RYEDALE
DISTRICT
COUNCIL

PART B:	**RECOMMENDATIONS TO COUNCIL**
REPORT TO:	**OVERVIEW AND SCRUTINY COMMITTEE**
DATE:	**22 NOVEMBER 2018**
REPORT OF THE:	**CHIEF FINANCE OFFICER (s151)** **ANTON HODGE**
TITLE OF REPORT:	**TREASURY MANAGEMENT MID-YEAR REVIEW**
WARDS AFFECTED:	**ALL**

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 To report on the treasury management activities to date for the financial year 2018/19 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code).

2.0 RECOMMENDATIONS

2.1 It is recommended that Council:
(i) Receive this report; and
(ii) Note the mid-year performance of the in-house managed funds to date; and
(iii) Note the update regarding NYCC Treasury services and sweeping.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that a mid-year review report must be made to the Full Council relating to the treasury activities of the current year.

4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

REPORT

5.0 BACKGROUND AND INTRODUCTION

5.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the management of the Authority's cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Authority has adopted the Code and complies with its requirements

5.2 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

5.3 The second major function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide towards whether the Council has a borrowing need, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses.

5.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice and covers the following:

- An economic update for the first six months of 2018/19;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

6.0 POLICY CONTEXT

6.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this Code.

7.0 CONSULTATION

7.1 The Council uses the services of Link Asset Services (Link) to provide treasury management information and advice.

8.0 REPORT DETAILS

8.1 The Council's treasury advisors Link Asset Services – Treasury Solutions summarised the key points associated with economic activity in Q2 2018/19 up to 30 September 2018**:**

- The economy showed some signs of gathering momentum after the slowdown in early 2018;
- Employment growth rose putting some pressure on wage growth;
- Consumer price inflation rose unexpectedly;
- The MPC raised interest rates in August to 0.75%;
- UK equities underperformed;
- Brexit negotiations remained at an impasse.

A more detailed economic commentary on developments during Q2 2018/19 is included in **Appendix C.**

8.2 The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics from the first half of 2018 meant that it came as no surprise that the MPC came to a decision on 2 August to increase in Bank Rate to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower rate than before the 2008 financial crash. It is not anticipated that the MPC will increase Bank Rate again ahead of the Brexit deadline in March 2019. It is currently expected that the MPC is likely to wait until August 2019 before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

Treasury Management Strategy Statement and Annual Investment Strategy Update.

8.3 The Treasury Management Strategy (TMSS) for 2018/19 was approved by this Council on 22 February 2018. There are no policy changes to the TMSS, the details in this report update the position in the light of the updated economic position and budgetary changes already approved. Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity
- Yield

8.4 The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (maximum loan period of 12 months) and only invest with highly credit rated financial institutions, using Link's suggested creditworthiness approach, including sovereign rating and credit default swap (CDS) overlay information provided by Link.

8.5 Investments during the first six months of the year have been in line with the strategy and there have been no deviations from the strategy.

8.6 As outlined above, there is still some uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 22 February 2018 is still fit for purpose in the current economic climate.

Investment Portfolio 2018/19

8.7 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

8.8 As set out earlier in the report, although we have experienced some improvements in investment returns due to the increase in base rate to 0.5% in late 17/18 and then to 0.75% in August this year.

8.9 The Council's investment position at the beginning of the financial year was as follows:

Type of Institution	Investments (£)
UK Clearing Banks	12,776,864
Foreign Banks	4,000,000
Building Societies	3,000,000
Total	19,776,867

8.10 A full list of investments held as at 30 September 2018, compared to Sectors counterparty list and changes to Fitch, Moodys and S&P's credit ratings during the first six months of 2018/19 is shown in annex B and summarised below:

Type of Institution	Investments (£)
UK Clearing Banks	13,042,523
Foreign Banks	3,000,000
Building Societies	1,000,000
Loal Authorities	9,000,000
Total	26,042,523

8.11 The average level of funds available for investment purposes in the first six months of 2018/19 was £25.06m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and the progress of the capital programme.

8.12 The table below compares the investment portfolio yield for the first six months of the year against a benchmark of the average 7 day LIBID rate of 0.44%.

	Average Investment (£)	Average Gross Rate of Return	Net Rate of Return	Benchmark Return	Interest Earned (£)
Cash Equivalents	7,291,387	0.48%	n/a	n/a	18,059
Fixed Term Deposits	1,161,538	0.76%	n/a	0.11%	32,377

8.13 The Council's budgeted investment return for 2018/19 is £55k and performance during the financial year to 30 September 2018 is £68k, **which is on target to out perform the budget by £81k**

8.14 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Compliance with Treasury and Prudential Limits

8.15 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy

Statement (TMSS).

8.16 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in annex A.

8.17 The level of borrowing is £1.6m, full details can be found at annex B. Repayments have been made in line with the loan repayment schedule. In order to fulfil the funding requirements of the current Capital Programme the Council still has a borrowing requirement of £320k, however it is unlikely that we will look to borrow the remaining sum in the current financial year.

9.0 TREASURY MANAGEMENT FUNCTION & SWEEPING ARRANGEMENTS

9.1 Included within the service level agreement currently being finalised with North Yorkshire County Council (NYCC) for the provision of s151 Officer and Finance services, there is provision for treasury management support.

9.2 Reporting and monitoring processes are currently in place, and options are currently being explored to incorporate Ryedale into the pooled investment fund operated by NYCC. NYCC provides an investment pool where its own cash balances and those of several other public sector organisations are merged together to form a combined investment pool. Such an arrangement achieves economies of scale in terms of overall better interest returns together with the efficiencies resulting from not having to administer individual authority investment operations

9.3 Discussions are currently underway between the Authorities' respective banks and progress will be reported back in due course. Prior to implementing such arrangements, RDC will also be asked to formally adopt the Investment strategy of NYCC, which will require approval of Policy & Resources committee.

10.0 IMPLICATIONS

10.1 The following implications have been identified:

a) Financial
The results of the investment strategy affect the funding of the capital programme. The investment income return to 30 September 2018 was £68k, which is in excess of the profiled budget. The cost of borrowing affects the revenue account, forecast interest costs for the year are £56k, which is £7k below budget.

b) Legal
There are no additional legal implications within this report.

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no additional implications within this report.

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Background Papers:
None

Background Papers are available for inspection at: N/a