



**REPORT of
INTERIM SECTION 151 OFFICER**

**to
STRATEGY AND RESOURCES COMMITTEE
5 DECEMBER 2019**

2019 / 20 HALF YEARLY TREASURY MANAGEMENT UPDATE

1. PURPOSE OF THE REPORT

- 1.1 To report on the Council's investment activity for the first half of 2019 / 20 in accordance with the Chartered Institute of Public Finance and Accountancy Treasury Management Code (CIPFA's TM Code) and the Council's Treasury Management Policy and Treasury Management Practices (TMPs).

2. RECOMMENDATION

That Members review and comment on the Treasury Management report for compliance purposes.

3. SUMMARY OF KEY ISSUES

3.1 Background

- 3.1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).
- 3.1.2 The Council's Treasury Management Strategy for 2019 / 20 was presented to the Finance and Corporate Services Committee on 29 January 2019 and subsequently approved by the Council on 14 February 2019 (Minute No. 788 refers).
- 3.1.3 In 2019 / 20, the Council have had an average of £20.5 m invested and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
- 3.1.4 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by the Council covering capital expenditure and financing, treasury management and non-treasury investments. The Councils Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 14 February 2019.

3.2 External Context

3.2.1 The Council currently engages Arlingclose to provide treasury management consultancy and advice services. Attached at **APPENDIX 1** is information prepared by Arlingclose providing an overview of the external economic environment.

3.3 Local context

3.3.1 The Council is currently debt free and its capital expenditure plans do not currently indicate the need to borrow over the forecast period based on existing expenditure levels. However, as investment becomes necessary for Commercial Projects, additional funds will be required, and borrowing may then be needed. Investments are forecast to fall as capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget and Future Model.

3.4 Investment Activity (April 2019 – September 2019)

3.4.1 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment returns.

3.4.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Over the period from April to September 2019, the level of investments held by the Council has seen an increase of £6,300,000 with a total of investments held on 30 September 2019 of £19,500,000. These are comprised of:

	Balance on 01/04/2019 £000s	Movement £000s	Balance on 30/09/2019 £000s
Short term Investments			
Banks and Building societies	2,000	1,000	3,000
Money Market Funds	4,200	2,300	6,500
Certificates of Deposit	2,000	3,000	5,000
Long Term Investments	5,000	-	5,000
TOTAL	13,200	6,300	19,500

3.4.3 The Councils' £5m of externally managed pooled and property funds have generated a total return of £109k in 2019/20 to date. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values

will move both up and down on months, quarters and even years; but with the confidence that over a three to five year period total returns will exceed cash interest rates. In light of their performance over the medium/long-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

3.4.4 Readiness for Brexit: At the time of writing this report the scheduled leave date for the United Kingdom (UK) to leave the European Union (EU) is now 31 January 2020 and there remains little political clarity as to whether the current deal agreed with the EU will be approved by Parliament by this date. Therefore, there is the possibility that the exit date is pushed back yet again. As 31 January approaches the Council will ensure there are enough accounts open at UK-domiciled banks and Money Market Funds to hold sufficient liquidity required in the near term and that its account with the Debt Management Account Deposit Facility (DMADF) remains available for use in an emergency.

3.5 **Performance – Budgeted Income and Outturn**

3.5.1 Below are the average rates of returns obtained on the Authority's investments:

- Short Term investments - 0.84%;
- Investments in the Investec Diversified Income fund - 4.53%;
- Investment in the Property Fund - 4.31%.

3.5.2 The above returns average to 1.7%, this is the assumed interest rate included within the 2019 / 20 Medium Term Financial Strategy.

3.5.3 The Authority's budgeted investment income for the year is estimated at £224,000 Projected income for the year is currently £240,000. This increase is due to the higher level of balances invested than anticipated.

3.6 **Compliance with Prudential Indicators and Treasury Management Strategy**

3.6.1 The Prudential Indicators for 2019 / 20, which were set on 29 January 2019 as part of the Treasury Management Strategy Statement, have been complied with to date. These are shown at **APPENDIX 2**.

3.6.2 The Interim Section 151 Officer reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

3.7 **Outlook for the remainder of 2019 / 20 (provided by Arlingclose.)**

3.7.1 The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the United States (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.

3.7.2 There appears no near-term resolution to the trade dispute between China and the US. With the 2020 presidential election a year away, the President of the United States is, it seems, unlikely to change his stance.

- 3.7.3 Economic uncertainty will continue as the date of the exit from the EU has now been extended to 31 January 2020. A general election is to be held in December 2019.
- 3.7.4 Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.
- 3.7.5 Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependent on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities.

4. CONCLUSION

- 4.1 In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary of the treasury management activity during the first half of 2019 / 20. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

5. IMPACT ON STRATEGIC THEMES

- 5.1 The report links to the Maldon District Council's Strategic Theme of best value procurement.

6. IMPLICATIONS

- (i) **Impact on Customers** – None directly.
- (ii) **Impact on Equalities** – None identified.
- (iii) **Impact on Risk** – This report is mainly about managing credit risk. A prudent approach continues to be taken in relation to investment activity with priority being given to security and liquidity over yield.
- (iv) **Impact on Resources (financial)** – Income is projected to exceed the Council's budgeted figure (£224,000) by £16,000 in 2019.
- (v) **Impact on Resources (human)** - None directly.
- (vi) **Impact on the Environment** – None.

Background Papers: None.

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