Agenda Item No:	13	
Committee:	Council	
Date:	17 May 2018	
Report Title:	Treasury Management Annual Review 2017/18	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to consider the overall financial and operational performance of the Council's treasury management activity for 2017/18.

2 Key issues

- In accordance with the Treasury Management Strategy approved in February 2018, Council receives an annual review of its' treasury management activities after the financial year-end.
- The Treasury Management Annual Review 2017/18 as presented to Cabinet on 17 May 2018 is attached.
- The report highlights all the key activities carried out within the Treasury Management function during 2017/18. All activities have been conducted in accordance with the approved strategy and policies.
- 2017/18 has been a challenging year and the report highlights the success in maximising investment income whilst ensuring the security and liquidity of the Council's investments.

3 Recommendations

- It is recommended that members note the report.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Seaton, Leader Cllr Anne Hay, Portfolio Holder, Finance
Report Originator(s)	Brendan Arnold, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Brendan Arnold, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Treasury Management and Annual Investment Strategy 2017/18

Agenda Item No:	5	Fenland CAMBRIDGESHIRE
Committee:	Cabinet	
Date:	17 May 2018	
Report Title:	Treasury Management Annual Review 2017/18	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to consider the overall financial and operational performance of the Council's treasury management activity for 2017/18.

2 Key issues

- Outstanding loans and finance lease liabilities of £8,514,496 and temporary investments of £19,500,000 as at 31 March 2018.
- The average rate on the long term external debt portfolio was 5.89% at 31 March 2018.
- Due to the Council's long term PWLB debt portfolio (£4.5m at 31/03/18) currently attracting excessive premiums it was not financially advantageous for the Council to comply with the Gross borrowing and Capital Financing Prudential Indicator in 2017/18. This is consistent with the strategy approved by Council in February 2017.
- No new borrowing was undertaken and the authorised limit was not breached during 2017/18.
- The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- Amount received from external investments £116,693 (compared with an estimate of £110,000).
- Overall interest rate achieved from investments 0.41% (7 day LIBID uncompounded rate for 2017/18 0.21%).

3 Recommendations

- It is recommended that members note the report.
- It is recommended that Council receive the Treasury Management Annual Report.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Seaton, Leader Cllr Anne Hay, Portfolio Holder, Finance
Report Originator(s)	Brendan Arnold, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
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Report:

1 Introduction

1.1 The Council is required through 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 Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 During 2017/18 the minimum reporting requirements were that Council should receive the following reports:

- an annual Treasury Strategy in advance of the year (Council 23/02/2017);
- a mid-year treasury update report (Council 14/12/2017);
- an Annual Review following the end of the year, describing the activity compared to the strategy (this report).

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the provisional outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 The 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 Corporate Governance Committee before they were reported to Council.

2 The Economy and Interest Rates

2.1 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 commentators 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 did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate.

2.2 The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

2.3 The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.

3 Overall Treasury Position as at 31 March 2018

3.1 At the beginning and end of 2017/18 the Council's treasury position was as follows.

	31 March 2018 Principal £000	Rate / Return	Average Life years	**31 March 2017 Principal £000**	Rate / Return	Average Life years
Fixed rate funding						
• PWLB	**4,500**	7.29%	12.40 yrs	**4,500**	7.29%	13.40 yrs
• LOBO	**3,300**	4.70%	35.96 yrs	**3,300**	4.70%	36.96 yrs
• Finance Leases	**714**	3.25%	4.56 yrs	**930**	2.23%	4.24 yrs
Total debt	**8,514**			**8,730**		
Investments	**(19,500)**	0.41%		**(21,300)**	0.56%	
Net debt /(Investments)	**(10,986)**			**(12,570)**		

4 The Strategy for 2017/18

4.1 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 31.3.20. 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.

4.2 The Treasury Strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

4.3 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.

5 The Borrowing Requirement

5.1 The Council's Capital Financing Requirement (CFR) for the year is shown below and represents a key prudential indicator.

	31 March 2017 Actual £000	31 March 2018 Estimate £000	31 March 2018 Actual £000
CFR opening balance	1,063	981	981
Capital expenditure	160	55	0
Less finance lease repayments	(242)	(215)	(215)
CFR Closing balance	981	821	766

5.2 The CFR includes finance leases. A finance lease is a commercial arrangement between the Council and a lessor (finance company), where in consideration for a series of payments the Council has the right to use an asset (e.g. refuse vehicle, leisure equipment) for the lease duration (typically 3 to 7 years). The annual lease payment is made up of a capital and interest repayment.

5.3 Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan.

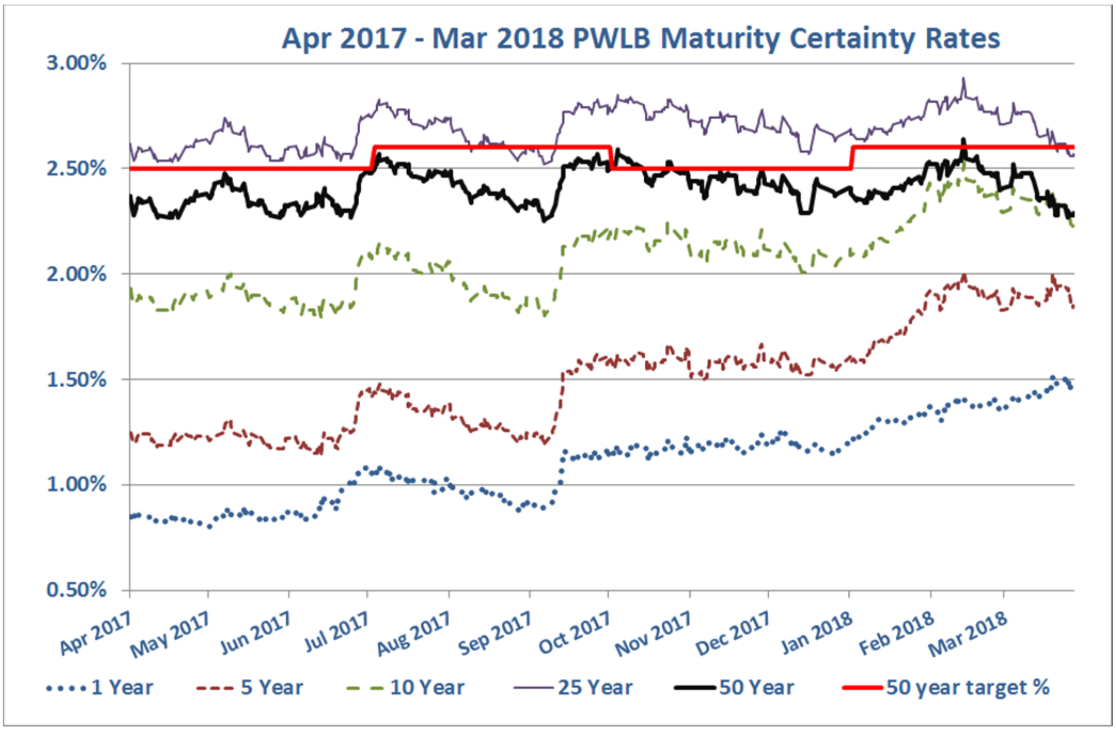
5.4 One of the key prudential indicators is gross borrowing and the CFR. This indicator is to ensure that borrowing levels are prudent over the medium term and only for a capital purpose. The Council should ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years and ensures that long term borrowing is not undertaken for revenue purposes. Appendix A highlights the Council's borrowing position against the CFR.

5.5 As a result of the Council's long term PWLB debt portfolio (£4.5m at 31/03/18) currently attracting excessive premiums (£2.405m, 31/3/2018), if it were prematurely repaid, it is not financially advantageous for the Council to comply with this prudential indicator. This is consistent with the strategy approved by Council in February 2017.

5.6 The authorised limit is the "affordable borrowing limit" required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. The authorised limit was not breached during 2017/18.

6 Borrowing Outturn

6.1 As depicted in the graph below , PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March.

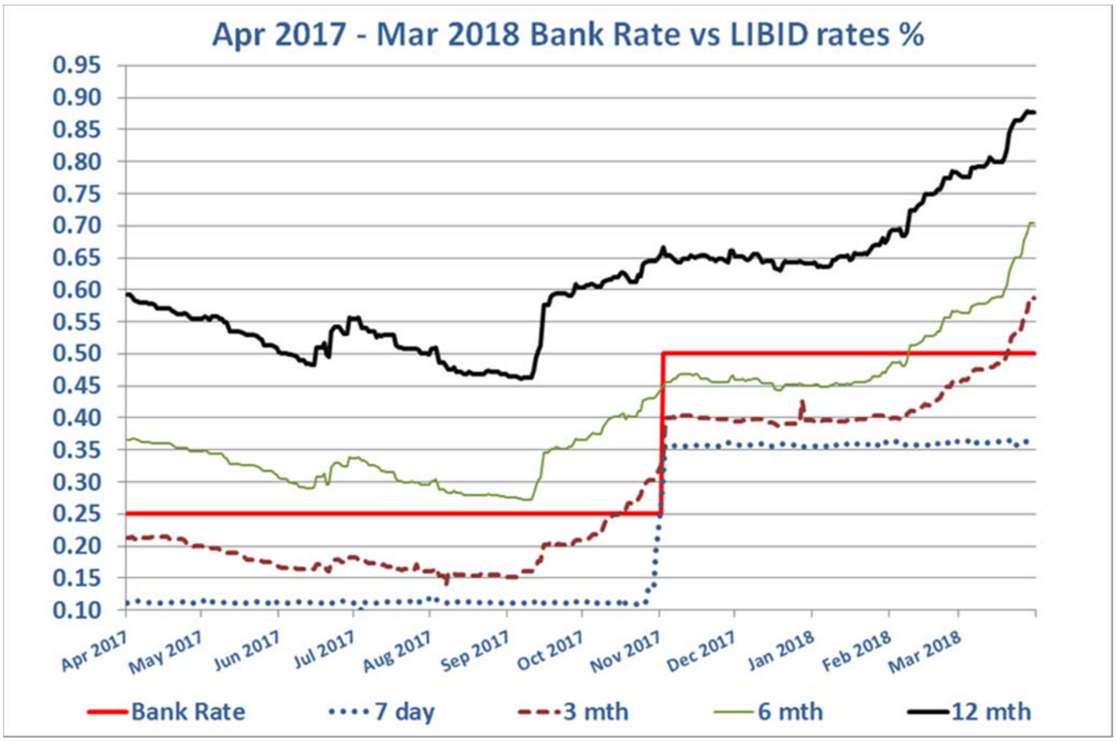


6.2 No long term or temporary borrowing was required. The approach during the year was to use cash balances to finance new capital expenditure, so as to run down cash balances that were earning low investment returns and to minimise counterparty risk incurred on investments.

6.3 No rescheduling was completed during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates and the penalty position which can arise from early repayment of debt, made rescheduling unviable.

7 Investment Outturn

7.1 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 2.11.17 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 28.2.18.



7.2 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 Council on 23 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 and bank share price).

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

7.4 The Council maintained an average balance of £25.571m of internally managed funds. The internally managed funds earned an average rate of return of 0.41% (£116,693). The comparable performance indicator is the average 7-day LIBID rate, which was 0.21%.

8 Prudential and Treasury Indicators

8.1 During 2017/18 the Council complied with its legislative and regulatory requirements with the exception of gross borrowing (see paragraph 5.5 above).

Appendix A - Prudential Indicators

	Prudential Indicators	2016/17 Actual £000	2017/18 Estimate £000	**2017/18 Actual £000**
1	**Capital Expenditure**	2,550	2,251	**1,880**
2	**Ratio of Financing Costs to Net Revenue Stream (external interest – investment income)**	2.93%	3.19%	**3.38%**
3	**Gross Borrowing and the Capital Financing Requirement**			
	Gross Debt	8,730	8,512	**8,514**
	CFR	981	821	**766**

	Treasury Management Indicators	2016/17 Actual £000	2017/18 Estimate £000	**2017/18 Actual £000**
4	**Authorised Limit for External Debt**			
	Borrowing	15,000	15,000	**15,000**
	Other Long Term Liabilities	2,000	2,000	**2,000**
	Total	17,000	17,000	**17,000**
5	**Operational Boundary for External debt**			
	Borrowing	10,000	10,000	**10,000**
	Other Long Term Liabilities	2,000	2,000	**2,000**
	Total	12,000	12,000	**12,000**
6	**Actual External debt (as at 31 March)**			
	Borrowing	7,800	7,800	**7,800**
	Other Long Term Liabilities	930	712	**714**
	Total	8,730	8,512	**8,514**
7	**Interest Rate Exposures**			
	Upper Limit - Fixed Rates	(8,070)	(7,000)	**(6,700)**
	Upper Limit - Variable Rates	(4,500)	(10,200)	**(4,285)**
8	**Upper Limit for Total Principal Sums Invested for Periods Longer than 364 Days**	0	10,000	**0**