

Treasury Management Annual Review 2017/18

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service/Lead Director	Ellie Dunnet, Head of Finance
Lead Officer and Report Author	John Owen, Finance Manager
Classification	Public
Wards affected	All Wards

Executive Summary

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code requires that authorities report on the performance of the treasury management function at least twice a year (at mid-year and year-end).

The Council has delegated the role of considering these reports to the Audit, Governance and Standards Committee.

This report makes the following recommendations to this Committee:

1. That the Audit, Governance and Standards Committee note the review of the financial year 2017/18 in accordance with CIPFA's Code of Practice on Treasury Management.
2. That the Audit, Governance and Standards Committee agree that no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2017/18.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	30 th July 2018

Treasury Management Annual Review 2017/18

1. INTRODUCTION AND BACKGROUND

- 1.1 This report sets out the activities of the Treasury Management function for 2017/18 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 12 months.
- 1.2 The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
- 1.3 The Authority's Treasury Management Strategy for 2017/18 was approved by full Council on 1st March 2017. The key elements of the Strategy are:
- The maximum principal sums to be invested for a period exceeding 364 days has been reduced to £5m from £8m. This is consistent with the borrowing strategy to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate;
 - The Council will endeavour to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered;
 - Changes to the capital financing requirement are proposed in light of updated capital plans. The proposed limit on prudential borrowing has been revised accordingly.

1.4 Economic Overview of 2017/18

1.4.1 During financial year 2017/18 the following developments took place:

- The UK economy showed signs of slowing in the context of an improving global economic. Latest estimates showed GDP growth of 1.8% in calendar year 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.
- Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the

surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now span Q2 2019 to Q4 2020.

- The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 0.5% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Unemployment had dropped to its lowest level in 11 years in February 2017 to 4.7%.
- The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.
- The most significant credit rating change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.
- Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade). Local authorities investments have been placed within the investment banking side for most UK banks.
- Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.
- Moody's downgraded Rabobank's long-term rating due to its view on the bank's profitability and the long-term ratings of the major Canadian banks on the expectation of a more challenging operating environment and the ratings of the large Australian banks on its view of the rising risks from their exposure to the Australian housing market and the elevated proportion of lending to residential property investors. The Council has exposure to this institution, the funds are short term and was deemed to not have a detrimental effect to the Council.
- Arlingclose advised against lending to Northamptonshire County Council (NCC). NCC issued a section 114 notice in the light of severe

financial challenge and the risk that it would not be in a position to deliver a balanced budget. The Council has no exposure to this authority.

1.5 Investment Activity

1.5.1 The CIPFA Code and Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council has adhered to these principles during 2017/18.

1.5.2 The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18 the Authority's investment balances have ranged between £14.6m and £40.6m. The average investment balance for the year was £26.9m. The Council held investments totalling £17.4m as at 31st March 2018. A full list of these can be found within **Appendix I**.

1.5.3 Investment income for the year totalled £145k with the average rate on investments for 2017/18 being 0.44% against the benchmarked rate of 0.51%.

1.5.4 All investments during 2017/18 have been short term to enable funds being available to fund the capital programme and daily liabilities of the Council as and when necessary.

1.5.5 All investments during the year have been within the agreed limits of the Treasury Management Strategy 2017/18.

1.6 Borrowing Activity

1.6.1 As at 31st March 2017, the Authority did not hold any loans. The Council's only borrowing requirements for 2017/18 have been for short term purposes where the cheapest options to borrow were sought within the market. Details of these borrowings are as follows:

Lender	Amount (£)	Rate (%)	Start	End
Rhonnda Cynon Taff CBC	1,300,000	0.35	24/11/2017	27/11/2017
Bournemouth Borough Council	3,650,000	0.50	22/03/2018	28/03/2018
Thurrock Borough Council	3,600,000	0.70	28/03/2018	29/03/2018

1.7 Prudential and Treasury Indicators

1.7.1 The Council has operated within its Prudential and Treasury Indicators set out in the Treasury Management Strategy 2017/18 and in compliance with the Council's Treasury Management Practices. The Treasury Indicators can be found in **Appendix II**.

1.8 Compliance Report

1.8.1 The Director of Finance & Business Improvement is pleased to report that all treasury management activities undertaken during 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

2. AVAILABLE OPTIONS

- 2.1 The recommendation is for the Audit, Governance and Standards Committee to agree that no amendments to the current procedures for 2018/19 are necessary as a result of the review of activities in 2017/18.
- 2.2 The Audit, Governance and Standards Committee could alternatively propose changes to the current procedures as a result of the review of activities in 2017/18.
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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 That the Audit, Governance and Standards Committee agrees that no amendments to the current strategy for 2018/19 are necessary as a result of the review of activities in 2017/18. The information presented within this report is not considered to justify making any changes to the existing Treasury Management strategy.
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4. RISK

- 4.1 Risks related to this matter were detailed in the Treasury Management Strategy 2017/18 Report dated 16th January 2017. Since that report the risks identified have not significantly changed.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 None
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 If Audit, Governance and Standards Committee agrees that no change in current procedures with Treasury management will be made, then there will be no further action.
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7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
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Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims.	Head of Finance
Risk Management	See section 4 of this report.	Head of Finance
Financial	This report relates to the financial activities of the Council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Section 151 Officer
Staffing	None.	
Legal	The report is in compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury management in local authorities.	Legal Team
Privacy and Data Protection	None.	
Equalities	None.	
Crime and Disorder	None.	
Procurement	None.	

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix I: Investments held as at 31st March 2018.
- Appendix II: Prudential and Treasury Indicators.

9. BACKGROUND PAPERS

9.1 None