

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

TREASURY MANAGEMENT OUTTURN REPORT 2017/18

1. Purpose

To provide a review of the Council's treasury management activities for the year to 31 March 2018.

Information and Advice

2. Background

- 2.1 Treasury management is defined as “the management of the council's investments and cashflows; 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”.
- 2.2 The Council's Treasury Management Strategy is approved annually by Full Council and there is also a mid-year report which goes to Full Council. Responsibility for the implementation, scrutiny and monitoring of treasury management policies and practices is delegated to the *Treasury Management Group*, comprising the Service Director (Finance, Infrastructure & Improvement), the Group Manager (Financial Strategy & Compliance), the Group Manager (Financial Management), the Senior Accountant (Pensions & Treasury Management) and the Senior Accountant (Financial Strategy & Accounting).
- 2.3 In 2017/18, borrowing and investment activities have been in accordance with the approved limits as set out in the Council's Treasury Management Policy and Strategy. The main points from this report are:
- All treasury management activities were effected by authorised officers within the limits agreed by the Council.
 - All investments were made to counterparties on the Council's approved lending list.
 - The Council's net borrowing position increased by £19.8m during the financial year.
 - Over the course of the year the Council earned 0.44% on its cash investments, compared with the average 7-day London Interbank BID (LIBID) rate for 2017/18 which was 0.21%.
 - Reports have been submitted to Council and the Finance & Major Contracts Management Committee as required.

3. Outturn Treasury Position

- 3.1 The Council's treasury management strategy and associated policies and practices for 2017/18 were approved in February 2017 by Full Council. The Service Director (Finance, Infrastructure & Improvement) complied with the strategy throughout the financial year.

Table 1. Treasury Position as at 31 March 2018		£m	£m	Average Interest Rate
EXTERNAL BORROWING				
Long-term				
Fixed Rate	PWLB	351.1		4.58%
	LOBOs	70.0		3.87%
	Other	35.0	456.1	3.55%
Short-term				
Fixed Rate	Other	0.0	0.0	
Total			456.1	
Other Long-Term Liabilities			122.1	
Total Gross Debt			578.2	
Less: Investments			(53.6)	0.65%
Total Net Debt			524.6	

Notes: PWLB = Public Works Loans Board

LOBOs = Lenders' Option, Borrowers' Option loans

Other = market loans taken directly from banks or via brokers

- 3.2 Table 1 above shows the Council's treasury portfolio position as at 31 March 2018. From the snapshot of interest rates shown it is clear that it still remains in the Council's financial interests to maintain low cash balances and keep borrowing levels as low as possible within the scope required to finance the capital programme.

4. Treasury Management Activities 2017/18

- 4.1 The Council actively manages its cash flows through borrowing and lending activities on the wholesale money markets. The Council has an approved list of counterparties for investment and aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. Temporary borrowing may be utilised to cover short-term cash shortfalls, but no such borrowing was undertaken during 2017/18. All new borrowing was sourced from the PWLB.
- 4.2 The Council's borrowing and lending activity over the year is summarised in Table 2 below. The borrowing figures (all zero) relate only to short-term borrowing for cashflow purposes, not long-term borrowing for capital purposes.

Table 2 Borrowing and Lending	Borrowing £m	Lending £m	Net Position £m
Outstanding 31 March 2017	0.0	(81.0)	(81.0)
Raised/ (lent) during period	0.0	(782.9)	(782.9)
Repayments during period	0.0	810.3	810.3

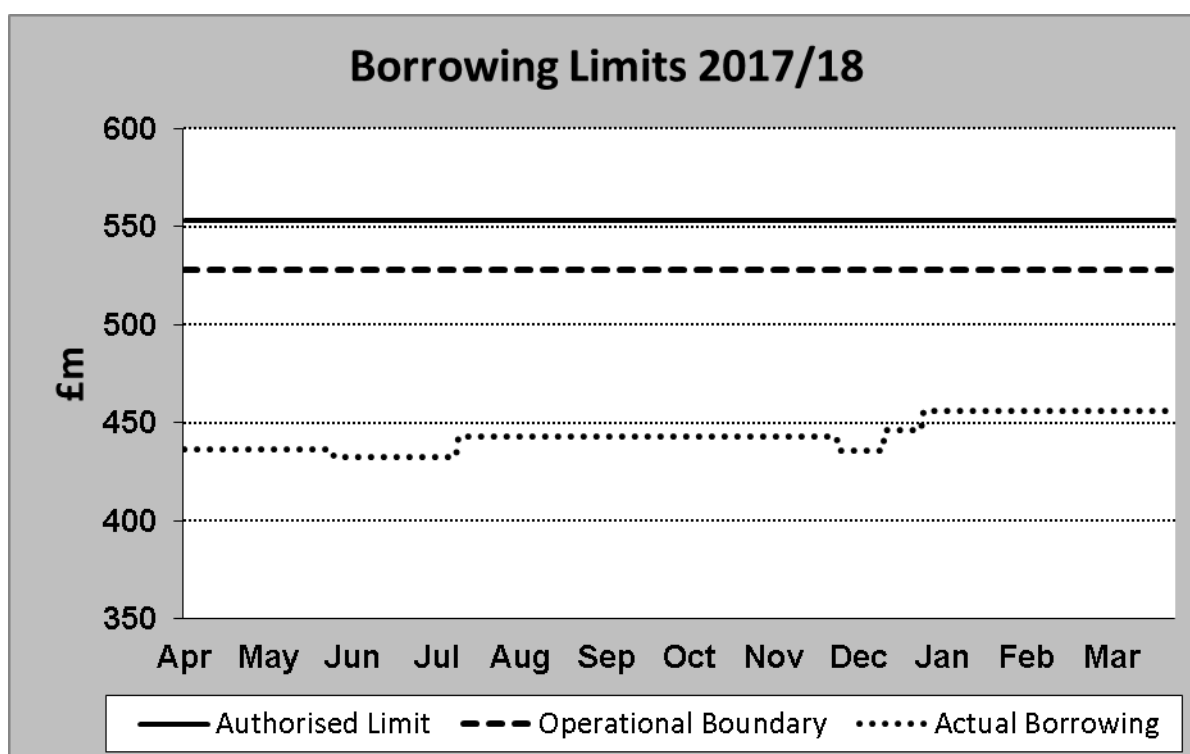
Outstanding 31 March 2018	0.0	(53.6)	(53.6)
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- 4.3 The Council's average cash investment level over 2017/18 was £61.8m, down from £109.2m the previous year. The return achieved on this balance over the course of the year was 0.44% against a benchmark of 0.21% (7-day LIBID). Investment rates available in the market remain fairly low as a result of central bank inflation policies.
- 4.4 Table 3 shows the returns achieved by type of deposit. The table shows that the use of fixed term investments does allow a higher return to be achieved but this must always be weighed against the key concerns of security and liquidity. Cash tied up for longer periods is more exposed to credit risk but this is managed through the Council's policy for approving counterparties.

Table 3 Returns on Investments	Average Balance	Interest Earned	Average Return
	£000	£000	%
Fixed Term Investments	7,127	124.7	1.75
Call Accounts / Money Market Funds	54,696	148.7	0.27
Total	61,823	273.4	0.44

5. Long Term Borrowing

- 5.1 The Treasury Management Strategy for 2017/18 presented to Council in February 2017 outlined the Council's long term borrowing strategy for the year. Long-term borrowing is sourced from either the market (including other local authorities) or from the PWLB.
- 5.2 The Council's treasury management strategy for 2017/18 assumed £30m of new long-term borrowing over the course of the year. Actual new long-term borrowing matched this, taken at an average rate of 2.53%, and an average length of just over 41 years.
- 5.3 Total external borrowing stood at £456.1m on the 31 March 2018 which is within the operational boundary of £528m agreed by the Council. The chart below shows that the level of external debt throughout the year was below the key treasury indicators of the authorised limit and the operational boundary, demonstrating that borrowing was within plan during the year. Further details on these treasury prudential indicators are provided in Appendix D.

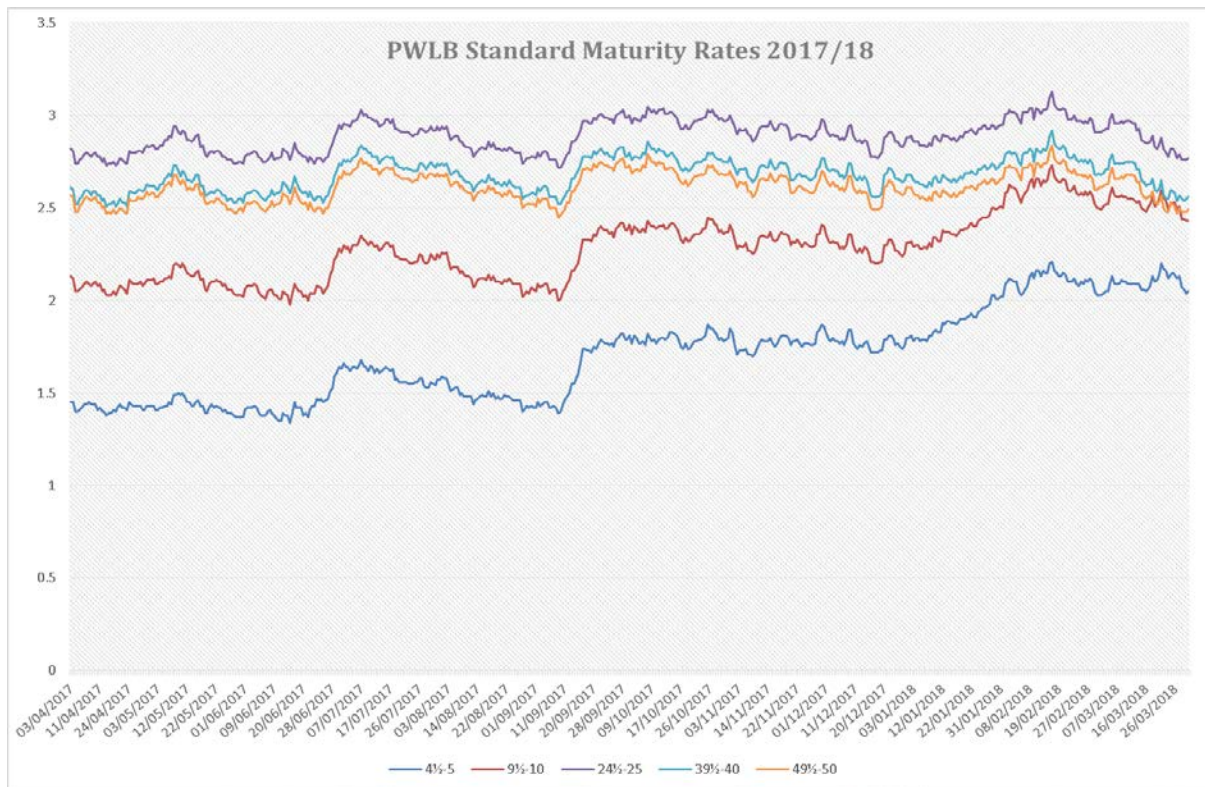


- 5.4 Table 4 shows the movement in long-term borrowing during 2017/18. The loan portfolio included 7 LOBOs of £10m each at the start of the financial year. These are loans whereby the lender can opt, at specified dates, to increase the interest rate payable and the borrower can either accept the increased rate or repay the loan in full. Future call options on these LOBOs constitute a level of interest rate risk for the Council and these will be monitored carefully to ensure the Council is not adversely affected.

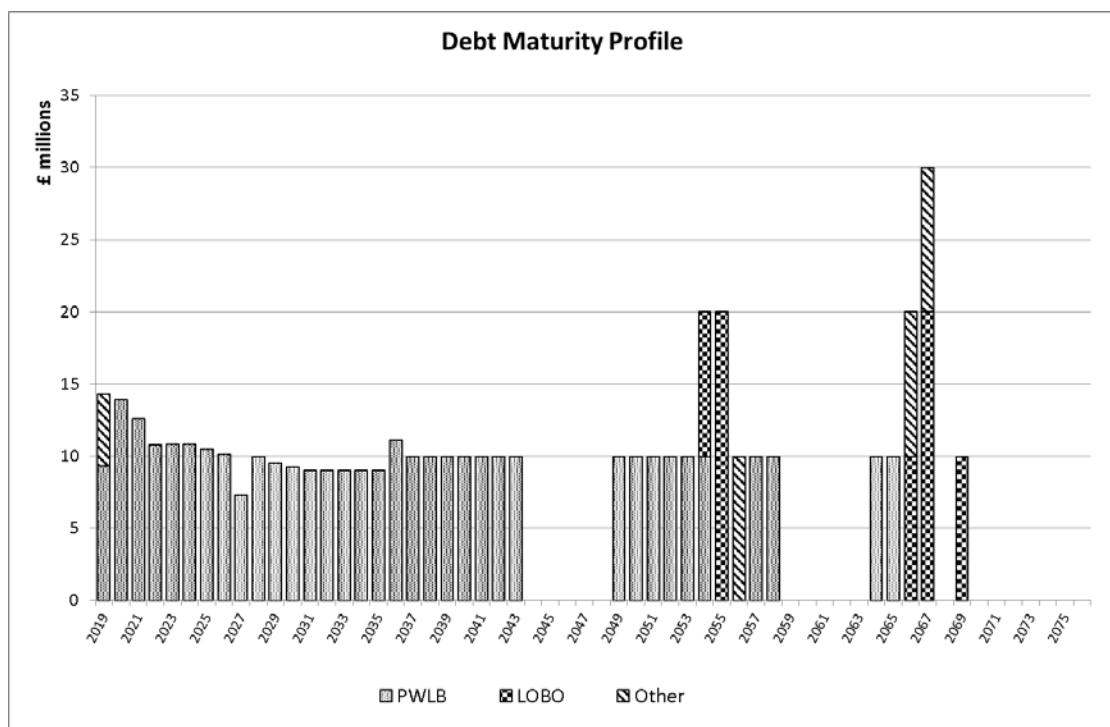
Table 4 Movements in Long-term Borrowing 2017/18

Lender	B/fwd 01/04/17 £m	Advances 2017/18 £m	Normal Repayments 2017/18 £m	Premature Repayments 2017/18 £m	C/fwd 31/03/18 £m
PWLB	331.2	30.0	(10.2)	0.0	351.1
LOBO	70.0	0.0	0.0	0.0	70.0
Other	35.0	0.0	0.0	0.0	35.0
Total	436.2	10.0	(10.2)	0.0	456.1

- 5.5 Over the course of 2017/18 short-term PWLB rates (which vary with gilt yields) increased by around 50 basis points while long-term rates were more or less stable, as the market waited to see how the Brexit negotiations will unwind for the UK economy. The movement in PWLB standard maturity rates over 2017/18 is shown in the chart below.



5.6 The chart below shows the debt maturity profile as at 31 March 2018. This is fairly evenly spread until 2043, thereby minimising refinancing risk. In this chart it is assumed that the remaining LOBO loans will run to maturity, and not be called at an earlier date. The average rate on all outstanding external debt was 4.41% compared to 4.56% in the previous year, reflecting both the lower rates now available to the Council and the higher rates of the Council's maturing debt.



5.7 The Council always has the option of rescheduling its existing PWLB debt should market conditions indicate opportunities for savings. This is achieved by redeeming fixed rate debt and raising new debt at a lower rate of interest, although current PWLB redemption rates invariably result in a prohibitive premium being charged. No financially attractive opportunities for debt rescheduling arose over the reporting period.

6. Prudential Indicators for Treasury Management

6.1 Table 6 below shows how the treasury management outturn position compares with the prudential indicators for the year. The objective of these indicators is to manage treasury management risks effectively. No indicators were breached during the year.

Table 6 TREASURY MANAGEMENT INDICATORS 2017/18	Approved limits	Outturn
Authorised Limit for external debt	£553m	£456m
Operational Boundary for external debt	£528m	£456m
Upper limit for Rate Exposure - Fixed	100%	100%
Upper limit for Rate Exposure - Variable	75%	0%
Upper limit for principal sums invested for over 364 days	Higher of £20m and 15%	£0m

6.2 Table 7 shows how the Council's debt portfolio is managed with regard to maturity structure. The aim here is to ensure that the risk of the Council having to replace maturing debt in any one year is minimised, as part of an overall Treasury Management risk strategy.

Table 7 Maturity structure of fixed rate borrowing	Approved Lower limit	Approved Upper limit	Outturn
under 12 months	0%	25%	4.5%
12 months and within 24 months	0%	25%	3.0%
24 months and within 5 years	0%	75%	7.4%
5 years and within 10 years	0%	100%	10.5%
10 years and above	0%	100%	74.5%
Adoption of CIPFA's Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes			Adopted