

# **Annual Treasury Management Review 2018/19**

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April 2019

# Annual Treasury Management Review 2018/19

## 1. Introduction

This Authority 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 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).

During 2018/19 the minimum reporting requirements were that the Policy and Resources Committee should receive the following reports:

- an annual treasury strategy in advance of the year;
- a mid-year (minimum) treasury update report; and
- 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 in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by members.

## 2. Treasury Position as at 31 March 2019

At the beginning and the end of 2018/19 the Authority's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

| DEBT PORTFOLIO           | 31 March 2018 Principal | Rate/ Return | Average Life yrs | 31 March 2019 Principal | Rate/ Return | Average Life yrs |
|--------------------------|-------------------------|--------------|------------------|-------------------------|--------------|------------------|
| Total debt               | £3.200m                 | 4.40%        | 36               | £3.200m                 | 4.40%        | 35               |
| CFR                      | £3.347m                 |              |                  | £3.046 m                |              |                  |
| Over / (under) borrowing | (£0.147)m               |              |                  | £0.154m                 |              |                  |
| Total investments        | £15.914X m              | 0.42%        |                  | £13.610m                | 0.64%        |                  |
| Net Investments          | £12.714m                |              |                  | £10.410m                |              |                  |

| INVESTMENT PORTFOLIO              | Actual<br>31.3.18<br>£000 | Actual<br>31.3.18<br>% | Actual<br>31.3.19<br>£000 | Actual<br>31.3.19<br>% |
|-----------------------------------|---------------------------|------------------------|---------------------------|------------------------|
| <b>Treasury investments</b>       |                           |                        |                           |                        |
| Banks                             | 12,910                    | 81.12                  | 10,604                    | 77.91                  |
| Building Societies - rated        | 3,004                     | 18.88                  | 3,006                     | 22.09                  |
| <b>TOTAL TREASURY INVESTMENTS</b> | 15,914                    | 100%                   | 13,610                    | 100%                   |

All investments were 364 days or less

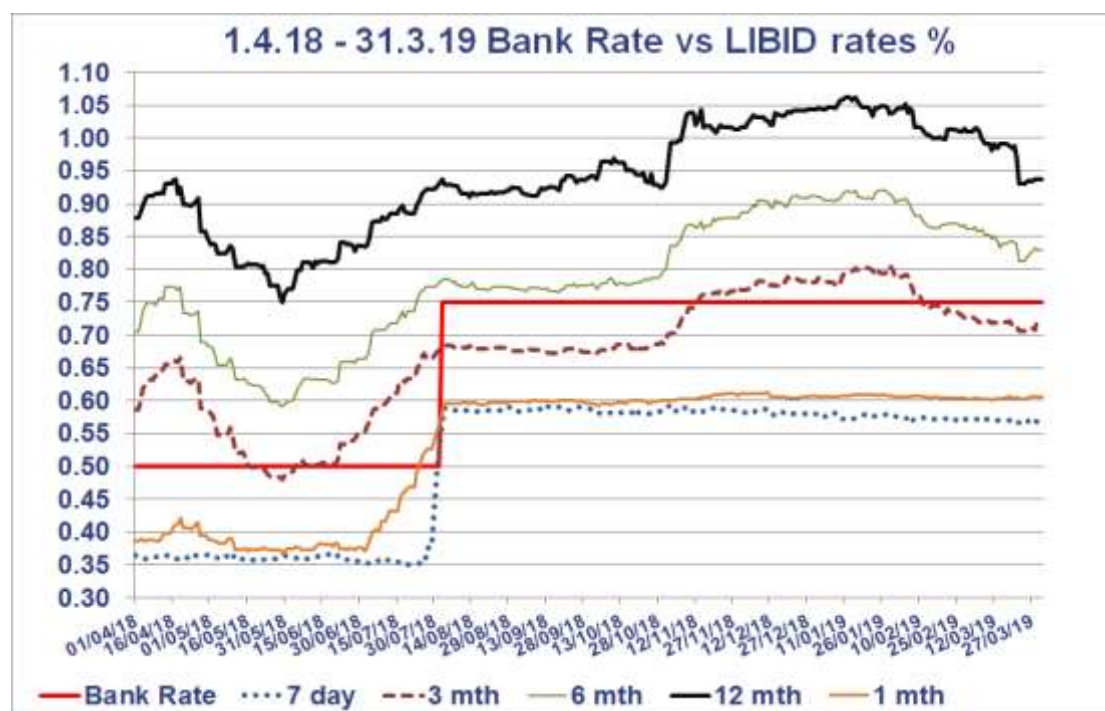
### 3. Investment Outturn

**Investment Policy** – the Authority's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Authority in 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, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties

## 4. The strategy for 2018/19

### 4.1 Investment strategy and control of interest rate risk



*For authorities that have sufficient cash balances to place longer term investments -*

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 0.50% 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.

It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

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.

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## 4.2 Borrowing strategy and control of interest rate risk

During 2018-19, the Authority 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 Authority'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.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

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 and/or the refinancing of maturing debt.

## 5. Investment Outturn

**Investment Policy** – the Authority's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Authority in 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.

The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

**Resources** – the Authority's cash balances comprise revenue and capital resources and cash flow monies. The Authority's core cash resources comprised as follows:

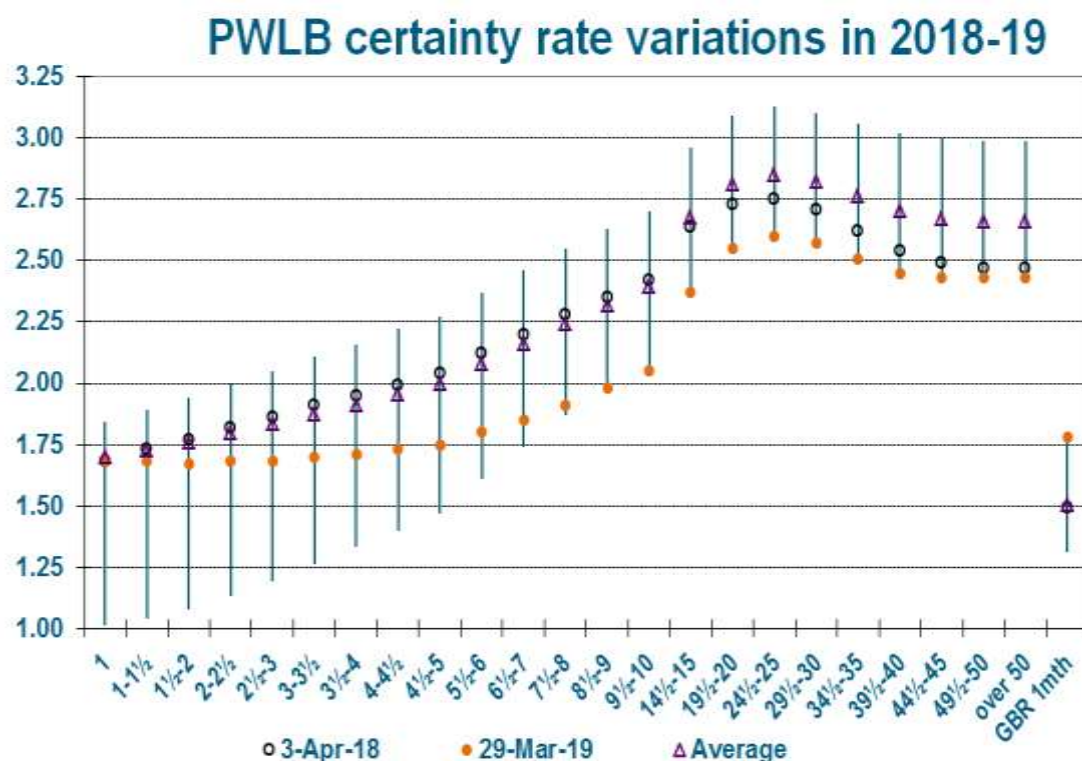
| Balance Sheet Resources (£m) | 31 March 2018 | 31 March 2019 |
|------------------------------|---------------|---------------|
| Balances                     | <b>2,472</b>  | <b>2,500</b>  |
| Earmarked reserves           | <b>10,033</b> | <b>8,509</b>  |
| Usable capital receipts      | <b>1,433</b>  | <b>1,376</b>  |
| Usable capital Grants        | <b>2,586</b>  | <b>2,587</b>  |
| Total                        | <b>16,524</b> | <b>14,972</b> |

## Appendix 1: Prudential and treasury indicators

|                                                                 | <b>Budget<br/>2018/19<br/>£m</b> | <b>Actual<br/>2018/19<br/>£m</b> |
|-----------------------------------------------------------------|----------------------------------|----------------------------------|
|                                                                 | <b>£m</b>                        | <b>£m</b>                        |
| Capital Financing Requirement                                   | 3.605                            | 3.046                            |
| Operational Boundary                                            | 3.333                            | 3.333                            |
| Actual External Debt as at 31 March 2019                        |                                  | 3.200                            |
| Authorised Limit                                                | 4.833                            | 3.333                            |
| Upper limit for fixed interest rate exposure                    |                                  |                                  |
| Net principal fixed rate borrowing / investments                | 100%                             | 100%                             |
| Upper limit for variable interest rate exposure                 | 100%                             | 100%                             |
| Net principal variable rate borrowing / investments             |                                  |                                  |
| Upper limit for total principal sums invested for over 364 days | 0%                               | 0%                               |
| Maturity structure of new fixed rate borrowing during 2016/17:  |                                  |                                  |
|                                                                 | <b>Upper<br/>Limit</b>           | <b>Lower<br/>Limit</b>           |
| under 12 months                                                 | 100%                             | 0%                               |
| 12 months and with 24 months                                    | 100%                             | 0%                               |
| 24 months and within 5 years                                    | 100%                             | 0%                               |
| 5 years and within 10 years                                     | 100%                             | 0%                               |
| 10 years and above                                              | 100%                             | 0%                               |

## Appendix 2: Borrowing and investment rates

### PWLB borrowing rates



### Money market investment rates and forecasts 2018/19

|            | Bank Rate  | 7 day      | 1 mth      | 3 mth      | 6 mth      | 12 mth     |
|------------|------------|------------|------------|------------|------------|------------|
| 01/04/2018 | 0.50       | 0.36       | 0.39       | 0.59       | 0.70       | 0.88       |
| 31/03/2019 | 0.75       | 0.57       | 0.61       | 0.72       | 0.83       | 0.94       |
| High       | 0.75       | 0.59       | 0.61       | 0.81       | 0.92       | 1.06       |
| High Date  | 02/08/2018 | 01/11/2018 | 10/12/2018 | 29/01/2019 | 15/01/2019 | 11/01/2019 |
| Low        | 0.50       | 0.35       | 0.37       | 0.48       | 0.59       | 0.75       |
| Low Date   | 01/04/2018 | 19/07/2018 | 30/05/2018 | 30/05/2018 | 30/05/2018 | 30/05/2018 |
| Average    | 0.67       | 0.51       | 0.54       | 0.68       | 0.79       | 0.94       |
| Spread     | 0.25       | 0.24       | 0.25       | 0.33       | 0.33       | 0.31       |

| Link Asset Services Interest Rate View 7.11.17 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
|------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                                | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 |
| Bank Rate                                      | 0.50%  | 0.50%  | 0.50%  | 0.50%  | 0.50%  | 0.75%  | 0.75%  | 0.75%  | 0.75%  | 1.00%  | 1.00%  | 1.00%  | 1.25%  | 1.25%  |
| 3 Month LIBID                                  | 0.40%  | 0.40%  | 0.40%  | 0.40%  | 0.60%  | 0.60%  | 0.60%  | 0.70%  | 0.90%  | 0.90%  | 1.00%  | 1.20%  | 1.20%  | 1.20%  |
| 6 Month LIBID                                  | 0.50%  | 0.50%  | 0.50%  | 0.60%  | 0.80%  | 0.80%  | 0.80%  | 0.90%  | 1.00%  | 1.00%  | 1.10%  | 1.30%  | 1.30%  | 1.40%  |
| 12 Month LIBID                                 | 0.70%  | 0.80%  | 0.80%  | 0.90%  | 1.00%  | 1.00%  | 1.10%  | 1.10%  | 1.30%  | 1.30%  | 1.40%  | 1.50%  | 1.50%  | 1.60%  |