CYNGOR SIR *POWYS* COUNTY COUNCIL.

CABINET
30th July 2019

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

SUBJECT: **Treasury Management Qtr 1 Report**

REPORT FOR: **Information**

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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 30th June 2019.

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:

	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21
Bank rate	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%
5yr PWLB	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%
10yr PWLB	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
25yr PWLB	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%
50yr PWLB	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%

3. Treasury Management Strategy

3.1 The Treasury Management Strategy approved by Full Council on 7th March 2019 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 0.75% Bank Rate.

4.2 The Authority had the following investments at 30th June 2019:-

Invested with:	Principal £000's	Interest Rate	Start Date	Maturity Date
BOS	13,460	0.55%		
HSBC	50	0.50%		
Thurrock BC	5,000	0.75%	28-Jun-19	30-Sep-19
Total	**18,510**			

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

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

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

2019/20	0.75%
2020/21	1.00%

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 June 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.

Original CFR Position (per original approved budget):

	As at 31.03.19 Actual	2019/20 Original Estimate	2020/21 Original Estimate	2021/22 Original Estimate
	£M	£M	£M	£M
Capital Financing Requirement	349,530	401,581	446,140	465,145

Updated CFR position as at 30.06.19:

	As at 31.03.19 Actual	2019/2020 Current Actual	2020/21 Current Estimate	2021/22 Current Estimate
	£M	£M	£M	£M
Capital Financing Requirement	349,530	Not available	Not available	Not available

6.3 The Authority had outstanding long-term external debt of £299.2m at 31st March 2019. In relation to the CFR figure for 31st March 2019, this equated to the Authority being under borrowed by £50.3m. Using cash reserves as opposed to borrowing has been a prudent and cost effective approach over the last few years. 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.

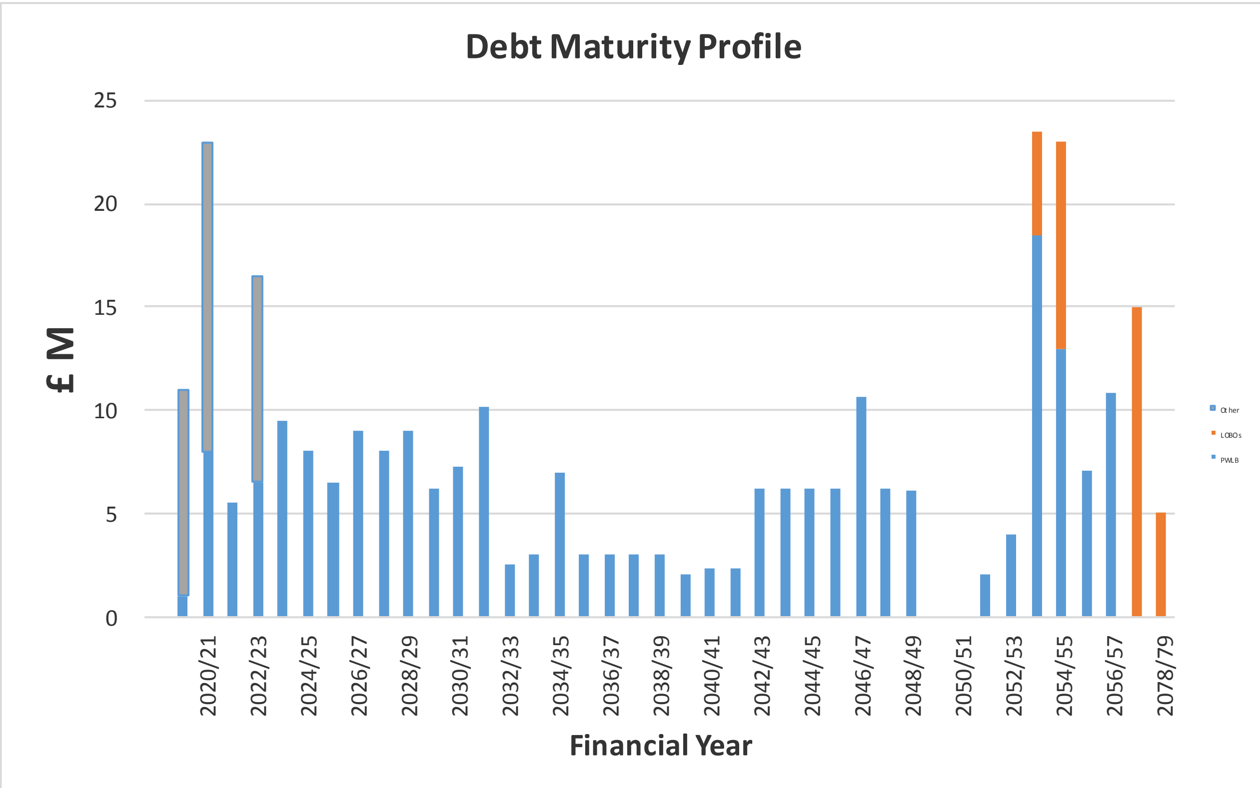
6.4 Capital Budget/Spend per efinancials:

Capital:	**Original Approved Budget £**	**Working Budget £**	**Actual Capital Spend *(not including commitments)* £**	**%age Actual Spend**
	92,234,000			
Qtr 1 end of June		123,568,153	6,655,314	5.39%

The financing of the approved capital budget included £42.2m of Prudential Borrowing.

It remains a significant challenge to manage the Authority's cashflow and its need to borrow when the Capital working budget increases and decreases significantly during the financial year and, despite this, actual spend continues to be significantly below the working budget.

6.5 *Debt Maturity Profile as at 30.06.19:*



6.6 PWLB Loans 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. PWLB interest rates in the last quarter have not been conducive towards any rescheduling.

7. <u>Prudential Indicators</u>

7.1 All TM Prudential Indicators were complied with in the quarter ending 30th June 2019.

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 Treasury Manager 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 30th June 2019.

8.3 Key Performance Indicators:

The VAT KPI's for 2019/20 are attached at Appendix C. The KPI's for debtor invoices are currently showing an improvement due to a change in process following implementation of the new financial system in April.

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".

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:		Email:	
Ann Owen	01597 826327		ann.owen@powys.gov.uk	

Background Papers used to prepare Report:

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

<u>Appendix A:</u>

Approved Treasury Management Strategy 2019/20:

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:

<u>Specified Investments:</u>

Institution	**Maximum Investment per Group/Institution £M**	**Maximum Length**	**Credit Rating/Other Assessment of Risk**
UK Banks	30	Up to 364 days	As per Link's matrices and the Authority's definition of a high credit rating
Foreign Banks	5	Up to 364 days	As per Link's matrices and the Authority's definition of a high credit rating
Other Local Authorities	25	Up to 364 days	N/A

<u>Non-Specified Investments:</u>

Institution	**Maximum Investment per Group/Institution £M**	**Maximum Length**	**Credit Rating/Other Assessment of Risk**
UK Banks	10 (£5M limit with any one institution)	Up to 2 years	As per Link's matrices and the Authority's definition of a high credit rating
Foreign Banks	2	Up to 2 years	As per Link'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
Other Local Authorities	10	Up to 5 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

The final Q1 2019 GDP growth was confirmed at 0.5% quarter on quarter and 1.8% year on year. Annualised growth marked a pick up from 1.4% in Q4 to the strongest pace of growth since Q3 2017, while quarterly growth improved from 0.2%. Household spending, government consumption and investment all made positive contributions, while net trade had a negative impact. Business investment grew less than expected in Q1, growing 0.4% after a 0.9% decline in Q4. It was the first expansion following four quarters of declines.

The June Monetary Policy Committee (MPC) meeting delivered the expected no change vote with a unanimous 9-0 vote to keep bank rate at 0.75%. The tone of the discussion was, however, more dovish, suggesting that downside risks to growth have increased, pointing to concerns about a global trade war and a no deal Brexit have increased. The Bank pared back growth expectations for Q2 to zero. There was a fairly optimistic message about the outlook for interest rates but the MPC remains concerned that inflation will breach target by 2021. Analysts, however, suggest that the unanimity of the vote masks disagreement between the members. The ongoing Brexit saga will ensure that any initial hike is delayed even though a disorderly Brexit has been avoided for now. The lack of clarity over Brexit (with the two remaining challengers to replace Mrs May not definitive as to their position come October 31st) together with trade uncertainty, global growth concerns and political tensions, is a toxic mix which is unsettling the markets, resulting in volatility of interest rate expectations. Rate hike expectations are all but zero for the MPC meetings out to next May, but those for a cut have picked up on the dovishness of the Bank of England and the Federal Reserve at their recent policy meetings. The outcome of the G20 meeting has had little impact, with the markets' expectations for a rate cut between November and next May little changed at 16-37%, thus not a particularly strong view.

The June services Purchasing Managers Index proved another weak release, falling to 50.2 and indicating the weakest rate of expansion for three months, as domestic conditions remain sluggish and risk aversion has been increased by the ongoing uncertainty around Brexit. New orders were down for a fifth month out of the last six and backlogs of work have fallen for the longest period since 2011. However, employment has improved in three of the last four months as part of longer term expansion plans. Input price inflation rose on increased transportation costs and wage pressures, but output prices increased at the second slowest rate since June 2017, as competition for work intensified. Confidence has been dented by the political uncertainty and worries that global economic conditions will rein in corporate spending.

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-19	102	3	2.94%
May-19	184	1	0.54%
Jun-19			
Jul-19			
Aug-19			
Sep-19			
Oct-19			
Nov-19			
Dec-19			
Jan-20			
Feb-20			
Mar-20			

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 (but not necessarily incorrect)	%age of cash receipting entries needing follow up check
Apr-19	645	17	2.64%
May-19	676	4	0.59%
Jun-19			
Jul-19			
Aug-19			
Sep-19			
Oct-19			
Nov-19			
Dec-19			
Jan-20			
Feb-20			
Mar-20			

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-19	50	0	0.00%
May-19	57	1	1.75%
Jun-19			
Jul-19			
Aug-19			
Sep-19			
Oct-19			
Nov-19			
Dec-19			
Jan-20			
Feb-20			
Mar-20			

Purchase Cards

VAT return for	No of transactions for previous month for which paperwork requested for checking	No of Amazon invoices included in check	Resolvable errors discovered	No of transactions for which no response received within timescale	Value of VAT potentially claimable but recharged to budget due to non-response	No of transactions where VAT claimed incorrectly	%age of transactions available to be checked where VAT was claimed incorrectly	Value of VAT incorrectly claimed hence recharged to budget
Apr-19	243	13	15	Work in progress	Work in progress	11	4.53%	£1,162.23
May-19	302	10	21	Work in progress	Work in progress	22	7.28%	£1,035.51
Jun-19								
Jul-19								
Aug-19								
Sep-19								
Oct-19								
Nov-19								
Dec-19								
Jan-20								
Feb-20								
Mar-20								

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 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 2017 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 as there is no evidence to support the vat recovery.

The total amount charged back to service areas in 2019/20 to end of May is £4,279.11. The breakdown of this is as follows:-

Reason	**£**
Not a tax invoice	
Not a tax invoice – no response from service area	
PCC not the named customer	250.00
No VAT registration number on invoice	
No invoice uploaded to Barclaycard system	4,029.11
Invoices uploaded do not match the payment	
No evidence supplied to enable vat recovery	
Foreign VAT (not recoverable)	
No VAT amount on invoice in first place	
Supplier not vat registered	
Supply not to PCC	
Overaccounting for VAT	
PCC Internal payment	
Document spoilt	
Pool car adjustment	
Total	**4,279.11**

Of the above the £4,029.11 was potentially recoverable.