

# **Annual Treasury Management Review**

## **2018/19**

English Local Authorities

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April 2019

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# Annual Treasury Management Review 2018/19

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## 1. Introduction

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).

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 08/02/2018)
- a mid-year (minimum) treasury update report (Council 18/12/2018)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

In addition, Cabinet and the Finance, Audit and Risk (FAR) Committee have received quarterly treasury management update reports.

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.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Finance Audit and Risk Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 25<sup>th</sup> June 2018 in order to support members' scrutiny role.

## 2. The Council's Capital Expenditure and Financing

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.

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	2017/18 Actual £'000	2018/19 Working Budget £'000	2018/19 Actual £'000
<b>Capital expenditure</b>	<b>9,484</b>	<b>6,736</b>	<b>5,574</b>
Financed in year	3,094	1,097	1,233
<b>Unfinanced capital expenditure</b>	<b>6,390</b>	<b>5,639</b>	<b>4,341</b>

### 3. The Council's Overall Borrowing Need

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2018/19. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2018 Actual £'000	31 March 2019 Budget £'000	31 March 2019 Actual £'000
Gross borrowing position	455	440	440
CFR	-10,315	-10	-5,990

The CFR is negative as the Council has more cash investments than borrowing. Borrowing is historic and was undertaken prior to the housing stock transfer when the CFR was positive.

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - - this indicator is the net cost of borrowing as a percentage of the total revenue budget. This would usually show how much of the overall budget is spent on borrowing costs. However as the Council's investment income exceeds the cost of interest on borrowing it is a negative number.

	2018/19
Authorised limit	£15.0m
Maximum gross borrowing position during the year	£0.455m
Operational boundary	£5.0m
Average gross borrowing position	£0.449m
Financing costs as a proportion of net revenue stream	-2.3%

## 4. Treasury Position as at 31 March 2019

At the end of 2018/19 the Council's treasury position was as follows:

	31 March 2018 Principal £'000	Rate/ Return	31 March 2019 Principal £'000	Rate/ Return
Fixed rate borrowing:				
-PWLB	455	9.59%	440	9.7%
-Market	0		0	
Variable rate borrowing:				
-PWLB	0		0	
-Market	0		0	
<b>Total debt</b>	<b>455</b>	<b>9.59%</b>	<b>440</b>	<b>9.7%</b>
<b>CFR</b>	<b>-10,315</b>		<b>-5,990</b>	
<b>Over / (under) borrowing</b>	<b>10,770</b>		<b>6,430</b>	
Investments:				
<b>Total investments</b>	<b>30,500</b>	<b>1.13%</b>	<b>30,000</b>	<b>1.17%</b>

The maturity structure of the debt portfolio was as follows:

	31 March 2018 Actual £'000	31 March 2019 Actual £'000
Under 12 months	16	17
12 months and within 24 months	17	18
24 months and within 5 years	55	58
5 years and within 10 years	92	82
10 years and above	275	265

The table below summaries where investments were held at 31 March and includes the Lloyds Bank interest bearing current account:

<b>INVESTMENT PORTFOLIO</b>	<b>Actual 31.3.18 £000</b>	<b>Actual 31.3.18 %</b>	<b>Actual 31.3.19 £000</b>	<b>Actual 31.3.19 %</b>
<b>Treasury investments</b>				
Banks	2,300	7	9,900	30
Building Societies	18,000	55	16,500	51
Local authorities	9,000	27	6,000	19
Money Market Funds	3,500	11	0	0
<b>TOTAL TREASURY INVESTMENTS</b>	<b>32,800</b>	<b>100</b>	<b>32,400</b>	<b>100</b>

Money market funds provide a short-term investment option with no entry or exit fees. Due to changes in accounting regulations the Council would have been required to obtain (and possibly pay for) professional advice on the risk of default in relation to balances held in Money Market Funds at 31<sup>st</sup> March 2019. To avoid these fees, it was decided to temporarily remove the funds and then reinvest them after the 1<sup>st</sup> April 2019.

The maturity structure of the investment portfolio was as follows:

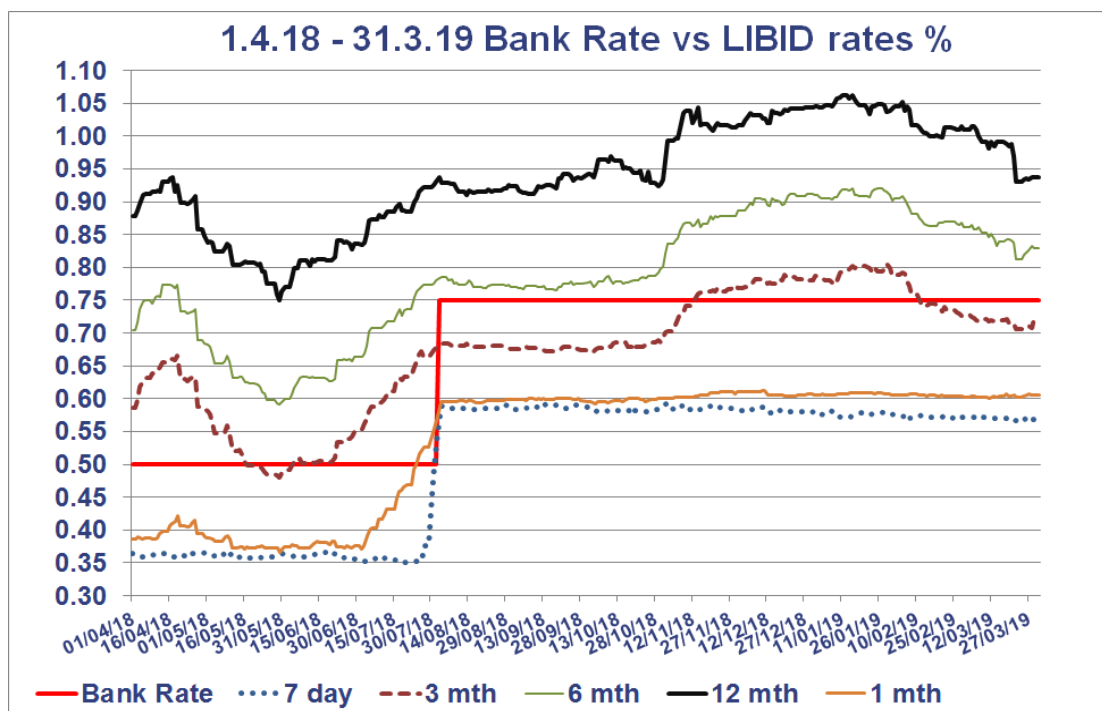
	<b>2017/18 Actual £000</b>	<b>31 March 2019 Actual £000</b>
Investments Longer than 1 Year	1,000	1,500
Investments Up to 1 Year	29,500	28,500
Total	30,500	30,000

## 5. The strategy for 2018/19

The strategy in 2018/19 was to continue only lending to UK banks, building societies, money market funds, Local Authorities and property funds. Only UK banks with a credit rating, for longer term deals, greater than “BBB” and F3 or above for short term credit ratings were on the Council’s lending list. (These are Fitch definitions of ratings). Not all building societies are credit rated but this did not preclude them from the lending list as lending to a building society was dependant on their asset size. Where a society did have a rating, this was considered at the time of the deal taking into account the amount of investment and the length of the deal. As well as imposing maximum limits with each counter party, the overall percentage of outstanding investments with each counterparty was assessed to ensure a reasonable spread of investments.

**Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2018/19, approved by the Council on 08/02/2018, was not changed during the year.

## 5.1 Investment strategy and control of interest rate risk



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.

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.

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.

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.

## 6. Borrowing Outturn

### Borrowing

No new loans were taken during the year.

£15K of PWLB loans were repaid during the year, as they became due.

### Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

### Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

## 7. Investment Outturn

**Investment Policy** – the Council’s investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 08/02/18. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the Fitch credit rating agency for banks and asset size for building societies.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

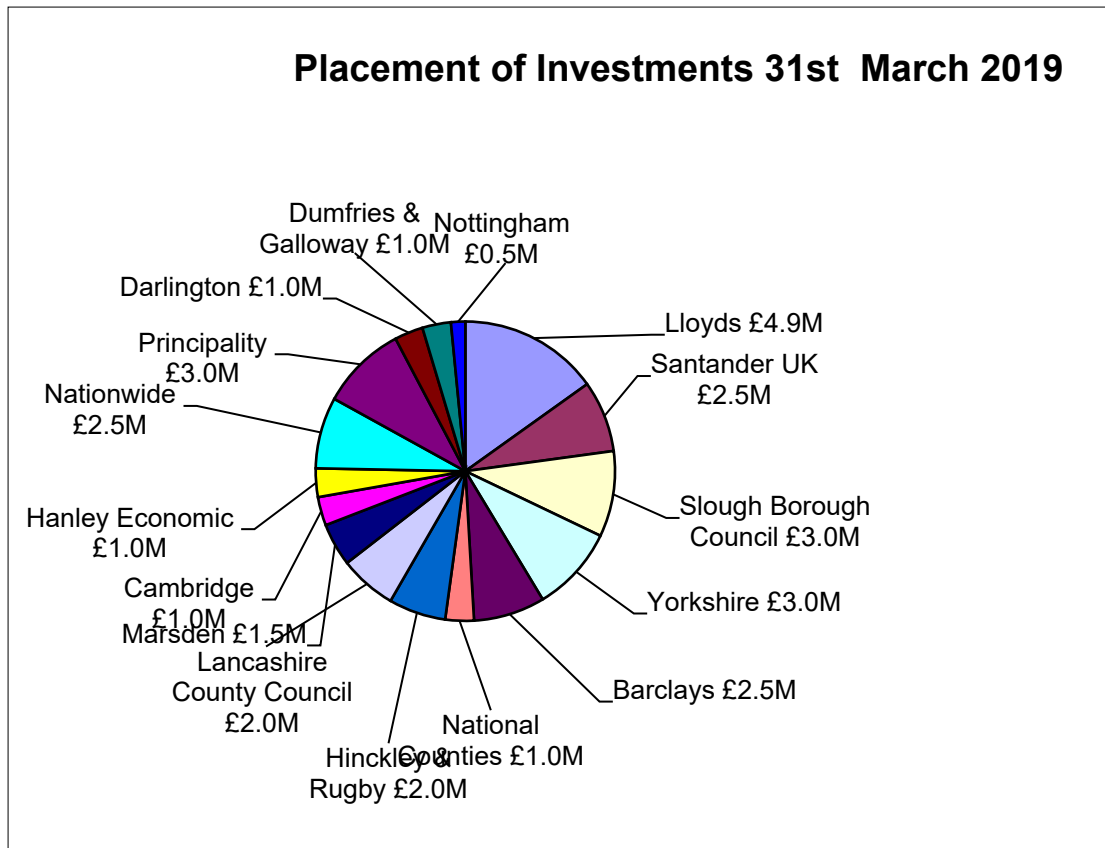
**Investments placed by Cash Managers** – the Council used an external cash manager to invest some of its longer term cash balances, where the rate achieved (after fees) is better than can be obtained by the Council directly. At the start of the year, Tradition had £18.0m of outstanding investments. This reduced to £8.5m by the end of the year as investments were returned in house. The performance of the Tradition against the benchmark return was:

Cash Manager	Investments Placed	Interest	Return	Benchmark*
Tradition	£18.0M - £8.5M	£0.134M	1.10%	0.67%

\* Ave 7 days notice Rate 0.67%

This compares with an original budget of £0.139M.

The pie chart below shows the spread of investment balances as at 31 March 2019. This is a snapshot in time that demonstrates the diversification of investments.

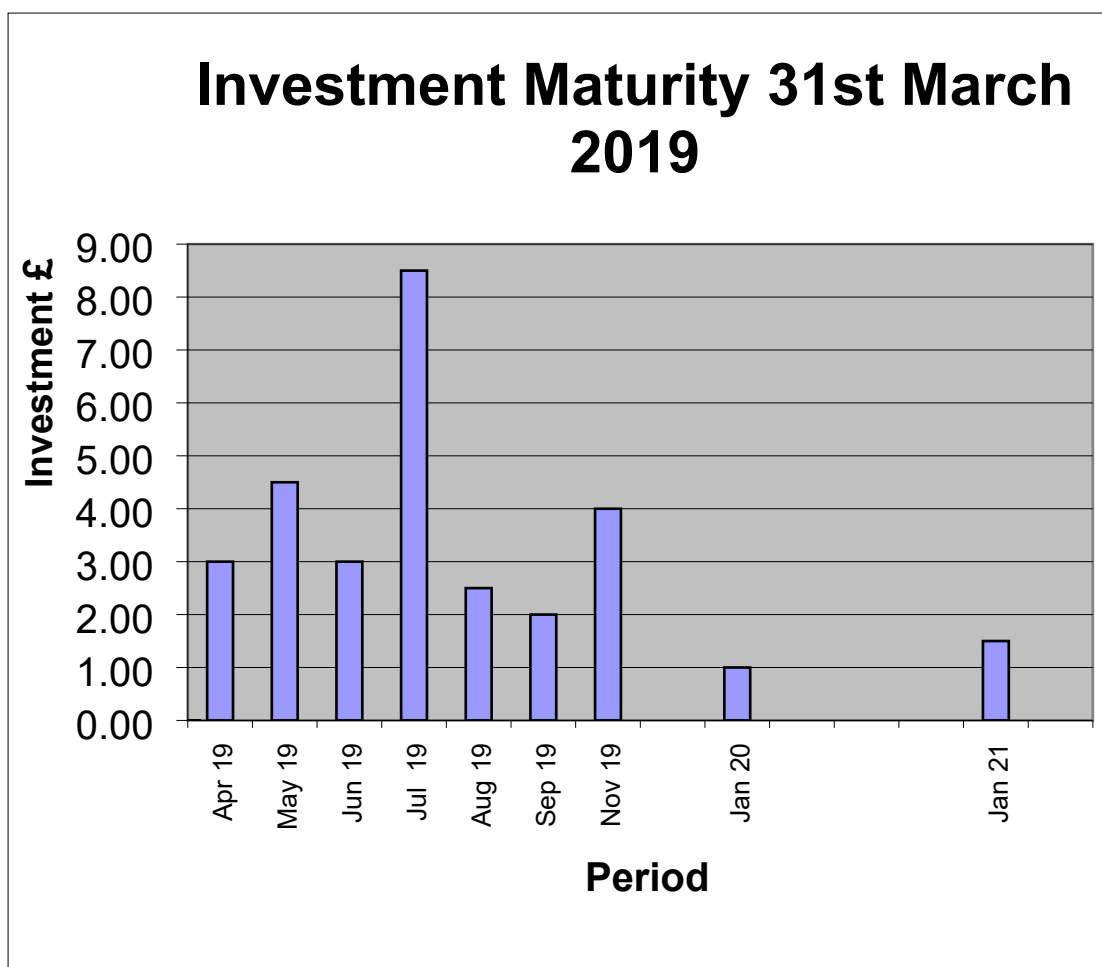


The average daily balance of investments was £40.3m with balances varying between £31.2m and £52.1m.

£0.354m of interest was generated from investments during the year. This is slightly less than the estimated interest of £0.358m (as per Quarter 3 forecast).

The graph below shows the maturity profile of investments at 31st March 2019.





**Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources	31 March 2018 £,000	31 March 2019 £'000
Balances	<b>8,357</b>	<b>8,800</b>
Earmarked reserves	<b>5,679</b>	<b>7,054</b>
Provisions	<b>1,252</b>	<b>1,245</b>
Usable capital receipts	<b>3,090</b>	<b>2,580</b>
<b>Total</b>	<b>18,378</b>	<b>19,679</b>

#### Investments held by the Council

- The Council maintained an average investment balance of £35.4m.