Part A

Report to:	Audit Committee
Date of meeting:	30 July 2019
Report of:	Head of Finance (shared services)
Title:	Treasury Management Annual Report 2018-19

1 Summary

1.1 This report gives details of the 2018/19 year end review of the Treasury Management function.

2 Recommendations

2.1 That the Committee notes the Annual Treasury Management Report.

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Report approved by: Joanne Wagstaffe, Director of Finance

3 Introduction

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: “the management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

3.2 The Council’s 2018/19 Treasury Management Strategy (TMS) as approved by Council on 30 January 2019 has the primary objectives of safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective.

3.3 This report provides the Committee with an overview of Treasury Management performance for 2018/19.

3.4 The Council has appointed treasury advisors to assist with our treasury management, Link Asset Services.

The Council’s Capital Position (Prudential Indicators)

3.5 The Council’s capital expenditure plans are one of the key drivers of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans.

Capital Financing Requirement (CFR), External Debt and Operational Boundary

3.6 The CFR and Operational Boundary estimates are shown below:

Prudential Indicator	2018/19 Original Estimate	2018/19 Revised Estimate (mid-year)	2018/19 Outturn
Capital Financing Requirement	£57.2m	£57.2m	£26.8m
External Debt / the Operational Boundary			
Borrowing (Net debt)	£25.0m	£25.0m	£7.5m

3.7 Borrowing has been lower than expected due to changes to the phasing of investments at Riverwell and within the Hart Home Portfolio and re-phasing of the capital programme.

Limits to Borrowing Activity

3.8 The first key control over the treasury activity is a Performance Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. External borrowing should not, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years.

The Operational Limit

3.9 This PI, which is required to be set and revised by Members, is the limit beyond which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority's plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes.

Authorised Limit For External Debt	2018/19 Original Indicator	2018/19 Revised Indicator	2018/19 Net Debt Outturn
Borrowing (net debt)	£25.0m	£25.0m	£7.5m

The Authorised Limit

3.10 This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit For External Debt	2018/19 Original Indicator	2018/19 Revised Indicator	2018/19 Net Debt Outturn
Borrowing (net debt)	£30.0m	£30.0m	£7.5m

Investment Portfolio 2017/18

3.11 In accordance with the CIPFA Prudential Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.75% Bank Rate. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

3.12 The Council held £4.932M of investments as at 30 September 2018 (see table below). This information is reported in the monthly Members Information Bulletin

Institution	Principal (£'000)
Lloyds Bank – Current Account	4,932
Total Banks	4,932
Nationwide Building Society	-
Principality Building Society	-
Skipton Building Society	-
Total Building Societies	-
Total	**4,932**

3.13 The approved limits within the Annual Investment Strategy were not breached during 2018/19.

Security

3.14 The Council uses benchmarks as simple guides to maximum risk, and these may be breached from time to time, depending on movements in interest rates and counterparty criteria. Any breach of the benchmarks will be reported, with supporting reasons, in this report. There were no breaches to report during 2018/19.

3.15 In line with the TMS, the Council has managed to invest with those institutions who offered the best rate and the investment portfolio is above the overall benchmark during the year to date.

Liquidity

3.16 The Council set liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft of £nil.
- Liquid short term deposits of at least £5m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 10 years for an individual loan with a public body.

The liquidity arrangements were adequate during the year to date. The level of working capital dipped briefly below the £5M requirement at the end of 2018/19, However due to projected receipt of grant, council tax and NDR income at the start of 2019/20 it was decided not to borrow as the shortfall was less than £0.1M and for a period of less than 30 days and there would be a cost to short term borrowing.

Yield

3.17 The approved benchmark measure of yield is a return of 0.12% above the average bank rate. The bank rate was 0.5% until 1 August 2018, when it rose to 0.75%. The returns for 2018 were equivalent to 0.73%, against a benchmark rate of 0.79% for the year. Performance remained below benchmark for the period due to difficult investment conditions and the low levels of surplus cash.

3.18 The Council keeps all investments short term. There are no sums within the TMS invested for greater than 364 days. Counterparties have been downgraded over the past few years; most investments have been limited to a 6 months period. This has resulted in lower interest rates being achieved.

3.19 The current investment counterparty criteria selection approved in the TMS is being met.

Credit Ratings

3.20 Credit rating information is supplied by our treasury consultants, Link Asset Services, on all counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

4 Policy/Budget Reference and Implications

4.1 The recommendations in this report are within the Council's agreed policy and budgets.

5 Financial Implications

5.1 This report provides formal assurance on the Council's compliance with its Treasury Management Strategy during the year.

6 Legal, Equal Opportunities, Staffing, Environmental, Community Safety, Public Health, Customer Services Centre, Communications & Website, Health & Safety Implications

6.1 None

7 Risk Implications

7.1 The Council's Treasury Management Strategy sets out the risks that it is seeking to manage. These risks are:

liquidity risk – that the Council may not have the cash it needs on a day to day basis to pay its bills. This risk is managed through forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board and other organisations, the Council is able to access short term borrowing, usually within 24 hours.

interest rate risk – that the costs and benefits expected do not materialise due to changes in interest rates. This risk is managed through the placing of different types and maturities of investments, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).

exchange rate risk – that losses or gains are made due to fluctuations in the prices of currency. The Council does not engage in any significant non-sterling transactions.

credit and counterparty risk – that the entity holding Council funds is unable to repay them when due. This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited

refinancing risk – that the loans taken by the Council will become due for repayment and need replacing at a time when there is limited finance available or interest rates are significantly higher. The timing of loan maturities is monitored along with interest rate forecasts. Officers ensure that due dates are monitored and seek advice from the Council's advisors about when to raise any finance needed.

legal and regulatory risk – that the Council operates outside its legal powers. This risk is managed through the Council's training and development of Officers involved in Treasury Management, the independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors.

fraud, error and corruption – that risk that losses will be caused by impropriety or incompetence is managed through the controls in the Council's financial procedures. For example, the segregation of duties between those making investment decisions and those transferring funds

market risk – that the price of investments held fluctuates, principally in secondary markets. The majority of the Council's investments are not traded, but where they are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure.

Background Papers

Capital Strategy and Treasury Management Strategy 2018/19 (published as part of the 2018/19 Budget)