

## Resources and Fire & Rescue Overview and Scrutiny Committee

20 December 2017

### Treasury Management Monitoring Report 2017/18

#### Recommendation

That the Resources and Fire & Rescue Overview and Scrutiny Committee considers and comments on Treasury Management in respect of the first half of 2017/18.

#### 1 Introduction

1.1 Warwickshire County Council fully complies with the requirements of The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice (COP) on Treasury Management (Revised) 2011. The primary requirements of the Code are the:

- creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- receipt by the Cabinet of an Annual Treasury Management Strategy Report for the year ahead, a midyear review report (as a minimum) and an annual review report of the previous year.
- delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices, and for the execution and administration of treasury management decisions.

1.2 Under the CIPFA Code, the Cabinet is required to receive a report on the outturn of the annual treasury management activity for the authority. Monitoring reports regarding treasury management are an agenda item for this Overview and Scrutiny Committee throughout the year.

1.3 Treasury management in the context of this report is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks

associated with those activities; and the pursuit of optimum performance consistent with those risks.” (CIPFA Code of Practice).

## 2 Investments

2.1 The Council has an investment portfolio consisting of reserves and cash arising from daily receipts being in excess of payments on a short term basis.

2.2 Security and liquidity of cash are prioritised above the requirement to maximise returns. The Council adopts a cautious approach to lending to financial institutions, and continuously monitoring credit quality information regarding the institutions on the Council’s approved Lending List.

2.3 The Council’s investment portfolio at September 2017 was as follows:

**Table 1: Investment Position at 30 September 2017**

	Invested at 30 September 2017
	£m
In house deposits	0.8
Money Market/External Funds	236.8
<b>Total</b>	<b>237.6</b>

2.4 At any one time, the Council may hold large amounts of cash (in this instance over £200m). “In house deposits” are defined as cash held in the Council’s accounts at Lloyds bank and fixed term deposits with building societies/banks/other Local Authorities. “Money market/external funds” are defined as investments that are managed by professional asset managers.

2.5 Performance of the Council’s investments (weighted) versus the benchmark was:

**Table 2: Investment Performance to 30 September 2017**

	Average Interest rate year to date	Target rate: 7 day LIBID	Variance
	%	%	%
In house deposits	0.16	0.11	0.05
Money Market/External Funds	0.82	0.11	0.71
<b>Total</b>	<b>0.78</b>	<b>0.11</b>	<b>0.67</b>

2.6 “Weighted” means an average performance that reflects the actual amount of investments done in house and externally year to date. The target is based on LIBID, which is the London Interbank Bid rate, which is the rate at which

banks borrow from other banks and tends to be in the industry standard benchmark. Although the Council continues to outperform the target, in a climate of very low interest rates, returns are more difficult to deliver.

2.7 The interest earned on the Council's investments was as follows:

**Table 3: Interest Earned to 30 September 2017**

	Year to date
	£m
In house deposits	-
Money Market/External Funds	1.0
<b>Total</b>	<b>1.0</b>

2.6 The table below details our consultant's view on interest rates. With continued uncertainty over the final terms of Brexit, base rate, and therefore Money Market rates are likely to remain at low levels until mid-2019. The impact of this is the continuation of low returns on cash deposits and money market funds.

**Table 4: Interest Rate Forecast**

	<b>Present – Mar 2019 %</b>	<b>Mar 2019 – Mar 2020 %</b>	<b>Mar 2020 %</b>
Interest Rate Forecast	0.50	0.75	1.00

Source: Capita

### **3 Debt Financing**

3.1 As at 30th September 2017 the authority had borrowing held with The Public Works Loans Board (PWLB) of £353.408m. The weighted average interest payable on the loans during 2016/17 was 4.86%. Total interest payable for the year was £18.042m.

3.2 There have been no repayments of debt so far in year. The County have not undertaken any new long term borrowing in 2017/18. It is unlikely to do so unless forecast capital receipts designed to underpin the Council's Capital Strategy do not materialise in a timely manner.

## 4 Compliance with Treasury Limits and Prudential Indicators

- 4.1 During 2015/16, the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and Treasury Management Strategy. Full details of the Prudential Indicators set for 2016/17 are shown in **Appendix A**. Explanations of the terminology employed is set out in **Appendix B**.
- 4.2 It is acknowledged that these indicators are of limited use to lay readers. Any changed requirements as a result of these consultations will form part of the 2018/19 Capital Budget resolution and the 2018/19 Treasury Management Strategy, with the impact for monitoring incorporated into future reports to the committee.
- 4.3 Meanwhile, the existing indicators demonstrate that the Council is well within its authorised and operational limits for external debt; that capital funding requirements are modest; financing costs are affordable and limits for interest rate exposure have not been breached.

### Background Papers

None

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The report was circulated to the following members prior to publication:

Local Member(s): None

Other members: Councillors Kaur, Birdi, Boad, O'Rourke, Roberts and Timms