CYNGOR SIR *POWYS* COUNTY COUNCIL.

AUDIT COMMITTEE
27th April 2018

CABINET
1st May 2018

REPORT AUTHOR: **County Councillor Aled Davies**
Portfolio Holder for Finance

SUBJECT: **Treasury Management Qtr 4 Report**

REPORT FOR: **Information**

1. Summary

1.1 CIPFA's 2009 Treasury Management Bulletin suggested:

"In order to enshrine best practice it is suggested that authorities report formally on treasury management activities at least twice a year and preferably quarterly."

The CIPFA Code of Practice on Treasury Management emphasises a number of key areas including the following:-

xi. Treasury management performance and policy setting should be subject to scrutiny prior to implementation.

1.2 In line with the above, this report is providing information on the activities for the quarter ending 31st March 2018.

2. Economic Background and Forecasts

2.1 The economic background is attached at Appendix B.

2.2 The most recent forecast of interest rates by the Authority's advisor is as follows:

	Mar 18	**Jun 18**	**Sep 18**	**Dec 18**	**Mar 19**	**Jun 19**	**Sep 19**
Bank rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%
5yr PWLB	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%
25yr PWLB	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%
50yr PWLB	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%

3. Treasury Management Strategy

3.1 The Treasury Management Strategy approved by Full Council on 7th March 2017 is at Appendix A.

3.2 The Authority's investment priorities within the Strategy are: -

(a) the security of capital and
(b) the liquidity of its investments.

3.3 The Authority aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite has been low in order to give priority to security of investments.

4. Current Investments

4.1 The current investment market is difficult in respect of earning the level of interest rates commonly seen in previous years as rates are very low and in line with the 0.50% Bank Rate.

4.2 The Authority had the following investments at 31st March 2018:-

Invested with:	Principal £000's	Interest Rate	Start Date	Maturity Date
Santander	2,935	0.50%	N/A	Deposit A/c
HSBC	20	0.25%	N/A	Deposit A/c
Total	**2,955**			

4.4 Higher return rates are difficult to achieve as the Authority is not in a position to invest its cash for more than a short period of time.

4.5 Redemption Penalties:
There are no current fixed investments to redeem.

4.6 Investment returns in future years:
Our advisors' current suggested earning rates for investments for budgeting purposes are as follows:-

	Suggested Rate
2018/19	0.80%
2019/20	1.25%

These are based on investments for up to three months duration.

5. Credit Rating Changes

5.1 There have been no credit rating changes relevant to this Authority's position during the last quarter.

5.2 The credit rating list for end of March is attached as a separate file to this report.

6. Borrowing / Re-scheduling

6.1 Effective management of the Authority's debt is essential to ensure that the impact of interest payable is minimised against our revenue accounts whilst maintaining prudent borrowing policies.

6.2 The Authority's Capital Position:

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the current year's unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through external borrowing or utilising temporary cash resources within the Council.

Net external borrowing (borrowings less investments) should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current year and next two financial years. This allows some flexibility for limited early borrowing for future years.

CFR Position:

	As at 31.03.17 Actual	2017/18 Original Estimate	2018/19 Original Estimate	2019/20 Original Estimate
	£M	£M	£M	£M
Capital Financing Requirement	307,524	326,461	357,224	382,433

6.3 The Authority had outstanding long-term external debt of £226.4M at 31st March 2017. In relation to the CFR figure for 31st March 2017, this equated to the Authority being under borrowed by £81M. This is a prudent and cost effective approach in the current economic climate. However, members will be aware that internal borrowing is only a temporary situation and officers have advised that, based on capital estimates, it will be necessary for the Authority to borrow at stages over the next few years. There have been instances of temporary borrowing during this financial year for cashflow purposes.

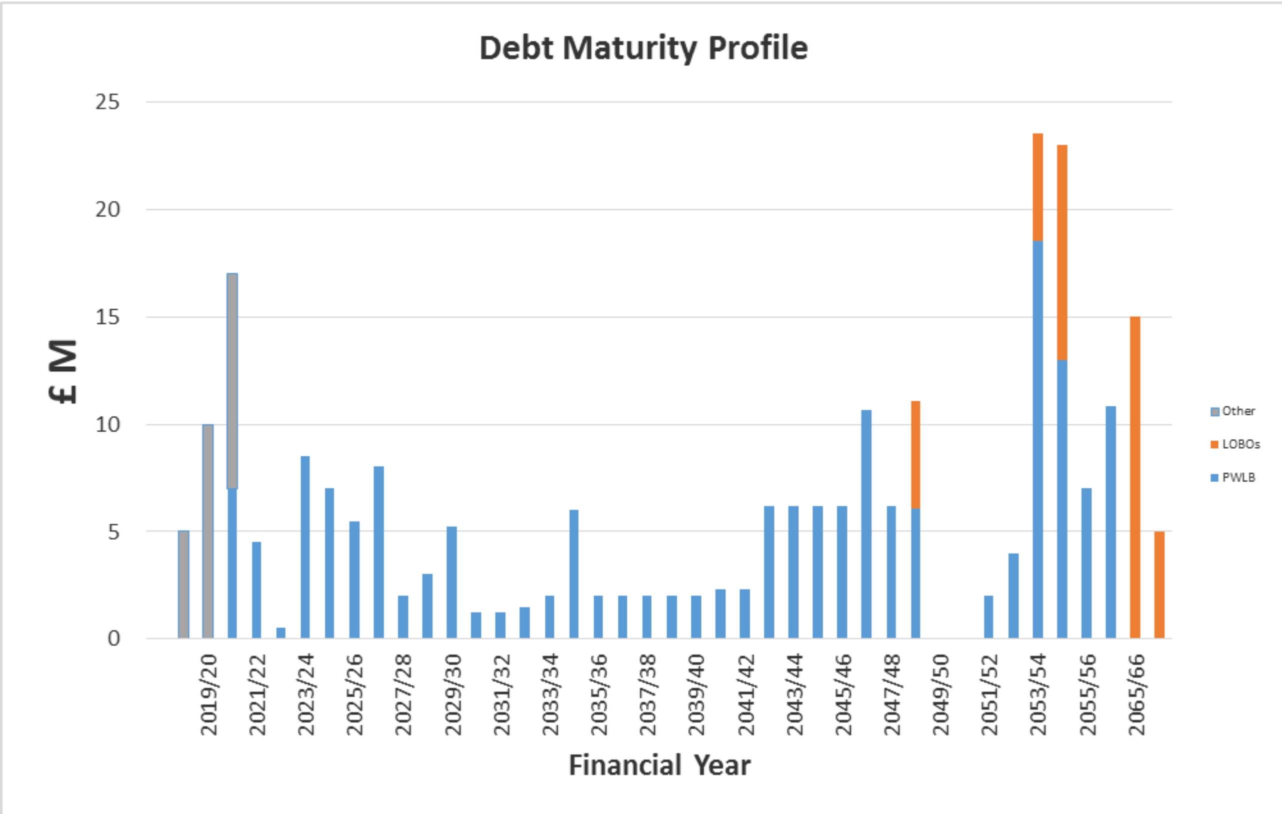
Alongside this, longer term borrowing totalling £20M took place in February as interest rates were conducive to this. This was a prudent approach to ensure some borrowing took place whilst interest rates are at their low levels as opposed to borrowing at a future date at increased rates.

6.4 Capital Budget/Spend per efinancials:

Capital:	**Approved Budget £**	**Working Budget £**	**Actual Capital Spend *(not including commitments)* £**	**%age spend**
	74,111,259			
June		92,745,511	8,748,957	9.43%
Sept		96,322,803	19,174,168	19.91%
Dec		88,805,658	31,465,783	35.40%
March		68,504,710	48,813,152	71.26%

The financing of the approved capital budget included £17.9M of Prudential borrowing in total.

6.5 *Debt Maturity Profile as at 31.03.18:*



6.6 Rescheduling:

The Public Works Loans Board released a circular regarding rates on 20th October 2010. As a result of this, rates immediately increased by 0.87-0.88 basis points across the board. The overall impact of this circular was that it is far more difficult for authorities to reschedule debt

Members are aware that officers continue to look for interest savings on a daily basis by monitoring rates that may mean the Authority can re-schedule some of its debt or prematurely repay debt if applicable. However, PWLB interest rates have not been conducive towards rescheduling.

7. Prudential Indicators

7.1 All TM Prudential Indicators were complied with in the quarter ending 31st March 2018.

8. VAT

8.1 The Technical Section of Finance act as the authority's VAT section. VAT can pose a risk to the authority hence the TM has been asked to include VAT information in these quarterly reports.

8.2 The monthly VAT returns were submitted within the required deadlines during the quarter ending 31st March 2018.

8.3 Key Performance Indicators:

The VAT KPI's for 2017/18 are attached at Appendix C.

Proposal

It is proposed that the Treasury Management quarterly report is received.

Statutory Officers

The Head of Financial Services (acting s151 officer) notes the content of the report and supports the recommendation.

The Solicitor to the Council (Monitoring Officer) has made the following comment: "I have nothing to add to the report".

Future Status of the Report

Not applicable

Recommendation:		**Reason for Recommendation:**	
That the Treasury Management Quarterly Report be received		**To ensure Cabinet remains informed about current Treasury Management performance**	
Relevant Policy (ies):		Treasury Management Policy	
Within Policy:	**Y**	**Within Budget:**	**N/A**
Person(s) To Implement Decision:		**N/A**	
Date By When Decision To Be Implemented:		**N/A**	
Contact Officer Name:	Tel:	Fax:	Email:
Ann Owen	01597 826327	01597 826290	ann.owen@powys.gov.uk

Background Papers used to prepare Report:

CIPFA Code of Practice on Treasury Management and Cross Sectoral Guidance Notes
Treasury Management Policy Statement
Advisors' Information
WAG Guidance on Local Government Investments 2010
PWLB circulars

Appendix A:

Approved Treasury Management Strategy 2017/18:

7.5 "High" credit quality:

7.5.1 It is proposed that the Authority continue with the following in respect of defining a "high" credit quality. If a rating is not available from any of the rating agencies then the available ratings will be used. Members will note that this proposal excludes investments with some banks off the advisors' suggested list:-

Long Term Ratings (in respect of long-term investments):

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-

Short Term Ratings (in respect of short-term investments):

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
F1+	N/A	A-1+
F1	P-1	A-1

7.6 Country limits:

7.6.1 It is proposed that the Authority will use approved counterparties from the UK and approved counterparties from other countries with the following sovereign credit ratings:-

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
AAA	Aaa	AAA

Country	Maximum Investment per Country	Credit Rating/Other Assessment of Risk
AAA countries	£20M (held in call accounts)	As per rating list
UK	No Maximum Investment	As per rating list

7.7 Group/Institutions - Counterparty Criteria/Limits:

Specified Investments:

Institution	**Maximum Investment per Group/Institution £M**	**Maximum Length**	**Credit Rating/Other Assessment of Risk**
UK Banks	20 (a maximum £10M to be held in fixed term investments)	Up to 364 days	As per Capita's matrices and the Authority's definition of a high credit rating
Foreign Banks	5	Up to 364 days	As per Capita's matrices and the Authority's definition of a high credit rating
Other Local Authorities	25	Up to 364 days	N/A

Non-Specified Investments:

Institution	**Maximum Investment per Group/Institution £M**	**Maximum Length**	**Credit Rating/Other Assessment of Risk**
UK Banks	10 (£2M limit with any one institution)	Up to 2 years	As per Capita's matrices and the Authority's definition of a high credit rating
Lloyds Bank (as a mortgage lender in the LAMS scheme)	5	Up to 5 years	N/A
Foreign Banks	2	Up to 2 years	As per Sector's matrices and the Authority's definition of a high credit rating
Money Market Funds (max. of 5)	10	N/A	All are AAA rated plus the parents/owners must meet the Authority's short term investment criteria
Other Local Authorities	10	Up to 2 years	N/A
European Investment Bank Bonds	3	2-3 years	N/A
Note: Limits for Specified and Non-Specified are combined limits. The maximum limit will also apply to a banking group as a whole.			

Appendix B

Economic Background

UK

Q4 GDP growth was revised lower on the second calculation, down to 0.4% q/q, but this left growth better balanced with investment increasing and net trade less of a drag. The Purchasing Managers Indexes are indicative of the opening quarter of 2018 maintaining Q4 growth, although the CBI is more pessimistic. Those surveys pre-date the bad weather so may prove overly strong but analysts are not expecting disruptions to be too severe.

Consumer high street spending was not strong at the end of 2017 and started the year in a downbeat manner with only a marginal increase in retail sales volumes. The CBI Distributive Trades Survey reflected annual retail sales volumes picking up, while annual consumer credit growth has remained strong, with borrowing levels indicative of consumer confidence. That said, consumer confidence measures eased in February but remain at strong levels. The cold weather snap may affect spending over the month as retail/leisure is set to be hit.

Increased imports saw the trade deficit widen markedly in December but this is largely on distortions from oil and erratic items, as excluding these would have seen a narrowing of the deficit. Export goods volume growth has slowed but orders continue to benefit from weaker Sterling, thus the slowing may prove temporary. Indeed, continued signs of healthy global growth should sustain goods exports.

December saw the largest increase in unemployment since 2013, driven by increased workforce participation. This resulted in the rate of unemployment ticking up to 4.4%. Employment rose at a healthy rate but annual employment growth slowed to 1.0%. Any concerns are tempered by surveys indicating that employment growth levels will hold up, as firms remain hungry to recruit, with vacancies hitting a new all-time high at the end of 2017. An increasing proportion of vacancies, however, are being filled by transferees which is starting to generate some upside wage pressures.

CPI in February decreased to 2.7% from 3.0% in January with the greatest downside influence from fuel prices. CPI looks set to fall over the year ahead as the impact of post-referendum Sterling weakening dissipates. Indications of global agricultural and domestic food producer prices suggest that food price inflation should fall. Meanwhile, price pressures at the start of the production process are softening, as indicated by input and factory gate inflation falling again in January. Brent crude oil price fell by $6 per barrel over the month to $64, receding from its recent peak. It should pull back further over the course of the year, with supply concerns fading. We have seen inflation expectations increasing at both household and market levels, but analysts believe that inflation will still fall back to the 2% target, largely as wage inflation is muted, as are other signs of domestically generated inflation. While CPI should be clipped back to target by early next year, the rise in mortgage interest rates could see RPI increase.

Appendix C

VAT - Key Performance Indicators:

Creditor Invoices

VAT return for	No of high value Creditor invoices checked	No of Creditor invoices highlighted as requiring "proper" document for VAT recovery	%age of creditor invoices checked requiring "proper" document for VAT recovery
Apr-17	159	5	3.14%
May-17	123	9	7.32%
Jun-17	203	11	5.42%
Jul-17	171	4	2.34%
Aug-17	182	27	4.84%
Sep-17	181	11	6.08%
Oct-17	197	11	5.58%
Nov-17	186	18	9.68%
Dec-17	147	14	9.52%
Jan-18	222	13	5.86%
Feb-18	238	17	7.14%
Mar-18	Not yet completed		

Cash Receipting Entries

VAT return for	No of cash receipting entries checked by formula per the ledger account code used	No of cash receipting entries needing follow up check	%age of cash receipting entries needing follow up check
Apr-17	3,429	11	0.37%
May-17	4,785	5	0.10%
Jun-17	4.497	9	0.20%
Jul-17	4,627	17	0.37%
Aug-17	3,134	12	0.38%
Sep-17	3,423	6	0.18%
Oct-17	5,316	14	0.26%
Nov-17	4,077	6	0.15%
Dec-17	3,374	37	1.10%
Jan-18	4,518	13	0.29%
Feb-18	4,279	6	0.14%
Mar-18	Not yet completed		

Debtor Invoices

VAT return for	No of Debtor invoices checked (value >£5k)	No of checked debtor invoices with incorrect VAT code used	%age of debtor invoices with incorrect VAT code
Apr-17	32	8	25.00%
May-17	47	7	14.89%
Jun-17	25	2	8.00%
Jul-17	27	4	14.81%
Aug-17	37	8	21.62%
Sep-17	44	18	40.91%
Oct-17	45	7	15.56%
Nov-17	35	3	8.57%
Dec-17	29	2	6.90%
Jan-18	32	10	31.25%
Feb-18	41	13	31.71%
Mar-18	Not yet completed		

Purchase Cards

VAT return for	No of Purchase Card transactions for previous month for which paperwork requested for checking	No of Amazon invoices included in Purchase card check	No of Purchase Card transactions for which no response received within timescale	Value of VAT potentially claimable but recharged to budget due to non-response	No of sampled Purchase Card transactions where VAT claimed incorrectly	%age of Purchase Card transactions available to be checked where VAT was claimed incorrectly	Value of VAT incorrectly claimed hence recharged to budget
Apr-17	62	18	40	£3,747.61	4	18.18%	£7.31
May-17	79	9	22	£3,330.52	3	5.26%	£266.96
Jun-17	157	114	14	£3,967.04	10	6.99%	£347.36
Jul-17	126	6	33	£4,321.97	3	3.23%	£442.14
Aug-17	156	56	48	£3,050.46	10	9.26%	£281.63
Sep-17	121	4	8	£1,605.17	9	7.96%	£458.18
Oct-17	115	9	11	£2,125.70	3	2.88%	£72.15
Nov-17	123	6	7	£852.07	2	1.72%	£72.68
Dec-17	114	4	3	£232.93	6	5.41%	£4.78
Jan-18	162	15	7	£2,816.20	5	3.23%	£162.14
Feb-18	191	16	28	£4,316.56	20	12.27%	£1,602.72
Mar-18	Not yet completed						

Voluntary Declarations

Per HMRC regulations, any vat errors discovered can be adjusted in the current VAT account if they are:

- below the reporting threshold (>£10,000 or up to 1% of the VAT return Box 6 figure up to a maximum of £50,000)
- not deliberate
- for an accounting period that ended less than 4 years ago.

Any errors that do not meet these conditions have to be reported to HM Revenue and Customs and are referred to as voluntary declarations. The following have been reported and/or are ongoing in 2017. No penalties have been applied by HMRC but interest has been charged.

Date of declaration	Value of voluntary declaration	Service Area	Interest charged by HMRC
15-Nov-17	£34,315.54	Home to School Transport	not yet known

Chargebacks to service areas

As a result of the monthly Creditor invoice checking, Treasury Management produce a list of Creditor payments for which a “proper” vat document has not been received. Any VAT amounts on these invoices are held in the vat account and are not claimed until such time as a valid invoice is received. The relevant budget holder is emailed the details and asked to source a correct document. Failure to do this results in the relevant budget being charged with the vat amount that cannot be reclaimed due to the lack of a proper document.

Further to the above, the upload of appropriate documents to the Barclaycard purchase card system to enable vat recovery was made mandatory in September as a result of the lack of response from service areas/establishments to provide documents when requested. Where no document has been uploaded, any VAT amount input against the transaction is charged to the service area.

The total amount charged back in 2017/18 in respect of the two occurrences above is £68,783.10. The majority of this is in respect of purchase card transactions.