TREASURY MANAGEMENT ANNUAL REPORT 2018/19

1. INTRODUCTION AND BACKGROUND

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 the financial year 2018/19. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The CIPFA Code of Practice on Treasury Management was adopted by this Council on 24 February 2010; this was updated in November 2011 and updated further in December 2017.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full Council of an annual treasury management strategy report (including the annual investment strategy*)* for the year ahead and an annual review report of the previous year.
4. 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.
5. Delegation by the Council of the role of scrutiny of the treasury management strategy to a specific named body which in this Council is the Finance, Resources and Partnerships Scrutiny Committee.
6. Delegation by the Council of the role of scrutiny of treasury management performance to a specific named body which in this Council is the Audit and Standards Committee, a midyear and year-end review report is received by this Committee.

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 those activities; and the pursuit of optimum performance consistent with those risks. "

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of treasury management activities, for the financial year 2018/19.

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.

This Council has complied with the requirement under the Code to give prior scrutiny to the annual review report by reporting this to the Audit and Standards Committee prior to it being reported to Full Council.

2. THIS ANNUAL TREASURY REPORT COVERS

- The Council's treasury position as at 31 March 2019;
- The strategy for 2018/19;
- The economy in 2018/19;
- Investment rates in 2018/19;

- Compliance with treasury limits and Prudential Indicators;
- Investment outturn for 2018/19;
- Involvement of Elected Members;
- Other issues.

3. TREASURY POSITION AS AT 31 MARCH 2019

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

	At 31/03/19	Return	Average Life (Days)	At 31/03/18	Return	Average Life (Days)
Total Debt	£0m	0.00%	0	£2.5m	0.95%	14
Total Investments	£0m	0.48%	3	£0m	0.37%	2

It should be noted that the above table is only a snapshot of the total Investments as at 31 March 2019. £2.5m was borrowed on 20 March 2018 to reflect a temporary cash flow position; this was repaid on 3 April 2018 following the receipt of the expected Council Tax and Business Rates payments by direct debit. Large fluctuations in cash inflows and outflows that occur throughout the month can have an impact on the figure reported.

4. THE STRATEGY FOR 2018/19

The strategy agreed by Council on 21 February 2018 was that:

- The Council may be required to borrow during 2018/19 if capital receipts did not materialise in order to fund the capital programme;

- Short term external loans (i.e. repayable on demand or within 12 months) can be taken to fund any temporary capital or revenue borrowing requirement. The amounts involved would fluctuate according to the cash flow position at any one time;

- All borrowing would be kept absolutely within the Authorised Limit of £15m and would not normally exceed the Operational Boundary of £7.5m (although it could for short periods of time be permitted to rise to a figure between £7.5m and £15m due to variations in cash flow);

- Temporary surpluses which might arise would be invested, either in short term deposits with the Council's various deposit accounts or in money market investments (cash deposits) if the size warranted this and for an appropriate period in order that these sums would be available for use when required;

- The proportions of loans and investments to be at fixed or variable rates were: fixed rate loans to be between 0% and 100% of the total and variable rate to be between 0% and 100% of the total, thus enabling maximum flexibility to take advantage of interest rate trends;

- Long term investments to be permitted as follows: maturing beyond 31/03/18 £5m, maturing beyond 31/03/19 £5m, maturing beyond 31/03/20, £5m;

- The overriding consideration is safeguarding the Council's capital. At all times the risk to the Council will be minimised. Within these constraints, the aim will be to maximise the return on investments; and,

- Forward commitment of funds for investment is permitted in respect of in house investments, in instances where market conditions warrant it.

5. THE ECONOMY AND INTEREST RATES - narrative supplied by the Council's Treasury Management Advisors – Arlingclose Limited

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be showing signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic / populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

6. INVESTMENT RATES IN 2018/19 – narrative supplied by the Council's Treasury Management Advisors – Arlingclose Limited

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

7. CHANGES DURING 2018/19

There were no changes during 2018/19, as key changes had already taken place during the previous financial year. These 2017/18 changes included CIPFA's revised editions of the Treasury Management and Prudential Codes, the Ministry of Housing, Communities and Local Government's revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision and changes to the Markets in Financial Instruments Directive (MiFID II)

8. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Annex 1.

9. INVESTMENT OUTTURN FOR 2018/19

Internally Managed Investments

The Council manages its investments in-house and during 2018/19 invested with institutions in compliance with the credit worthiness service of the Council's treasury management advisors, Arlingclose Limited.

The Council invested for a range of periods from overnight to up to three and a half months during 2018/19, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. Thirteen of the eighteen investments made in 2018/19 were for a period of two weeks or less. Eleven of the eighteen investments were deposited in the Council's business reserve account due to the available rate and liquidity. Five investments were made with other Local Authorities, with the remaining two investments being place in the Council's 95 day notice account.

In addition funds that were held in the general fund account that the Council has with Lloyds Bank also earn interest on a daily basis.

Investment Outturn for 2018/19

During 2018/19 an average rate of return of 0.48% was achieved on an average individual investment of £3.363m. This compared with the target of 0.40% included in the departmental service plan.

10. INVOLVEMENT OF ELECTED MEMBERS

Elected members have been involved in the treasury management process during 2018/19 including:

- Scrutiny of the treasury management strategy by the Finance, Assets & Performance Scrutiny Committee prior to being submitted for approval by the Full Council.
- Scrutiny of treasury management performance by the Audit and Standards Committee through the receipt of a half yearly treasury management report.
- A quarterly budget monitoring and performance report is reported to Cabinet, this contains details of Treasury Management activity undertaken during the quarter.

ANNEX 1: PRUDENTIAL INDICATORS

Position/Prudential Indicator		2017/18 Actual	2018/19 Indicator	2018/19 Actual
1	Capital Expenditure	£6.296m	N/A	£2.980m
2	Capital Financing Requirement at 31st March *	£4.405m	(£0)	£4.405m
3	Treasury Position at 31st March: Borrowing Other long term liabilities Total Debt Investments Net Borrowing	 £2.500m £0 £0 £0 £2.500m	 N/A N/A N/A N/A N/A	 £0 £0 £0 £0 £0
4	Authorised Limit (against maximum position)	£0	£15.0m	£0
5	Operational Boundary (against maximum position)	£0	£7.5m	£0
6	Ratio of Financing Costs to Net Revenue Stream	(0.46%)	(0.44%)	(0.44%)
7	Upper Limits on Variable Interest Rates (against maximum position) Loans Investments	 0% 0%	 100% 100%	 0% 0%
8	Actual External Debt	£0	N/A	£0
9	Principal Funds Invested for Periods Longer than 365 days (against maximum position)	£0	£5.0m	£0

GLOSSARY

CFR – Capital Financing Requirement

The Capital Financing Requirement is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.

CIPFA – The Chartered Institute of Public Finance and Accountancy

The Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations.

CPI – Consumer Price Index

A measure that examines the weighted average of prices of a basket of consumer goods and services. The Consumer Price Index is calculated by taking price changes for each item in the predetermined basket of goods/services and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

DMO and DMADF - Debt Management Office and Debt Management Account Deposit Facility

The DMADF is the 'Debt Management Account Deposit Facility' which is a highly secure fixed term deposit account with the Debt Management Office, part of Her Majesty's Treasury.

GDP – Gross Domestic Product

Gross Domestic Product is the market value of all officially recognised final goods and services produced within a country in a given period of time.

MIFID II – Markets in Financial Instruments Directive

New European Union rules that came into effect on 3rd January 2018, aiming to improve the functioning of financial markets and to strengthen investor protection.

MPC – Monetary Policy Committee

Interest rates are set by the Bank of England's Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be met.

MRP – Minimum Revenue Provision

The Minimum Revenue Provision represents the revenue charge for the repayment of debt.