	REPORT TO CABINET TO BE HELD ON 3 SEPTEMBER 2019
	Key Decision NO **Forward Plan Ref No** 14 **Cabinet Portfolio Holder** Cllr J Jefferson
Corporate Aims People/Place/Prosperity/Council	

REPORT OF DIRECTOR (NE) – 19/168

WARDS AFFECTED: All

SUBJECT: TREASURY MANAGEMENT OUT-TURN FOR 2018/2019

RECOMMENDATION(S):

Cabinet is recommended to receive this report and note the out-turn position of the Council's Treasury Management function for the 2018/2019 financial year.

REASON FOR RECOMMENDATIONS:

(i) To comply with the CIPFA Code of Practice of Treasury Management in Local Authorities (the Code) by informing the relevant internal bodies of the Council's treasury management activities before 30 September following the end of the financial year that the report relates;

(ii) To keep Members informed of Treasury Management activities and performance.

HIGHLIGHTED RISKS

The Council does not comply with the Code of Practice of Treasury Management in Local Authorities, which may result in adverse comment from both internal and external auditors.

1. INTRODUCTION

1.1 Treasury Management in Local Government is regulated by the CIPFA Code of Practice on Treasury Management in Local Authorities (the Code), which this Council formally adopted and complies with; together with the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 The primary requirements of the Code are:

- The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury activities;

- The creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

- Reporting to Cabinet and/or Council of both the expected treasury activities for the forthcoming financial year (the annual treasury strategy statement) and subsequently the results of the Council's treasury management activities in that year (this annual treasury report);

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit Committee.

1.3 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 out-turn position for treasury activities and highlights compliance with the Council's previously approved policies. It is accepted good practice for the out-turn report to be subject to Audit Committee scrutiny prior to being presented to Cabinet by the end of September.

1.4 Treasury Management in this context is defined 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 these activities; and the pursuit of the optimum performance or return consistent with those risks."

2. CORPORATE AIMS AND PRIORITIES

2.1 This report potentially affects all of the Council's Corporate Objectives as treasury management activities, especially capital borrowing, underpin the financial affordability in meeting these objectives.

3. BACKGROUND AND ISSUES

3.1 Investment and Borrowing Portfolios as at 31 March 2019

3.1.1 The Council's investment and borrowing position at the beginning and end of the financial year was as follows:

	31 March 19 Principal	Rate %	31 March 18 Principal	Rate %
Borrowings				
Fixed Rate Funding	25,786,157	3.0910	11,842,150	3.3399
Variable Rate Funding	0	0	0	0
Total Borrowing	**25,786,157**	**3.0910**	**11,842,150**	**3.3399**
Investments				
In-house	21,000,000	0.8786	20,000,000	0.4841
Total Investments	**21,000,000**	**0.8786**	**20,000,000**	**0.4841**

3.1.2 The level of external borrowing is within the Authorised Limits established by the Treasury Management Prudential Indicators reported to Cabinet on 13 February 2018 (18/36) and Full Council on 2 March 2018 as part of the Financial Strategy for the 2018/2019 financial year.

3.2 The Strategy for 2018/2019

3.2.1 The treasury strategy for 2018/2019 was based on:

- Bank Rate would increase from 0.50% to 0.75% during the financial year;
- Bank Rate would then only increase once more (to 1.00%) by 2020;
- Gradual rises in medium and long term fixed borrowing rates during 2018/2019, and the two subsequent financial years;
- Variable, or short term rates, would be the cheaper form of borrowing over the period;
- Investments would continue to be dominated by low counterparty risk considerations; and
- Low investment returns compared to borrowing rates; although investment rates would be on a gentle rising trend over the next few years.

3.2.2 The Council would continue to maintain an under-borrowed position; using internal resources in lieu of external borrowing as the most cost effective means of financing capital expenditure. This would also avoid holding higher level of investments, thus reducing counterparty risk. The Strategy recognised that the short term savings to the General Fund by avoiding new long term borrowing has to be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when Public Works Loan Board (PWLB) rates may be significantly higher.

3.2.3 The Council's expansive capital programme for the forthcoming years identified that new external borrowing would be required at a future date. Any new borrowing would only take place in advance of need if the rates available were so favourable that the long term benefits significantly exceeded the short term costs.

3.2.4 Opportunities for the cost effective repayment or rescheduling of existing borrowing were to be constantly monitored and would be exploited if they emerged and were of favourable terms.

4. CONSULTATION

4.1 In accordance with best practice and internal governance arrangements the treasury out-turn position was presented to the Audit Committee on 25 July 2019 (19/154) for scrutiny. Following this scrutiny, the Audit Committee resolved that the report be presented to Cabinet's September meeting to comply with the CIPFA Code of Practice.

5. ASSESSMENT

5.1 Economic Out-turn for 2018/2019

5.1.1 The Monetary Policy Committee (MPC) raised Bank Rate from 0.50% to 0.75% at its meeting on 2 August 2018. There were no further movements as economic growth was weak and continued uncertainties around Brexit. If the uncertainties remain and a disorderly exit occurs then it is likely that the MPC would reduce Bank Rate to support growth.

5.1.2 The CPI inflation measure continued its falling trend since peaking at 3.10% in November 2017, reaching a low of 1.80% in January 2019, before rising to 1.90% in February. The February Bank of England Inflation Report forecast inflation over the next two year time horizon to remain marginally above the MPC's target of 2.00%.

5.1.3 As expected investment returns did remain low during the financial year, although there were gentle rises in between April and August in anticipation of a rise on Bank Rate. Opportunities to benefit from enhanced investment returns were taken where cash balances permitted. However, as a consequence of weak growth and Brexit concerns the investment rates soon fell back again.

5.1.4 In the US strong growth continued with the annual rate for 2018 being 2.90%, just below the aim of 3.00% growth. CPI inflation fell to 1.50% in February which is below the Federal Reserve target of 2.00%. Following the fourth rate rise of 2018 to between 2.25-2.50% it is now forecast that the next change could be a rate reduction.

5.1.5 In the Eurozone, since the European Central Bank (ECB) reduced its monetary stimulus measures growth has been weakening. The ECB is therefore considering new measures to stimulate growth, however with the refinancing rate already at 0.00% and the deposit rate at -0.40% it has probably reached the limit of cutting rates.

5.1.6 PWLB borrowing rates increased correspondingly to the above developments peaking in December 2018, before falling back on the view that the Federal Reserve had undertaken too many rate increases, and the next would be a cut.

5.2 Investment Out-turn for 2018/2019

5.2.1 The Council's investment policy is governed by the Ministry of Housing, Communities and Local Government guidance, which has been implemented in the Annual Investment Strategy approved by Full Council on 2 March 2018 as part of the Financial Strategy. This policy sets out the approach for selecting counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks and credit default swaps).

5.2.2 The Council manages its investments in-house and invests with the institutions that meet the minimum creditworthiness criteria approved by Full Council. During the year, as well as using short term instruments, the Council invested in fixed term deposits up to 6 month duration with strong rated institutions. The selection of period and type of instrument is dependent on the Council's cashflows, its interest rate view and the interest rates on offer.

5.2.3 The Council can, dependant on cash levels, invest for periods greater than 1 year, but given the continued economic instability this was not considered a prudent approach. In addition to making investments to generate interest the in-house team must also ensure that the Council's day-to-day cashflow requirements are aligned to support the Capital Strategy and revenue expenditure.

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

5.2.5 In applying stringent credit criteria, which has reduced the number of counterparties available, the Council demonstrated its adherence to the overriding principles of security and liquidity which are the cornerstone of its investment policy and objective. The Council accepted the diminution in investment return from investing with highly rated counterparties as an acceptable risk-reward trade-off. Due to the limited counterparties available, the Council had increased the maximum investment limits with certain institutions and public authorities, which enabled greater flexibility in implementing the Investment Strategy.

5.2.6 The uncompounded 7-day LIBID rate investment benchmark for the year was 0.5068% and the 3-month LIBID uncompounded was 0.6753%. The Council achieved an investment return of 0.8786%, against a budget forecast of 0.55%. This does not take account of the savings (£354k) achieved through paying 3 years pension fund contribution in one payment (£5.27 million) in April 2017.

5.2.7 No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year. The list of institutions in which the Council invests was kept under continuous review throughout the year.

5.3 Borrowing Out-turn for 2018/2019

5.3.1 At the beginning of the financial year the Council had £11.842 million in external borrowing spread over three loans as detailed beneath:

Principal £	Lender	Date Taken	Type of Loan	Rate %	Loan Period (Years)
4,000,000	Barclays	15 Sept 2003	Maturity	4.45	40
4,000,000	PWLB	2 February 2015	Maturity	2.59	15
3,842,150	PWLB	2 March 2015	Annuity	3.15	40

5.3.2 Two of the loans are with the PWLB, with the other being a £4.00 million fixed rate maturity with Barclays Capital.

5.3.3 The annuity loan has a fixed annual repayment amount over the duration of the loan (40 years) which incorporates an amount for principal as well as interest. Over the course of the 2018/2019 financial year £55,993 of principal has been repaid. As an element of principal is being repaid with each instalment the interest payable on debt outstanding reduces annually throughout the loan term.

5.3.4 No opportunities of rescheduling any of the existing loans arose during the financial year.

5.3.5 A new 50 year annuity loan of £14.00 million was taken from the PWLB during the financial year to purchase an investment property. No other long term external borrowing was taken during the financial year, despite an assumed borrowing need of £5.50 million being identified in the 2018/2019 financial strategy; due to slippage in the capital programme and draw down of grants in advance of expenditure.

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

6. RISK MANAGEMENT

6.1 The much publicised events of recent years surrounding the difficulties faced by Sovereign nations and individual financial institutions illustrate the risks associated with investment and borrowing activity and these are addressed within the Council's Treasury Management Strategy which is reviewed each year by Council. That report also refers to the controls that are operated on a daily basis and are designed to mitigate the risks associated, particularly with investment institutions.

6.2 Clearly for borrowing decisions the nature of risk is different in that the Council owes money to institutions rather than the reverse scenario. Nonetheless, there are risks in that decisions made could have an adverse effect upon the overall financial position of the Council such as choosing to borrow, restructure or repay debt at an inopportune time.

6.3 To mitigate the possibility of erroneous judgement the Council employs Link Group (Link) to provide specialist advice to support such decisions. Link's contract expires on 30 September 2020, although there is an option to extend for a further two years.

6.4 The Council's treasury activities were subject to an external audit by Mazars, and an internal audit review during the financial year, resulting in an opinion of High Assurance.

7. IMPLICATIONS

7.1 Policy

7.1.1 The content of this report is within the Council's policy and financial framework.

7.2 Financial

7.2.1 This report does not have any financial implications.

7.3 Legal

7.3.1 This report fulfils the requirement to inform Members of the Council's treasury management activities in accordance with the CIPFA Code of Practice on Treasury Management in Local Authorities.

7.4 Risk

7.4.1 A risk matrix is attached as Appendix A.

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Background Papers:
CIPFA Code of Practice on Treasury Management in Local Authorities
Prudential Code for Capital Finance in Local Authorities

APPENDIX A

Risk Matrix

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	August 2019	The Council does not comply with the Code of Practice of Treasury Management in Local Authorities.	It may lead to a detrimental comment from the external auditors.	This report was presented to Audit Committee on 25 July 2019 for scrutiny.	B2	A1	Asset & Risk Manager	This report is to be presented to Cabinet prior to the 30 September 2019.