Briefing Report	ITEM NO.

REPORT OF THE LEAD MEMBER FOR FINANCE AND SUPPORT SERVICES

TO COUNCIL

ON 10TH OCTOBER

TITLE: **TREASURY MANAGEMENT ANNUAL REPORT 2017/18**

RECOMMENDATIONS: Members are requested to consider the outturn position and performance of Treasury Management

EXECUTIVE SUMMARY:

This report provides details of treasury management activity in 2017/18. The key highlights are:-

- The continuing policy of financing borrowing requirements by utilising a series of short term loans from other local authorities in order to take advantage of historically low interest rates currently available.
- Net Interest on loans and investments has exceeded the benchmark targets.
- All treasury management activity was within the performance boundaries set in the approved strategy for the year

The overall level of capital financing costs was contained within budget provision as a result of the borrowing strategy adopted.

BACKGROUND DOCUMENTS:

Various working papers in the Finance Division including:-

- T.M. strategy 2017/18 reported to Council on 22 February 2017.
- Revisions to the strategy reported to council at the mid year update reported to council on the 15 November 2017
- T.M.P's 1 to 12 and supporting schedules
- T.M. Code of Practice (CIPFA)

KEY DECISION: ~~YES~~ / NO

DETAILS:

TREASURY MANAGEMENT ANNUAL REPORT 2017/18

1. Introduction

1.1 The council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities following year end. 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).

1.2 During 2017/18 the minimum reporting requirements were fulfilled in line with the approved Treasury Management Strategy and the following reports were received:

- an annual treasury strategy statement in advance of the year was received at Council 22 February 2017
- a mid-year treasury update report was received at Overview and Scrutiny Board 15 November 2017
- an annual review following the end of the year describing the activity compared to the strategy, was received at Overview and Scrutiny Board 5 September 2018.

1.3 The regulatory environment places responsibility on the City Mayor and 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 Council.

1.4 The council uses Link Asset Services as its external treasury management advisors but recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

1.5 This annual report provides a review of 2017/18 and covers the following major areas:

- the council's treasury position as at 31 March 2018
- the outturn for 2017/18
- compliance with treasury limits
- investment strategy and outturn for 2017/18

2. The Economy and Interest Rates

2.1 Interest rates increased by 0.25% to 0.50% in November 17, earlier than had previously been expected, responding to weak growth in early 2017.

2.2 The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.

3. Overall Treasury Position as at 31 March 2018

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

TABLE 1	31 March 2017 Principal £m	Rate/ Return	Average Life yrs	31 March 2018 Principal £m	Rate/ Return	Average Life yrs
Total debt	***439.2***	***3.62***		***432.3***	***3.76***	
CFR excludning PFI liability	***445.0***			***434.8***		
Over / (under) borrowing	***-5.8***			***-2.5***		
Total debt	***439.2***	***3.62***		***432.3***	***3.76***	
Total investments	***88.03***	***0.55***		***70.65***	***0.68***	
Net debt	**351.17**			**361.6**		

4 The strategy for 2017/18

4.1 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31.3.20. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. 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.

4.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

4.3 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. The Borrowing Requirement and Debt

5.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The table below shows the CFR including PFI liabilities of £191.5m.

	31-Mar-17 Actual £m	31-Mar-18 Budget £m	31-Mar-18 Actual £m
CFR General Fund (£m)	635.0	629.2	620.0
CFR HRA (£m) *(if applicable)*	1.5	1.5	1.5
Total CFR	636.5	630.7	621.5

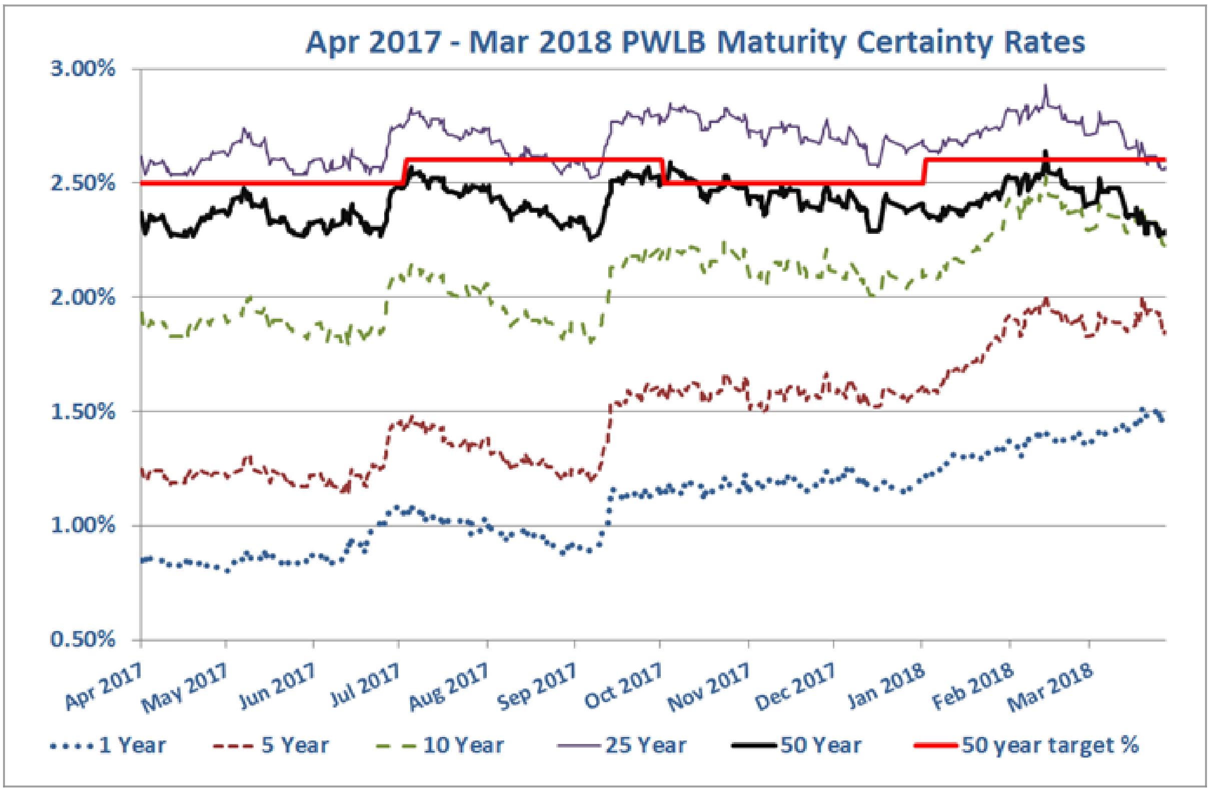
5.2 Over the year the capital financing requirement reduced by £14.9m. This was because the increase in the CFR due to unsupported borrowing £26.9m was more than offset by the MRP set aside £17.1m, capital receipts set aside of £18.3m and other debt repayments of £6.4m.

6. Borrowing Rates in 2017/18

6.1 As the graphs below shows, PWLB 25 and 50 year 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.

6.2 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.

6.3 The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.

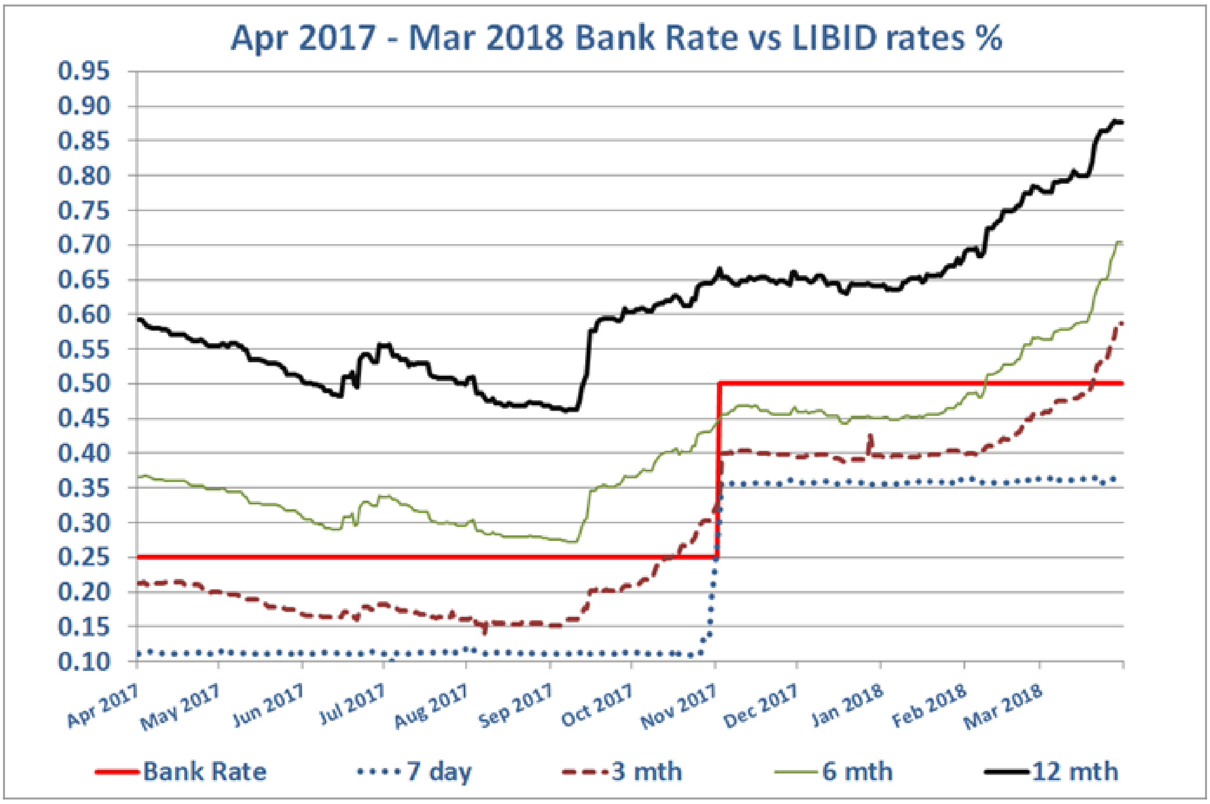


7. Borrowing Outturn for 2017/18

7.1 The council undertook no new long term borrowing during 2017/18, it did continue to renew its temporary borrowing. At the start of the year temporary borrowing was £142.2m, at the end of the year it was £135.5m. During the year 86 temporary loans matured and 67 new loans were taken. The weighted average interest rate on the council's whole portfolio of loans during 2017/18 was 3.76%.

8. Investment Rates in 2017/18

8.1 Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank rate was duly raised from 0.25% to 0.50% on 2 November 17 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 due, 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.



9. Investment Outturn for 2017/18

9.1 **Investment Policy** – the Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 24 February 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 as rating outlooks, credit default swaps, bank share prices etc.).

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

9.3 **Investments held by the Council** - the Council maintained an average balance of £54.7m of internally managed funds. The investments earned a weighted average rate of return of 0.68%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.21%. This compares with a budget assumption of £35m of investment balances being available earning with a weighted average interest rate of 0.72%, giving a favourable budget variation of £60k.

10. Other Issues

Revised CIPFA Codes

10.1 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.

10.2 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 investments. 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 will be reported alongside the budget setting report in February 2019.

Markets in Financial Instruments Directive II (MiFID II)

10.3 The EU 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. This has had little effect on this Authority apart from the administrative task of providing information to each institution dealing with the council and for each type of investment instrument we use, apart from for cash deposits with banks and building societies.

JOANNE HARDMAN

CHIEF FINANCIAL OFFICER

Appendix 1

Prudential and Treasury Indicators

Prudential Indicators	2017/18 Original	2017/18 Acutal
	£M	£M
Capital Expenditure		
Non-HRA	110.2	50.4
HRA	0.0	0.0
Total	110.2	50.4
Gross borrowing requirement		
borrowing	476.1	432.4
other long term liabilities	191.9	191.7
Total	668.0	624.1
Capital financing requirement (CFR)		
Non-HRA	665.8	620.0
HRA	1.5	1.5
Total	667.3	621.5
Annual Change in CFR		
Non-HRA	69.1	26.9
HRA	0.0	0.0
Debt repayment provision MRP	-38.3	-41.8
Total	30.8	-14.9
Ratio of financing costs to net revenue stream	%	%
Non-HRA	23.2%	20.3%
HRA	0.0	0.0

	2017/18 Original	2017/18 Acutal
Prudential indicator - operational boundary for external debt	£M	£M
Borrowing	466.5	432.4
Other long term liabilities	191.9	191.7
Total debt (year end position)	**658.4**	**624.1**

	2017/18 Original	2017/18 Acutal
Prudential indicator - Authorised limit for external debt	£M	£M
Borrowing	566.5	432.4
Other long term liabilities	191.9	191.7
Total debt (year end position)	**758.4**	**624.1**

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 allows the Council some flexibility to borrow in advance of its immediate capital needs in 2017/18.

At the 31 March 2018 gross borrowing £624.1m was in excess of the capital financing requirement of £621.5m. The council was over-borrowed by £2.6m, however, the debt position includes £5.1m of debt transferred. If this is accounted for the council would be under-borrowed by £2.5m.

The operational boundary limits for external debt reflect the estimate of the most likely, prudent, but not worst case, scenario without the additional headroom included within the authorised limit.

Treasury Indicators			**Position**
		2017/18	
Limits on			
Upper Limit on Fixed Interest Rate Expos		100%	100%
Upper Limit on Variable Interest Rate Exp		65%	0%
	All Years		
Maturity	**Upper**	**Lower**	
Under 12 months	75%	0%	55%
12 and within 24	50%	0%	12%
24 months and	50%	0%	8%
5 years and within	50%	0%	6%
10 years and	100%	25%	20%
Variable rate	75%	0%	67%
Upper Limit for Investments beyond 364 days		£40m	0

The council's inverse lobo has been shown as fixed because the rate is effectively capped at 7.99%. The other lobos are shown as maturing in the first band in which they have the next option, it is unlikely that LOBO loans will be called over the next few years as the LOBO interest rates already exceed current market rates and the option to change lies with the banks.

KEY COUNCIL POLICIES: Treasury Management Strategy and Budget Strategy.

EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS:

There are no equality impact assessment implications in this report.

ASSESSMENT OF RISK: Low

The monitoring and control of risk underpins all treasury management activities. The main risks are of adverse or unforeseen fluctuations in interest rates and security of capital sums.

LEGAL IMPLICATIONS Supplied by: Tony Hatton, Principal Solicitor, tel. 219 6323

Regulations issued under the Local Government Act 2003 require the Council to provide a review of its treasury management activities each year for the previous year. Additional requirements are contained within the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities, which are both taken into account for compliance as outlined in the report, which covers particularly the Council's treasury position as at 31 March 2018, compliance with treasury limits and the Council's investment strategy and outturn for 2017/18.

The Act therefore requires the Council to set out its Treasury Management Strategy at the start of each new financial year and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. It is noted that CIPFA revised the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code in December 2017, the implications of which will be provided in further reports once appropriate assessments have been made.

The report highlights the existing policy of borrowing requirements using short-term loans to benefit from low interest rates, and states that all treasury management activity conformed to the Treasury Management Strategy which was approved by Council in February this year.

FINANCIAL IMPLICATIONS Supplied by: Tony Thompstone – Finance Manager Ext 2016

Financial implications are included within the report.

PROCUREMENT IMPLICATIONS

There are no Procurement Implications in this report.

HR IMPLICATIONS

There are no HR implications arising from this report

OTHER DIRECTORATES CONSULTED:

CONTACT OFFICERS:

Tony Thompstone Tel No. 793 2016

WARDS TO WHICH REPORT RELATES: None specifically