Contact Officer:** Liz Thomas – Strategic Finance Manager **Telephone:** 01352 702289 **E-mail:** Liz.Thomas@Flintshire.gov.uk
7.00	**GLOSSARY OF TERMS**
7.01	**Authorised Limit:** A statutory limit that sets the maximum level of external debt for the Council. **Balances and Reserves**: Accumulated sums that are held, either for specific future costs or commitments (known as earmarked) or generally held to meet unforeseen or emergency expenditure. **Bank Rate:** The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". **Basis Point:** A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. **Bond:** A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life. **Capital Expenditure:** Expenditure on the acquisition, creation or enhancement of capital assets. **Capital Financing Requirement (CFR):** The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed. **Certificates of Deposits (CD's**): A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks. The term of a CD generally ranges from one month to five years. **Cost of Carry:** The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%. **Consumer Price Index (CPI):** The UK's main measure of inflation (along with Retail Price Index or 'RPI') The Monetary Policy Committee of the

Bank of England set the Bank Rate in order to try and keep CPI at or close to the target set by the Government. The calculation of CPI includes many items of normal household expenditure but excludes some items such as mortgage interest payments and Council Tax.

Corporate Bonds: Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Counterparty List: List of approved financial institutions with which the Council can place investments.

Credit Rating: Formal opinion by a registered rating agency of a counterparty’s future ability to meet its financial liabilities; these are opinions only and not guarantees.

Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the Debt Management Account Deposit Facility (DMADF). All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign credit rating.

Federal Reserve: The US central bank, the equivalent of the Bank of England. (Often referred to as “the Fed”).

Financial Instruments: Financial instruments are tradable assets of any kind. They can be cash, evidence of an ownership interest in an entity, or a contractual right to receive or deliver cash or another financial instrument

Gilts: Gilts are bonds issued by the UK Government. They take their name from ‘gilt-edged’. They are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

LIBID: The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks).

LIBOR: The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

Low Volatility Net Asset Value Money Market Funds (LVNAV MMFs): refers to highly liquid money market funds which aim to maintain the level of their worth by investing in very secure instruments.

LOBO: Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the ‘option’ to either accept the new imposed fixed rate or repay the loan facility.

IFRS: International Financial Reporting Standards.

Maturity: The date when an investment or borrowing is repaid.

Maturity Structure / Profile: A table or graph showing the amount (or percentage) of debt or investments maturing over a time period.

Monetary Policy Committee (MPC): Government Body that sets the Bank Rate. Its primary target is to keep inflation within 1% of a central target of 2%. Its secondary target is to support the Government in maintaining high and stable levels of growth and employment.

Money Market Funds (MMF): Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

Minimum Revenue Provision (MRP): An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Non Specified Investment: Investments which fall outside the WG Guidance for Specified investments (below).

Operational Boundary: This linked directly to the Council’s estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Premiums and Discounts: In the context of local authority borrowing,
(a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and
(b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

Prudential Code: Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators: Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

Public Works Loans Board (PWLB): The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing (QE): In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy.

Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

Retail Price Index (RPI): A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent.

Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).

Specified Investments: Term used in the Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.

Supported Borrowing: Borrowing for which the costs are supported by the government or third party.

Supranational Bonds: Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.

Treasury Bills (T-Bills): Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. They are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have an AAA-rating.

Treasury Management Code: CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.

Treasury Management Practices (TMP): Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.

	Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending. **Unsupported Borrowing**: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing. **Yield:** The measure of the return on an investment instrument.