



Policy, Finance and Development Committee	Tuesday, 18 September 2018	Matter for Information
--------------------------------------------------	-----------------------------------	-------------------------------

Report Title: **Treasury Management Annual Report (2017/18)**

Report Author(s): **Chris Raymakers (Head of Finance Revenues and Benefits)**

Purpose of Report:	This report details the actual performance and activities of the Authority's treasury management function for the financial year 2017/18.
Report Summary:	During the financial year 2017/18, the treasury management function at the Council was operated efficiently with no breaches in in the boundaries set at the start of the year.
Recommendation(s):	That the contents of the report and appendices be noted.
Responsible Strategic Director, Head of Service and Officer Contact(s):	<p>Stephen Hinds (Director of Finance & Transformation) (0116) 257 2681 stephen.hinds@oadby-wigston.gov.uk</p> <p>Chris Raymakers (Head of Finance, Revenues and Benefits) (0116) 257 2891 chris.raymakers@oadby-wigston.gov.uk</p>
Corporate Priorities:	Effective Service Provision (CP2)
Vision and Values:	<p>Accountability (V1)</p> <p>Teamwork (V3)</p> <p>Innovation (V4)</p>
Report Implications:-	
Legal:	There are no implications directly arising from the report.
Financial:	<p>Strong, prudent treasury management is vital to the governance and financing of the Council.</p> <p>Other financial implications are as set out in the report.</p>
Corporate Risk Management:	<p>Decreasing Financial Resources (CR1)</p> <p>Reputation Damage (CR4)</p> <p>Regulatory Governance (CR6)</p> <p>Increased Fraud (CR10)</p>
Equalities and Equalities Assessment (EA):	There are no implications arising from the report. EA not applicable.
Human Rights:	There are no implications arising from the report.
Health and Safety:	There are no implications arising from the report.
Statutory Officers' Comments:-	

Head of Paid Service:	The report is satisfactory.
Chief Finance Officer:	The report is satisfactory.
Deputy Monitoring Officer:	The report is satisfactory.
Consultees:	None.
Background Papers:	Treasury Management Policy and Strategies 2018/19
Appendices:	<ol style="list-style-type: none"> 1. Total Investments Placed during Period 2017/18 2. Schedule of PWLB Loans (HRA and General Fund) 3. Investment Strategy 2017/18 - 2018/19 4. External Investment of Funds - Approved Institutions

1. Introduction

- 1.1 Treasury management is defined in the Code of Practice as "the management of the organisation's 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".
- 1.2 Two annual reports on treasury management are produced. Firstly, a Treasury Management Strategy and Statement is approved by Council prior to the commencement of the financial year and then this report provides Members with a summary of actual activity for the year 2017/18. The report is required in order to comply with the "Code of Practice on Treasury Management in Local Government" and the Council's own Treasury Management Policy Statement.
- 1.3 The Code requires the Section 151 Officer to operate the treasury management function in accordance with treasury management practices adopted by Council. There are no issues of non-compliance with these practices that need be brought to Members' attention.
- 1.4 Under the Prudential Code for Capital Finance, the Council is required to prepare a number of prudential indicators against which treasury management performance is measured. Details of all borrowing and investment transactions for 2017/18 together with the performance against prudential indicators are given below.

2. Borrowing

- 2.1 Long Term - The Authority is able to borrow on a long term basis from the Public Works Loans Board (PWLB). At the beginning of the year the value of the outstanding loans was £24.114m, comprising £18.114m relating to the HRA, and £6m relating to the general fund. There was no additional long-term borrowing or repayment of loans during 2017-18, leaving the outstanding balance at the end of the year unchanged at £24.114m. A list of these loans appears at **Appendix 2**
- 2.2 Short Term (Less than 365 days in duration) - There was £8m of short-term borrowing undertaken during 2017/18 (2016/17 £4.5m), in lieu of long-term borrowing.
- 2.3 Cost of Borrowing in term of the interest on the outstanding loans was paid as follows:

(Continued overleaf)

Loan	Maturity Date	Interest Rate	Interest
£'000		%	£'000
500	29/03/2052	4.10	21
500	29/09/2018	3.50	17
5,000	30/06/2055	2.66	131
18,114	Various	2.98*	539
3,000	13/02/2019	0.78	3
5,000	20/08/2018	0.62	3

* Average Interest rate for loans

3. Investments

3.1 During 2017/18, the Council was in a position where it often had cash surpluses to invest. When considering investments the Council must consider the following factors:

- **Security** – the Authority has a counterparty list, based on credit ratings, within its Investment Strategy that is approved prior to the commencement of the financial year. The current list and basis of approval is attached at **Appendix 4**.
- **Liquidity** – because of cash flows there is always a need to have a mix of investments that are realisable when required.
- **Yield** – probably the least important consideration as often higher yields mean greater risks.

3.2 In the current economic climate and due to the volatility and uncertainty being prevalent in financial markets, security has to be the most important factor of the three listed above.

3.3 For 2017/18 surplus cash was invested in the following ways.

- **Special Interest Bearing Account** – This account is held with National Westminster Bank plc. It can be used for deposits up to £5 million and pays interest at 0.15%
- **Business Direct Reserve Account** – Again, this is a National Westminster Bank account which allows deposits up to £1 million and also pays interest at 0.15%.
- **Money Market Deposits** – Used for larger amounts up to £1.5 million. The list of institutions approved for investment was agreed at Council on 25 April 2017 and is included again for reference in **Appendix 4**.

3.4 The investments fall into two categories:

- **Money on Call** – These investments run for a minimum of 7 days after which they can be recalled at any time. Interest rates are variable and can fluctuate during the life of the investment.
- **Fixed Deposits** – Investments which mature at a pre-arranged date. The interest rate is fixed for the life of the investment.

3.5 The total interest received for the year to 31 March 2018 on temporary investments amounted to £11,098 (2016/17 £10,349). A summary of the total amount invested in 2017/18 is given at **Appendix 1**.

4. Prudential Indicators

- 4.1 The Local Government Act 2003 requires Councils to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators which provide the basis for management and monitoring of borrowing and investments. These indicators were agreed by Council on 25 April 2017.
- 4.2 **The Capital Financing Requirement (CFR)** – This represents the Council's underlying need to borrow for capital purpose based on the cumulative value of capital expenditure not fully paid for. The CFR will change year on year in accordance with the value of capital spending.
- 4.3 The first key control over activities is to ensure that over the medium term, net borrowing will only be for capital purposes. The Authority must ensure that net external borrowing does not, except for short periods, exceed the total of the CFR. A comparison of the estimate against the actuals is shown in the table below.

	2017/18 Original Estimate £000's	2017/18 Revised Estimate £000's	2017/18 Actuals £000's
Gross Borrowing	31,114	30,114	32,114
Investments	-	-	2,000
Net Borrowing 31 March	31,114	30,114	30,114
Total CFR 31 March	35,248	35,985	34,300

- 4.4 The Section 151 Officer reports that the Council complied with the requirement to keep borrowing below the relevant CFR in 2017/18 and no difficulties are foreseen for the current or future years.
- 4.5 **Borrowing Levels** – The following two indicators control the overall level of borrowing.
- **The Authorised Limit** – This represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.
 - **The Operational Boundary** – This indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around the boundary for short times during the year. It should act as a barometer to ensure the authorised limit is not breached.
- 4.6 The actual borrowing compared to the Authorised and Operational limits agreed by Council are as follows:

	2017/18 Original Limit £000's	2017/18 Revised Limit £000's	2017/18 Actual (Max) £000's
Authorised Limit	40,000	40,000	32,114
Operational Boundary	35,000	35,000	32,114

- 4.7 **Ratio of Financing Costs to Net Revenue Stream** – This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, Council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time.

	2017/18 Original Estimate %	2017/18 Revised Estimate %	2017/18 Actual %
General Fund	12.1	10.2	11.0
HRA	10.8	11.2	11.0

- 4.8 The above indicator shows that within the General Fund, financing costs are equivalent to 11.0% of the net revenue income. In the case of the HRA there is net interest payable which is equivalent to 11.0% of the net revenue income.

- 4.9 **Limits on Activity** – The following indicators contain the activity of the treasury function within certain limits thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position.

- **Upper Limits on Variable Rate Exposure** – This indicator identifies a maximum limit for variable interest rates.
- **Upper Limits on Fixed Rate Exposure** – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- **Maturity Structures of Borrowing** – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.
- **Total Principal Funds Invested** – This limit is set to reduce the need for early sale of investments and is based on the availability of investments after each year-end.

Maturity Structure of Borrowings	2017/18 Original Indicators		2017/18 Revised Indicators		2017/18 Actual Maturity Structure	
	%		%		%	
Fixed Interest Rates Limit	100		100		100	
Variable Interest Rates Limit	25		25		0	
Maturity Structure of Borrowings	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0	30	0	30	0	26
12 months to 2 years	0	35	0	35	0	3
2 years to 5 years	0	50	0	50	0	9
5 years to 10 years	0	75	0	75	0	16
10 years and above	0	100	0	100	0	46

- 4.10 The Prudential Code requires indicators to be set for the maturity structure of fixed borrowings only.