CYNGOR SIR *POWYS* COUNTY COUNCIL.

AUDIT COMMITTEE
24th October 2018

CABINET
6th November 2018

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

SUBJECT: **Treasury Management Qtr 2 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 September 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:

	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20
Bank rate	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%
5yr PWLB	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%
10yr PWLB	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%
25yr PWLB	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%
50yr PWLB	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%

3. Treasury Management Strategy

3.1 The Treasury Management Strategy approved by Full Council on 8th March 2018 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 no investments at 30th September 2018.

Invested with:	Principal £000's	Interest Rate	Start Date	Maturity Date
Total	**0**			

4.3 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.

4.4 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 are as follows:-

2018/19	0.75%
2019/20	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 September 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:

	As at 31.03.18 Actual	2018/19 Original Estimate	2019/20 Original Estimate	2020/21 Original Estimate
	£M	£M	£M	£M
Capital Financing Requirement	318,036	382,916	416,618	434,710

Updated CFR position as at 30.09.18:

	As at 31.03.18 Actual	2018/19 Current Estimate	2019/20 Current Estimate	2020/21 Current Estimate
	£M	£M	£M	£M
Capital Financing Requirement	324,480	362,099	411,690	456,454

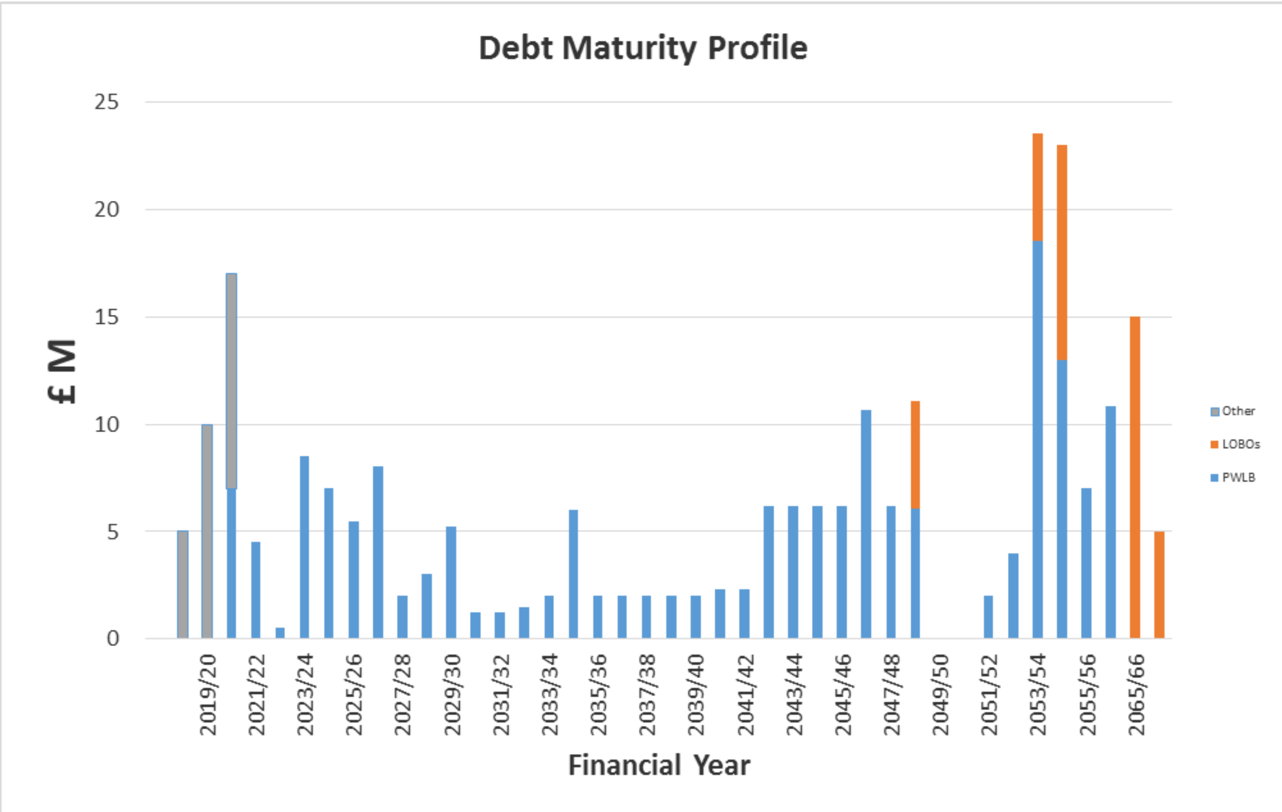
6.3 The Authority had outstanding long-term external debt of £251.4M at 31st March 2018. In relation to the CFR figure for 31st March 2018, this equated to the Authority being under borrowed by £73.1M. This is a prudent and cost effective approach in the current economic climate. However, members will 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. In line with this, £10M of longer-term borrowing has taken place in the current financial year. This was a prudent approach to ensure some borrowing takes 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**
	85,725,189			
June		124,856,235	6,518,210	5.22%
Sept		126,377,477	25,547,244	20.2%

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

6.5 *Debt Maturity Profile as at 30.09.18:*



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

7. Prudential Indicators

7.1 All TM Prudential Indicators were complied with in the quarter ending 30th September 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 30th September 2018.

8.3 Key Performance Indicators:

The VAT KPI's for 2018/19 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:
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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

<u>Appendix A:</u>

Approved Treasury Management Strategy 2018/19:

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 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

Non-Specified Investments:

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

UK

The Q2 pick up in GDP was put down to a catch up from the weather effect on Q1, but driven primarily by inventories rebuilding which is not a basis of ongoing, sustained economic growth. Q2 retail sales volumes did pick up but consumer spending growth was more modest, which indicates that spending away from the high street moderated. Business investment was an area of positivity with firms not overly concerned about Brexit. Surveys of firms' investment intentions point to this strength being maintained going forward. This suggests that the bounce in growth in the last quarter has held up in early Q3.

July retail sales volumes were strong again. However, demand for borrowing eased and the outlook for consumption growth looks a little less rosy. Furthermore, the British Retail Consortium's forward looking indices are suggestive of high street sales slowing. The August Gfk consumer confidence survey, however, saw a rise in the major purchases balance indicating that spending will not be curbed in the short term. Headline wage growth has slowed but the expectation is that real wages should turn upwards.

Net trade weighed on Q2 GDP, largely down to export volumes falling at a faster rate than for imports. There has been a slowing in EU/global trade but the UK export performance has been particularly bad. Surveys suggest a recovery but the most recent manufacturing PM Index saw a sharp fall in the export orders balance. Improvements in the trade balance and increased investment income pulled the current account deficit down to 3.4% GDP in Q1. However, that improvement has now been reversed in Q2 based on a larger goods deficit the size of about 1% of GDP.

There was a modest increase in the number of workers to June which slowed the annual rate of employment growth. On the other hand, the similar decline in unemployment, along with a dip in participation, was sufficient to pull the unemployment rate down to 4.0%. Job switching is back to pre-crisis levels but the flow from unemployment to employment has slowed. Though the supply of available workers is dwindling, employment growth is expected to be maintained. Earnings are not reflective of the battle for workers so far, with bonus payments weaker and annual income growth, net of bonus, also softening. Industry reports indicate that acceleration is potentially on the cards.

CPI rose for the first time in eight months in July, rising to 2.5% driven by recreation and culture. Nevertheless, given that this is a volatile sector, this could be reversed in August. Rising oil prices also had an impact and fuel and energy prices will underpin inflation in the coming months. Supply side price pressures have been building on the oil price move. Analysts believe that CPI will return to below the 2% target as the upside effect of Sterling weakness dissipates.

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-18	130	17	13.08%
May-18	108	5	4.63%
Jun-18	169	11	6.51%
Jul-18	222	11	4.95%
Aug-18	220	18	8.18%

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-18	907	15	1.65%
May-18	810	8	0.99%
Jun-18	848	6	0.71%
Jul-19	499	10	2.00%
Aug-18	882	34	3.85%

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-18	38	7	18.42%
May-18	50	4	8.00%
Jun-18	40	8	20.00%
Jul-18	57	11	19.30%
Aug-18	72	11	15.28%

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-18	260	13	12	6	£1,395.07	6	2.36%	£674.06
May-18	240	10	20	11	£1,127.77	15	6.55%	£563.64
Jun-18	440	15	14	9	£2,055.92	11	2.55%	£596.35
Jul-18	190	8	15	11	£2,003.66	8	4.47%	£300.39
Aug-18	107	4	5	5	£575.32	2	1.96%	£18.16

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.

There are no voluntary declarations to date in 2018/19.

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 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.

The total amount charged back in 2018/19 to date is £38,414.91. The breakdown of this is as follows:-

Reason	**£**
Not a tax invoice	1,348.00
Not a tax invoice – no response from service area	7,974.77
PCC not the named customer	2,335.29
No VAT registration number on invoice	93.20
No invoice uploaded to Barclaycard system	17,155.08
No evidence supplied to enable vat recovery	5,828.66
Foreign VAT (not recoverable)	309.58
No VAT amount on invoice in first place	2,187.28
Supplier not vat registered	59.95
Supply not to PCC	675.96
Overaccounting for VAT	447.14

Of the above, £34,735.00 was potentially recoverable. The majority of these errors are in respect of purchase card transactions and 44% of these errors were schools.