

REPORT OF: CHIEF FINANCIAL OFFICER

TO: POLICY AND RESOURCES COMMITTEE

DATES: 25th JULY 2019

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TREASURY MANAGEMENT OUTTURN 2018/19

PURPOSE OF REPORT

This report informs the Policy and Resources Committee of the performance of the Council's Treasury Management function for the 2018/19 financial year.

RECOMMENDATION

The Policy & Resources Committee is recommended to note the outturn position on the Council's treasury management activities for 2018/19.

REASON FOR RECOMMENDATION

For the Policy and Resources Committee to receive details of the Council's treasury management activities for the financial year 2018/19 in compliance with the Council's Treasury Management Policy.

ISSUE

1. The Council's Treasury Management function is concerned with the management of the Council's debts, investments, cashflow and banking arrangements. These activities are regulated by a variety of professional codes, statute and guidance.
2. This report has been produced to comply with the requirements of the Code of Practice on Treasury Management, as issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
3. The Code states that an annual report on the performance of the treasury management function and on the effects of the decisions taken and the transactions executed in the past year and of any circumstances of non-compliance with policy or Treasury Management Practices be presented to Committee.
4. Attached at [Appendix A](#) is the Treasury Management Annual Report for 2018/19. The report sets out details of the Council's borrowing and investment activity for the year. It compares

actual performance against estimates included in the approved 2018/19 Treasury Management Strategy and Annual Investment Strategy, assessing affordability and prudence in terms of the Council's Capital plans and its treasury management activity.

5. In addition it includes economic commentary on the year in respect of factors influencing borrowing and investment rates.
6. Some of the key issues are summarised below:-
 - **Borrowing** – The Council's borrowing was £19.359m at the beginning of the financial year. This increased to £20.359m by the end of the financial year reflecting net additional borrowing of £1.0m. The Council's long-term loan debt is comprised wholly of loans from the Public Works Loan Board (PWLB). This scale of borrowing was within the limits contained in the 2018/19 Annual Treasury Management Strategy as approved by Council in March 2018. The overall cost of debt at 31st March 2019, based on long-term borrowing of £20.359m was 3.11%.
 - **Borrowing Limits** – The Council's Authorised Borrowing Limit of £30.5m was not breached during the year, nor was the Operational Boundary of £28.5m;
 - **Investments** – The balance of investments at 31st March 2019 was £16.0m (compared to £14.0m at the beginning of the financial year). The investment return achieved for the year was 0.73% which is in line with recognised benchmark returns (e.g. 3 month LIBID rate). The Bank of England raised the bank rate (to which investment returns are closely linked) from 0.50% to 0.75% in August 2018.
7. Counterparty risk considerations have remained a focus of treasury activity during the year against a backdrop of political and economic uncertainty as the UK continues to negotiate its exit from the EU (BREXIT). A consequence of this has been the maintenance of a restricted range of counterparties with whom the Council invests. During the year investments were limited primarily to other local authorities including the County Council, HM Treasury via the Debt Management Office (DMO), the Council's bankers, Lloyds Bank plc, and the Nationwide and Coventry Building Societies. No use was made during the year of Certificates of Deposit, Gilts or Treasury Bills which remain approved forms of investment.
8. Treasury activity is reported quarterly in the year to the Accounts and Audit Committee. During 2018/19, the Committee received quarterly updates, although the January meeting was cancelled due to inclement weather. The Committee was also presented with updated practical guidance in July 2018 produced by CIPFA in support of fulfilling their scrutiny role.
9. A technical breach of the approved Treasury Strategy and Annual Investment Strategy was reported in March 2019. The sum total of investments with a principal Local Authority exceeded the approved limit as £4m was invested with a Local Authority (as per the counterparty list) an approved limit of £3m. Following an assessment of risk, the decision to maintain the counterparty relationship was taken and sums were not recalled. Principal and interest were repaid on 15th March 2019 as originally agreed when the transaction was executed.
10. No changes to individual counterparty limits were made but internal processes have been strengthened.

IMPLICATIONS

Policy

11. This report has been produced in compliance with the requirements of the Council's Treasury Management Policy.

Financial

12. The two key budgets related to the Council's Treasury Management Function are interest payable on external debt (or debt charges) and interest receivable on investments made.
13. The General Fund revised budget for debt charges in 2018/19 was £1,083,050 comprising £600,850 for interest on debt, £465,840 for the Minimum Revenue Provision (MRP) and £16,360 for premia payable as a result of debt restructuring exercises in previous years. Actual debt charges for the year were £1,087,700 (including MRP and premia), a small overspend of £4,650 when compared to the budget.
14. The Approved Budget for interest and investment income for 2018/19 was £147,950, the actual level achieved was £204,090 which overachieved the budget by £56,140.

Legal

15. There are no direct legal implications arising from the recommendation within this report.

Risk Management

16. Treasury Risk Management is a key element of the Council's Treasury Management Strategy. In the light of this, and in accordance with best practice, the Council's has a specific Treasury Management Practice (TMP) Note specifically covering Treasury Risk Management. In particular, this covers areas such as liquidity risk, interest rate risk and credit/counterparty risk. Updated TMPs were approved by the Accounts and Audit Committee in July 2018.
17. Given the arrangements the Council currently has in place in relation to Treasury Risk Management, treasury issues do not currently feature on the Council's Risk Register.

Health and Safety

18. There are no health and safety implications arising directly from the recommendation within this report.

Sustainability Implications

19. There are no sustainability implications arising directly from the recommendation within this report.

Community Safety:

20. There are no community safety issues arising directly from the recommendation within this report.

Equality and Diversity:

21. There are no equality and diversity implications arising from the recommendation within this report.

APPENDICES

Appendix A – Annual Treasury Management Review 2018/19.

LIST OF BACKGROUND PAPERS

None