
TITLE: 2017/18 TREASURY OPERATIONS ANNUAL PERFORMANCE REVIEW

Committee: Resources and Finance Committee

Date: 18th June 2018

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1.0 ISSUE

- 1.1 To report on the Council's treasury operations during 2017/18
- 1.2 The report reviews the Treasury Management activity during the financial year 2017/18 and reports on the prudential indicators as required by CIPFA's Treasury Management Code of Practice.
- 1.3 Investments totalled £4,850 million as at 31 March 2018, a decrease of £12.09 million on the previous year. The Council's cash investments are all for periods of less than one year.
- 1.4 Interest received during the financial year was £208,050, which was £108,050 above the budget of £100,000. This figure is made up of £69,894 from investment in money markets and £138,156 from the loan to ECTC. The investments in money markets generated an average interest rate of 0.387% across the year.
- 1.5 The rate of return on cash investments held as at 31st March 2018 (this excludes the loan to ECTC) was 0.384%. This was above the benchmark three month LIBID (London Inter-bank Bid Rate) which was 0.286% on that day.

2.0 RECOMMENDATION

- 2.1 Members are asked to note the contents of the report and recommend to Full Council approval of the report on the Council's treasury operations during 2017-18, including the prudential and treasury indicators as set out in Appendix 1.

3.0 BACKGROUND/INTRODUCTION

- 3.1 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 2017/18. 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).
- 3.2 During 2017/18 the minimum reporting requirements were that Full Council should receive the following reports:
- an annual treasury strategy in advance of the year (received by Council on the 23rd February 2017);
 - a mid-year treasury update report, (this was approved by Resources and Finance Committee on 30th November 2017 and went to Full Council on the 4th January 2018);

- an annual review following the end of the year, describing the activity compared to the strategy (this report).
- 3.3 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 outturn position for treasury activities and highlights compliance with the Council’s policies previously approved by members.
- 3.4 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 Resources and Finance Committee, before they were reported to the Full Council.
- 3.5 No member training on treasury management was undertaken during the year.

4.0 THE ECONOMY AND INTEREST RATES

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the up-side with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth picked up modestly in the second half of 2017. Consequently, market expectations, during the autumn, rose significantly that the Monetary Policy Committee (MPC) would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September 2017 indicated that the MPC was likely to raise Bank Rate very soon. The 2 November 2017 MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.

Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

5.0 OVERALL TREASURY POSITION AS AT 31ST MARCH

- 5.1 At the beginning and the end of 2017/18 the Council’s treasury position was as follows:

| | <i>31 March 2017</i> | <i>31 March 2018</i> |
|--------------------------|-----------------------|----------------------|
| Total debt | £0.00 million | £0.00 million |
| | | |
| Total investments | £16.94 million | £4.85 million |

6.0 THE STRATEGY FOR 2017/18

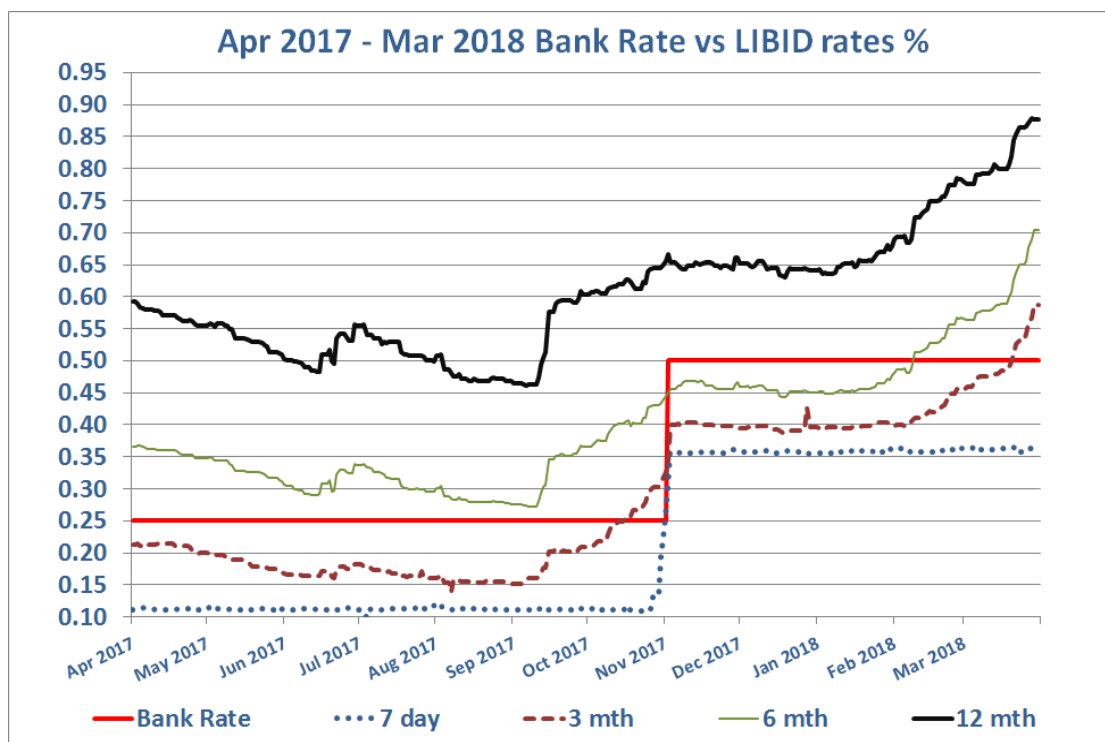
- 6.1 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31 March 2020. There would also be gradual rises in medium and longer term fixed borrowing 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.
- 6.2 In this scenario, the treasury strategy was to avoid as far as possible external borrowing in 2017/18 therefore avoiding the cost of holding higher levels of investments and to reduce counterparty risk.
- 6.3 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.
- 6.4 No external borrowing was therefore planned for 2017/18.

7 THE BORROWING OUTTURN 2017/18

- 7.1 No external borrowing was undertaken during 2017/18.

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 2017 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 DCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 23rd February 2017. 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 had an average balance of £18.069 million of internally managed funds through the year. The internally managed funds earned an average rate of return of 0.387%.

10 CONCLUSIONS

- 10.1 The size of the Council's investment portfolio is relatively small. Meaning that investment decisions have to be made primarily to accommodate cash flow requirements as opposed to optimising investment returns. Despite these pressures, opportunities for some pro-active investment decisions were taken when available, with a move to more fixed term investments and away from overnight accounts.
- 10.2 During the financial year the Council operated within its approved treasury limits and prudential indicators.

Appendix 1: Prudential and treasury indicators

| 1. PRUDENTIAL INDICATORS | 2016/17 | 2017/18 | 2017/18 |
|--|----------------|----------------|----------------|
| Extract from budget report | Actual | Original | Actual |
| | £'000 | £'000 | £'000 |
| Capital Expenditure | £4,594 | £15,434 | £15,875 |
| Ratio of financing costs to net revenue stream (loss of interest as a consequence of reduced net reserves) | 0.18% | 0.32% | 0.45% |
| Gross external debt | £0 | £0 | £0 |
| Capital Financing Requirement | £2,448 | £13,038 | £13,167 |
| 2. TREASURY MANAGEMENT INDICATORS | 2016/17 | 2017/18 | 2017/18 |
| | Actual | Original | Actual |
| | £'000 | £'000 | £'000 |
| Authorised Limit for external debt borrowing | £5,000 | £5,000 | £10,000 |
| other long term liabilities | £0 | £0 | £0 |
| TOTAL | £5,000 | £5,000 | £0 |
| Operational Boundary for external debt borrowing | £0 | £0 | £0 |
| other long term liabilities | £0 | £0 | £0 |
| TOTAL | £0 | £0 | £0 |
| Actual external debt | £0 | £0 | £0 |

Money market investment rates 2017/18

| | 7 day | 1 month | 3 month | 6 month | 1 year |
|------------------|----------------|----------------|----------------|----------------|----------------|
| 1/4/17 | 0.111 | 0.132 | 0.212 | 0.366 | 0.593 |
| 31/3/18 | 0.364 | 0.386 | 0.587 | 0.704 | 0.878 |
| High | 0.366 | 0.390 | 0.587 | 0.704 | 0.879 |
| Low | 0.099 | 0.122 | 0.140 | 0.273 | 0.461 |
| Average | 0.215 | 0.233 | 0.286 | 0.401 | 0.606 |
| Spread | 0.267 | 0.268 | 0.447 | 0.432 | 0.418 |
| High date | 27/2/18 | 22/3/18 | 29/3/18 | 29/3/18 | 28/3/18 |
| Low date | 4/7/17 | 10/8/17 | 7/8/17 | 7/9/17 | 6/9/17 |