Report of:	Meeting	Date
Councillor Alan Vincent, Resources Portfolio Holder and Clare James, Head of Finance	Council	11 July 2019

Treasury Management Activity 2018/19

1. Purpose of Report

1.1 To report on the overall position and activities in respect of Treasury Management for the financial year 2018/19.

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 2018/19 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 2018/19. 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 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 12/04/18)
- a mid-year (minimum) treasury update report (Council 06/12/18)
- 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 the 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 at Overview and Scrutiny (O&S) Committee on 26 November 2018 in order to support members' scrutiny role. Another member training update has been organised for the pre-council session on 12/12/2019 to support the post-election new intake of councillors and all O&S Committee members are specifically encouraged to attend.

5. Key Issues and Proposals

5.1 The Council's Capital Expenditure and Financing

5.1.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.) which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Description	**2017/18 Actual £m**	**2018/19 Budget £m**	**2018/19 Actual £m**
Capital expenditure	12,640	9,101	8,048
Financed in year	12,640	9,101	8,048
Unfinanced capital expenditure	0	0	0

5.2 Overall Treasury Position as at 31 March 2019

5.2.1 At the beginning and the end of 2018/19 the Council's treasury (excluding borrowing by PFI and finance leases), position was as follows:

Table 1	31/3/18 Principal £m	Rate/ Return	Avge Life Yrs	31/3/19 Principal £m	Rate/ Return	Avge Life Yrs		
Total Debt	1,559	4.43%	29	1,559	4.43%	28		
Total investments	14,425	0.38%	0.02	19,517	0.66%	0.01		
Net debt	-12,866			-17,958				
CFR*	11,452			11,355				
Under borrowing	9,893			9,796				

*Capital Financing Requirement

5.3 The Strategy for 2018/19

5.3.1 Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018/19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher in the year.

5.3.2 It was not expected that the MPC would raise Bank Rate again during 2018/19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

5.3.3 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

5.3.4 Continued uncertainty in the aftermath of the 2008 financial crisis has 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.

5.4 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.

	31/03/18 Actual £m	31/03/19 Budget £m	31/03/19 Actual £m
CFR (£m)	11,452	11,356	11,356
Less external borrowing	1,552	1,552	1,552
Borrowing requirement	9,900	9,804	9,804
Reserves and Balances	23,812	21,302	24,336
Borrowing/(investment) need	(13,912)	(11,498)	(14,532)

5.5 Borrowing Rates and Borrowing Outturn in 2018/19

5.5.1 Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend. Longer-term rates did spike upwards again during December and (apart from the 1 year rate) reached lows for the year at the end of March.

5.5.2 No new borrowing was undertaken during the year 2018/19. Capital schemes budgeted for in 2018/19 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 2018/19.

5.5.3 Interest payments in respect of long-term borrowing for the 2018/19 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 £72,875 compared to the full year budget of £72,880. This includes £18.36 payable to the Fielden Trust, £143.84 payable on a Primerate late capital submission and £3,882.91 interest due of a DFG correction.

5.5.4 The council 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 not overdrawn during the financial year 2018/19.

5.6 Investments

5.6.1 **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 12 April 2018. 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.).

5.6.2 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 0.66%. The comparable performance indicator is the average 7 day LIBID (London Interbank Bid Rate) which was 0.51%. The equated investments for 2018/19 are analysed in the table below:

	Equated Investment Principal £	Interest Due £	Rate of Return	Benchmark Return
Bank of Scotland (fixed)	361,644	2,893	0.80%	0.51%
Qatar Fixed	4,545,204	51,143	1.13%	0.51%
Handelsbanken I.A. Acc	2,127,178	7,445	0.35%	0.51%
Prime Rate	5,624,193	37,521	0.67%	0.51%
Qatar (Call)	1,323,288	6,617	0.50%	0.51%
Bank of Scotland (Call)	4,619,635	25,534	0.55%	0.51%
Santander 35 day Notice	800,000	6,800	0.85%	0.51%
Santander 95 day Notice	698,630	4,192	0.60%	0.51%
NatWest Liquid Select	2,369,224	5,300	0.22%	0.51%
Total	**22,468,996**	**147,445**	**0.66%**	**0.51%**

5.6.4 Interest receivable from investments for the 2018/19 financial year totals £147,445 compared to the full year budget of £109,710. Interest overall including miscellaneous items, received in the year totalled £147,539 compared to a budgeted figure of £109,810. The increase in interest and investment income over that budgeted of £37,729 is owing to an increase in the Bank of England Base Rate from 0.5% to 0.75% in August 2018, the consequent 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 no occasions of funds over £100,000 remaining in the council's overnight general account since February 2018 when the NatWest 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. This report went before Council on 4 April 2019 to ensure compliance with the codes.

5.7.2 Brexit – impact on Money Market Funds (MMFs)

The definition of an MMF has been amended as part of the legislative changes to be effective post Brexit. It has been indicated that the change is potentially significant and will affect investments in non-UK EU domiciled funds, which are currently a significant element of the MMF marketplace.

Temporary permissions to allow continued investment in MMFs have been developed by Her Majesty's Treasury. The government is understood to be currently reviewing and planning legislative measures to address the situation, to avoid uncertainty and to ensure no significant change arises on exit day.

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 a 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
ICT	x
data protection	x

Processing Personal Data

In addition to considering data protection along with the other risks/ implications, the report author will need to decide if a 'privacy impact assessment (PIA)' is also required. If the decision(s) recommended in this report will result in the collection and processing of personal data for the first time (i.e. purchase of a new system, a new working arrangement with a third party) a PIA will need to have been completed and signed off by Data Protection Officer before the decision is taken in compliance with the Data Protection Act 2018.

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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

Appendix 1: Prudential and Treasury Indicators

1. Prudential Indicators	**2017/18 Actual £'000**	**2018/19 Estimate £'000**	**2018/19 Actual £'000**
Capital Expenditure	12,640	9,084	8,048
Ratio of financing costs to net revenue stream	0.59%	0.40%	0.14%
Gross Borrowing requirement General Fund	1,559	1,560	1,560
Gross debt	1,559	1,560	1,560
CFR	11,452	11,355	11,355
Annual change in CFR	(96)	(96)	(96)
2. Treasury Management Indicators	**2017/18 Actual £'000**	**2018/19 Estimate £'000**	**2018/19 Actual £'000**
Authorised Limit for external debt borrowing		20,000	
Other long term liabilities		0	
Total		20,000	
Operational Boundary for external debt borrowing		13,452	
Other long term liabilities		8	
Total		13,460	
Actual external debt	1,559		1,560

Maturity structure of fixed rate borrowing during 2018/19	**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.