Committee:	Cabinet	**Date:**	29 November 2018
Title:	Treasury Management Mid Year Review – 2018/19		
Portfolio Holder:	Councillor Simon Howell, Portfolio Holder for Finance and Administration		
Report Author:	Angela Knight, Assistant Director – Resources aknight@uttlesford.gov.uk	**Key decision:**	No

Summary

1. The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

2. This report is for the period 1 April to September 2018.

3. The Authority's treasury management strategy for 2018/19 was approved at a meeting of the Authority on 22 February 2018.

4. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

5. This report is to give members an update on the current Treasury Activities and other factors that may influence or affect the financial market.

6. Treasury Management activities are defined by CIPFA as:

   "The management of the Council's investments, borrowing and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimal performance consistent with those risks."

Recommendation

7. The Cabinet is recommended

   - To approve an amendment to the Treasury Management Strategy 2018/19 for the use of Money Market Funds domiciled outside of the UK that comply with the current Treasury Management Strategy with a maximum investment of £3m and Arlingclose recommendations and guidance (detailed in points 12 - 23).

- To note the Treasury Management mid year review report, updated prudential indicators and Minimum Revenue Provision policy (Appendix A - C)

Financial Implications

8. Detailed in the body of the report

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Background

9. The main risks to the Council's treasury activities are:

    - Liquidity risk (inadequate cash resources)
    - Market or interest rate risk (fluctuations in interest rates)
    - Inflation risk (exposure to change in prices)
    - Credit and counterparty risk (security of investments)
    - Refinancing risks (impact of debt maturing in future years)
    - Legal and regulatory risk (i.e. non-compliance with requirements)

10. A detailed report is attached as Appendix A and this has been compiled with the support of Arlingclose Ltd. Also attached are the updated Prudential Indicators, Appendix B and the Minimum Revenue Provision Policy, Appendix C.

11. Routine Treasury Management activities on investments and borrowing are detailed in the Budget Monitoring – Qtr. 2 Forecast Outturn report, included as a separate agenda item for tonight's meeting.

Money Market Funds

12. The 2018/19 Treasury Management Strategy (TMS) allows investment of £1m per fund in AAA rated MMFs up to a total of £3m. Currently the Authority holds £1m in CCLA Public Sector Deposit Fund.

13. This report seeks to increase the use of Money Market Funds (MMFs) to assist in meeting the daily cash flow requirements whilst ensuring preservation of capital, high liquidity and competitive returns commensurate with security and liquidity.

14. MMFs are very high liquidity (monies are transferred in or repaid on the same day notice is given) and usually pay a higher rate than Debt Management Account Deposit Facility (DMADF). Currently, the majority of the funds pay above 0.50% (that we currently receive from DMADF) with the highest rate being 0.78%.

15. As per the current TMS, the Authority holds £1m in a Barclays Deposit account and anything up to £2m in the Barclays current account to meet the daily cash flow requirements. These deposits are not 100% secure and would be subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. This means, in effect, that some or all of the funds we hold in our instant access Barclays accounts could be lost if Barclays were subject to a bail in.

16. To minimise the risk of holding large deposits in one bank, many local authorities have holdings in pooled investment funds. Pooled investment funds are viewed as a safe alternative investment to bank deposits and are often used by local authorities as a way to manage cash efficiently. In theory, pooled investment funds offer investors a larger diversification than regular bank deposits and can generate higher returns.

17. MMFs are included within the £10m investments that the Authority needs to hold to meet the MiFID 2 requirements (current accounts, deposit accounts and DMADF do not qualify as MiFID 2) making it easier to opt up to professional status.

18. All the funds the Authority would use are in £ sterling and are AAA rated. There are two funds domiciled in the UK (CCLA and Federated Investors), but the majority of the funds are domiciled in either Luxembourg or Ireland because of the taxation levels in those countries. All the funds regardless of where they are domiciled invest in similar assets.

19. Even though the funds are domiciled in Luxembourg or Ireland, the fund managers are based in London. With regard to exposures with MMFs, the Authority's exposure isn't to the fund itself (e.g. CCLA) it is to the underlying assets that the fund manager has purchased on our behalf.

20. The Council is supported in its use of MMFs by our independent financial advisers Arlingclose Limited.

21. MMFs are pooled funds that invest in short-term debt instruments. They provide the benefits of pooled investment, as investors can participate in a more diverse and high-quality portfolio than they otherwise could individually.

22. Each investor who invests in a MMF is considered a shareholder of the investment pool, a part owner of the fund.

23. MMFs invest in securities issued by sovereign governments, treasury bills, Certificates of deposit issued by financial institutions, floating rate notes and medium term notes, commercial paper (including asset backed commercial paper), very short dated term deposits. There is a diversified pool of very high quality investments. Each holding is limited to no more than 5% of the fund. Often the diversification is greater with investments spread across 30-40 counterparties.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
MMF - Loss of councils funds or loss of access to funds	1 – minimal risk due to the nature of MMF's and policy, procedures and guidance in place	4 – significant sums	Limiting amounts held within each MMF, spreading amounts across multiple MMFs, limiting total exposure to MMFs