ITEM NO	

REPORT TO EXECUTIVE

DATE	**2nd July 2019**
PORTFOLIO	**Resources and Performance Management**
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Annual Treasury Management Report
Review of 2018/19 Activity

PURPOSE

1. To inform members of the Council's treasury management activity during 2018/19.

RECOMMENDATION

2. That the Executive recommends that Full Council note the annual treasury management activity for the year ended 31 March 2019.

REASONS FOR RECOMMENDATION

3 To comply with the regulations issued under the Local Government Act 2003 to produce an annual treasury management report 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). Performance against the approved prudential and treasury indicators are shown in Appendix 1.

During 2018/19 the minimum reporting requirements were that Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 21 February 2018)
- a mid-year treasury update report (Council 19 December 2018)
- an annual review following the end of the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important, 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 Scrutiny Committee before they were reported to Full Council. Member training on treasury management issues was undertaken during the year on 10 December 2018 in order to support Members' scrutiny role.

SUMMARY OF KEY POINTS

4.1 **The Economy and Interest Rates (Provided by Link Asset Services)**

After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4.

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January.

As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

5. **The Strategy for 2018/19**

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 0.5% 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 later in the year.

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.

5.2 Borrowing Strategy and control of interest rate risk

During 2018/19, the council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure.

6. The Borrowing Requirement and Debt

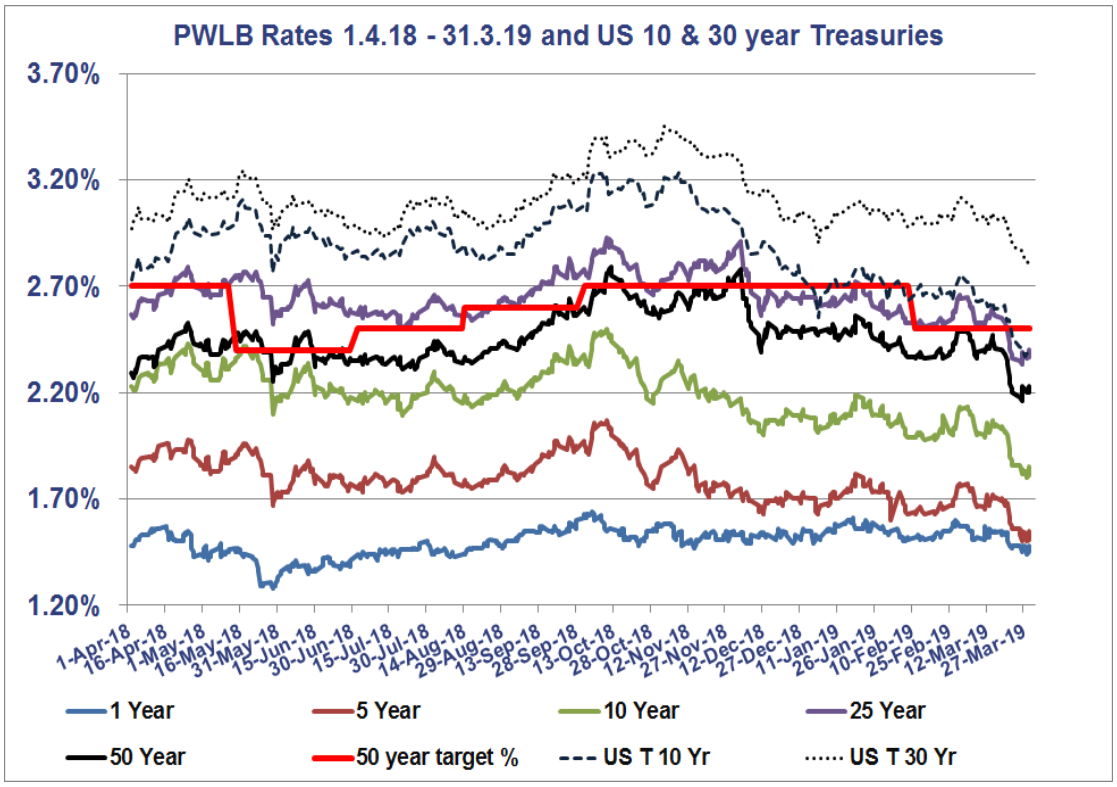
The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The table below shows the Council's CFR for 2018/19.

£m	31 March 2018 Actual	31 March 2019 Budget	31 March 2019 Actual
CFR General Fund	30.2	30.7	30.5

7. Borrowing Rates in 2018/19

PWLB certainty maturity borrowing rate
Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though 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. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields, which determine PWLB rtaes.

The graph 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.



8. **Borrowing Outturn for 2018/19**

Borrowing – there were no new PWLB loans taken during the year:

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.

Repayments – The following PWLB loans were repaid during the year, as scheduled:

Date	Lender	Principal	Balance at Repayment	Type	Interest Rate	Duration
30/9/18	PWLB	£14.9k	£14.9k	Maturity	8.0%	25 years
30/9/18	PWLB	£1m	£1m	Maturity	3.96%	8.5 years

9. **Investment Rates in 2018/19**

The Council's bank, HSBC, increased the interest rate it paid on the sweep facility from 0.40% to 0.60% in August 2018 in response to the Bank Rate increase. There was an average daily total of £7.57m being invested within the HSBC "sweep" deposit account, which earned an average of 0.54% in 2018/19.

10. **Investment Outturn for 2018/19**

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 21 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. This guidance is enhanced by advice from Link Asset Services.

The investment activity during the year conformed to the approved strategy, and the

Council had no liquidity difficulties.

Investments held by the Council - the Council maintained a daily average balance of £15.2m of internally managed funds during 2018/19. These investments earned an average rate of return of 0.68% which exceeded the target of base rate 0.75% minus 0.2%.

There were a total of 6 market investments made during the financial year, totalling £10m. The table below shows the amount deposited, and the rate of return against the market benchmark.

Counterparties	Date of Investment	Investment Made £m	Return	Benchmark
Goldman Sachs (6 month fixed)	09/04/2018	1.0	0.975%	0.788%
Goldman Sachs (6 month fixed)	21/05/2018	1.0	0.795%	0.788%
Goldman Sachs (6 month fixed)	16/07/2018	2.0	0.910%	0.788%
Goldman Sachs (6 month fixed)	19/11/2018	1.0	0.975%	0.788%
Santander (95 Day notice)	09/10/2018	3.0	1.0%	0.675%
Bank of Scotland (32 Day notice)	09/10/2018	2.0	0.75%	0.535%

All investments were for under one year.

The table below shows the maximum amount invested with any of the counterparties at any one time during the period April 2018 to the end of March 2019 against the maximum limits approved in the 2018/19 Treasury Management Strategy.

Counterparties	Maximum Limits £m	Highest level of Investment 2018/19 (£m)
HSBC	15.0	13.2
Bank of Scotland	4.0	4.0
Goldman Sachs	4.0	4.0
Santander UK plc	4.0	3.0

11. **Interest payable on External Borrowing / Interest Receivable on Investments**

The revised budget for the PWLB interest payable on external borrowing for 2018/19 was set at £987,328.

The outturn position was £924,995 due to proactive management of the Councils' cash flows, slippage in capital spending and borrowing requirements, and lower PWLB interest rates payable.

The total interest receivable on temporary investments in 2018/19 amounted to £100,020 compared with a budget for the year of £69,845, the difference of £30,175 being due to careful and pro-active management of the council's cash balances.

12. **Property Fund Investments, costs & dividends received**
The council invested in two property funds during 2018/19 for the purpose of increasing and diversifying our risk in investment income receivable and to help alleviate future revenue budget pressures. An investment of £1m was made with CCLA at the end of November 2018 and a further £1m with Hermes at the end of January 2019. Dividends receivable in the 4 month period amounted to £20,303. There was a cost to the council for first year entry fees of £110,843.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

13. None arising as a direct result of this report.

POLICY IMPLICATIONS

14. All transactions are in accordance with the Council's approved Treasury Policy Statement

DETAILS OF CONSULTATION

15. None

BACKGROUND PAPERS

16. Treasury Management Strategy Report & Prudential Indicators Report for 2018/19.

FURTHER INFORMATION PLEASE CONTACT:	**Asad Mushtaq,** **Head of Finance & Property**