Report of:	Meeting	Date	Item No.
Cllr. Alan Vincent, Resources Portfolio Holder and Clare James, Head of Finance	Council	14 June 2018	9

Treasury Management Activity 2017/18

1. Purpose of report

1.1 To report on the overall position and activities in respect of Treasury Management for the financial year 2017/18.

2. Outcomes

2.1 An informed Council who have an understanding of Treasury Management activity, in line with the approved Treasury Management Policy and Strategy Statements and Treasury Management Practices.

3. Recommendation

3.1 That the Annual Report on Treasury Management Activity for the 2017/18 financial year be approved.

4. Background

4.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

4.2 During 2017/18 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 06/04/17)
- a mid-year (minimum) treasury update report (Council 07/12/17)

- an annual review following the end of the year describing the activity compared to the strategy (this report).

4.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report, is, therefore, important in that respect, as it provides details of outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members. Member training on treasury management issues was undertaken during the year on 18/01/2018 in order to support members' scrutiny role.

5. Key issues and proposals

5.1 The Economy and Interest Rates

5.1.2 After the UK economy's strong growth in the second half of 2016, growth in the first half of 2017 was disappointingly weak. It was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, which caused the cost of imports to rise. This meant a further reduction in consumer disposable incomes and spending power, as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for approximately 75% of GDP (gross domestic product), saw weak growth as consumers responded by cutting back on their expenditure.

5.1.2 Growth picked up modestly in the second half of 2017. On the 2 November 2017, the Monetary Policy Committee (MPC) raised the Bank Rate from 0.25% to 0.50%. This raised expectations of further interest rate rises, supported by the minutes of the MPC in February, which resulted in investment rates from 3-12 months increasing sharply during the spring quarter.

5.1.3 Public Works Loan Board (PWLB) borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates.

5.1.4 The General Election on 8 June 2017 was the major UK landmark event of the year but had relatively little impact on financial markets.

5.2 Overall Treasury Position as at 31 March 2018

5.2.1 At the beginning and the end of 2017/18 the council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

Table 1	31/3/17 Principal	Rate/ Return	Avge Life Yrs	31/3/18 Principal	Rate/ Return	Avge Life Yrs
Total Debt	1,560	4.43%	30	1,559	4.43%	29
Total investments	19,014	0.46%	0.08	14,310	0.38%	0.02
Net debt	-17,454			-12,751		
CFR*	11,548			11,452		
Under borrowing	9,988			9,893		

*Capital Financing Requirement

5.3 The Strategy for 2017/18

5.3.1 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that the Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31 March 2020. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5.3.2 In this scenario the treasury strategy was to maintain the authority's under-borrowed position whilst the Head of Finance monitored interest rates in financial markets, reappraising the portfolio position if there was significant risk of a sharp fall or rise in long or short term borrowing rates. Thus avoiding the cost of holding higher levels of investments and reducing counterparty risk.

5.3.3 During 2017/18, longer term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.

5.4 The Borrowing Requirement and Debt

The council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment. The table below compares the estimated CFR to the debt which exists at 31 March. This gives an indication of the borrowing required. It also shows the estimated resources available for investment. An option is to use these balances to finance the expenditure rather than investing, often referred to as internal borrowing, so the table gives an indication of the minimum borrowing requirement through this method.

	31/03/17 Actual £	31/03/18 Budget £	31/03/18 Actual £
CFR (£m)	11,548	11,452	11,452
Less external borrowing	1,552	1,552	1,552
Borrowing requirement	9,996	9,900	9,900
Reserves and Balances	19,153	23,812	23,812
Borrowing/(investment) need	(9,157)	(13,912)	(13,912)

5.5 Borrowing Rates and Borrowing Outturn in 2017/18

5.5.1 PWLB certainty maturity borrowing rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February/ March.

5.5.2 During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarters 1 and 3 and 2.60% in quarters 2 and 4.

5.5.3 No new borrowing was undertaken during the year 2017/18. Capital schemes budgeted for in 2017/18 were funded by grants and contributions, capital receipts and the Capital Investment Reserve. No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made the cost of rescheduling prohibitive. There were no short-term borrowing transactions (i.e. less than 365 days) during 2017/18.

5.5.4 Interest payments in respect of long-term borrowing for the 2017/18 financial year total £68,830 compared to the full year budget of £68,830. The actual interest payments, including miscellaneous payments for the year to 31 March is £68,848 compared to the full year budget of £68,850. This includes £18.26 payable to the Fielden Trust.

5.5.5 The council has not had a formal overdraft facility and annual arrangement fee since 2011. The council now incurs charges at 4% over the current base rate for net overdrawn balances with no annual arrangement fee. The council's net bank account position was overdrawn on one occasion during the 2017/18 financial year. This was reported in the Treasury Management Activity April 2017 to September 2017 report to council 7 December 2017.

5.6 Investment Rates and Outturn in 2017/18

5.6.1 Investment rates for three months and longer have been on a rising trend during the second half of the year. This reflects the expectation that the Bank Rate would increase from its floor of

0.25% and reached a peak at the end of March. The Bank Rate was raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels owing, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.

5.6.2 **Investment Policy** – the Council's investment policy is governed by MHCLG (Ministry of Housing, Communities and Local Government) guidance which has been implemented in the annual investment strategy approved by the Council on 6 April 2017. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such rating outlooks, credit default swaps, bank share prices etc.).
The investment activity during the year conformed to the approved strategy, and the council had no liquidity issues.

5.6.3 **Investments held by the Council** – Internally managed funds earned an average rate of return of 0.38%. The comparable performance indicator is the average 7 day LIBID (London Interbank Bid Rate) which was 0.21%. The equated investments for 2017/18 are analysed in the table below:

	Equated Investment Principal £	Interest Due £	Rate of Return	Benchmark Return
Bank of Scotland (fixed)	452,055	2,712	0.60%	0.21%
Eastleigh BC (fixed)	139,726	1,118	0.80%	0.21%
Qatar (1 month fixed A)	482,192	2,215	0.46%	0.21%
Qatar (1 month fixed B)	169,863	594	0.35%	0.21%
Qatar (3 month fixed A)	504,109	2,823	0.56%	0.21%
Qatar (3 month fixed B)	515,068	2,318	0.45%	0.21%

Goldman Sachs IB (fixed)	2,150,685	14,090	0.65%	0.21%
Qatar (Call)	1,528,767	7,644	0.50%	0.21%
Bank of Scotland (Call)	2,704,781	6,065	0.22%	0.21%
	Equated Investment Principal £	Interest Due £	Rate of Return	Benchmark Return
Santander 60 day Notice	2,843,836	10,705	0.38%	0.21%
Santander 95 day Notice	3,000,001	14,733	0.49%	0.21%
Nat West Liquid Select	1,434,705	734	0.05%	0.21%
Money Market Funds	4,846,008	13,944	0.29%	0.21%
Total	**20,771,796**	**79,695**	**0.38%**	**0.21%**

5.6.4 Interest receivable from investments for the 2017/18 financial year totals £79,695 compared to the full year budget of £59,240. Interest overall including miscellaneous items, received in the year totalled £82,834 compared to a budgeted figure of £62,220. The increase in interest and investment income over that budgeted of £20,614 is owing to an improved return on investment and an improved cash flow situation in the latter half of the financial year owing to delayed expenditure of external grant monies.

5.6.5 There have been seven occasions during the year where funds over £100,000 have remained in the council's accounts overnight as a surplus balance. Three of these were intentional, to ensure that sufficient funds were available for any significant payments during the Christmas closedown. There have been no occasions of funds over £100,000 remaining in the council's overnight general account since February when the Nat West roll up facility and control account was activated.

5.7 Other Issues

5.7.1 Revised CIPFA Codes

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes and a Revised Prudential Code.

A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury instruments. One recommendation was that local authorities should produce a new report to Members to give a high level summary of the overall capital strategy and to enable Members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments. A further report will follow detailing the impact of these changes.

5.7.2 Markets in Financial Instruments Directive II (MiFID II)

The European Union set the date of 3 January 2018 for the introduction of regulations under MiFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. As a council we have opted up to Professional Status in order to be able to continue to access the same investment instruments previously used. There has been little impact on our treasury management activities.

Financial and legal implications	
Finance	Considered in detail in the report above.
Legal	The approval of the recommendation will ensure that the statutory requirements have been complied with.

Other risks/implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with an x.

risks/implications	**✓ / x**
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	**✓ / x**
asset management	x
climate change	x
data protection	x

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List of background papers:		
name of document	Date	where available for inspection
None		

List of appendices

Appendix 1 Prudential and Treasury Indicators

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Appendix 1: Prudential and Treasury Indicators

1. Prudential Indicators	**2016/17 Actual £'000**	**2017/18 Estimate £'000**	**2017/18 Actual £'000**
Capital Expenditure	21,929	15,644	12,640
Ratio of financing costs to net revenue stream	0.46%	0.74%	0.59%
Gross Borrowing requirement General Fund	1,560	1,560	1,559
Gross debt	1,560	1,560	1,559
CFR	11,548	11,452	11,452
Annual change in CFR	(96)	(96)	(96)
2. Treasury Management Indicators	**2016/17 Actual £'000**	**2017/18 Estimate £'000**	**2017/18 Actual £'000**
Authorised Limit for external debt borrowing		20,000	
Other long term liabilities		0	
Total		20,000	
Operational Boundary for external debt borrowing		13,548	
Other long term liabilities		8	
Total		13,556	
Actual external debt	1,560		1,559

Maturity structure of fixed rate borrowing during 2017/18	**upper limit**	**lower limit**
Under 12 months	100%	0%
12 months and within 24 months	45%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

These gross limits are set to avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time.

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