

CABINET
11 JUNE 2019

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: ANNUAL TREASURY MANAGEMENT REVIEW 2018/19

REPORT OF : SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER : FINANCE AND IT

COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 During the year the Council has generated **£0.353million** of interest from its investments. This is slightly below the budgeted total of £0.358million. The Council continued to invest in smaller Building Societies (subject to checks that compare the size of the Society with that of the investment) but did not invest outside of the UK.
- 1.2 The Council has repaid £0.015million of borrowing during the year as it has matured. The Council has £0.440million of remaining borrowing. This borrowing is at a fixed rate for a fixed period. The premium incurred from repaying this borrowing early means that it is not worthwhile to do so.
- 1.3 The Council complied with its legislative and regulatory requirements throughout the year.
- 1.4 The forecast for 2019/20 is that investment income will continue to reduce due to both market conditions and the use of cash balances to fund the capital programme.

2. Recommendations

- 2.1 Cabinet is asked to note the position of Treasury Management activity as at the end of March 2019.
- 2.2 Cabinet is asked to recommend this report to Council and ask Council to:
 - 1) Approve the actual 2018/19 prudential and treasury indicators.
 - 2) Note the annual Treasury Report for 2018/19.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure the Council's continued compliance with both the CIPFA code of Practice on Treasury Management and the Local Government Act 2003, and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 In general there is a relationship between the risk of an investment and the level of interest that is received (yield). Risk can be summarised under the headings of credit, liquidity and market. The risk appetite and approach of the Council determines what strategy it adopts. Whilst the focus is on managing risk, the interest received is an important income stream for the Council's General Fund.
- 4.2 Our Treasury advisors from Link Asset Services promote a different risk approach, particularly in relation to smaller Building Societies. This option has been dismissed on the basis of Members' different view of risk and the impact on the general fund.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 There is ongoing dialogue with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link). The Link service includes regular updates on economic and political changes that may impact on the Council's borrowing and investment strategies, advice on rescheduling, information and prudent parameters in respect of investment counterparty creditworthiness, document templates, access to technical updates and to the Technical Advisory Group. The Executive Member for Finance and IT is also regularly briefed.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 18th March 2019.

7. BACKGROUND

- 7.1 Members adopted the 2018/19 Treasury Strategy at the meeting of full Council on the 8th February 2018. There were minor changes from the 2017/18 Strategy relating to borrowing limits.
- 7.2 Members received updates on treasury activity at quarterly intervals during 2018/19, and this report represents the final quarterly update.

8. RELEVANT CONSIDERATIONS

- 8.1 In summary, the Council has operated both within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices.
- 8.2 The Council generated £0.354M of interest during 2018/19. The average interest rate agreed on new deals during the year was 0.96%. The average interest rate on all outstanding investments at the 31st March was 1.16%.
- 8.3 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.
- 8.4 **Credit Risk** – The possibility that other parties fail to pay amounts due to the Authority.

- 8.5 The Council's counterparty list comprises mostly UK building societies and UK banks with a Fitch (a credit rating agency) credit rating greater than BBB but also includes other Local Authorities and Public Corporations. It also includes smaller Building Societies that do not have a credit rating.
- 8.6 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.
- 8.7 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.
- 8.8 Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risks of long term deals are:
- (i) The longer the time period the longer the investment is exposed to default.
 - (ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.
- 8.9 Members have indicated that they are prepared to accept this risk within the limits expressed in the Treasury Strategy which allows no more than 40% of outstanding investments to be invested for longer than 365 days at any one time. At the end of the year the Council had £1.5M (4.6%) invested for longer than 365 days.
- 8.10 **Interest (Yield)** - This year has continued to prove challenging to find counterparties willing to pay a reasonable return on cash investments, either long or short term. The uncertainty around interest rate changes has continued in 18/19, with the latest predictions signalling the first increase to the base rate around March 2020.
- 8.11 The investments outstanding at the 31 March 2019 were £32.4million. This compares to a balance of £32.8million at 31 March 2018. Investment in capital projects will continue during 2019/20 and combined with declining returns for new investments means that the estimated investment interest for 2019/20 is expected to be in the region of £0.300M.

9. LEGAL IMPLICATIONS

- 9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.
- 9.2 Section 151 of the Local Government Act 1972 states that:
“every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.”
- 9.3 The Prudential Indicators comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

- 10.1 These are covered in section 8.

11. RISK IMPLICATIONS

- 11.1 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependant on banks and building societies need for borrowing. The introduction of the Funding for Lending Scheme which allows financial institutions access to low cost funding from Government for an extended period has impacted on their need to borrow and the rates at which they are prepared to borrow.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 The Social Value Act and “go local” policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource or equality implications.

15. CONTACT OFFICERS

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16. BACKGROUND PAPERS

Treasury Strategy 2018/19
CIPFA Prudential Code for Capital Finance in Local Authorities