Public
Key Decision - No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Treasury Management Annual Report 2018/19
Meeting/Date:	Cabinet – 20th June 2019
Executive Portfolio:	Executive Member for Resources Councillor J Gray
Report by:	Head of Resources
Ward(s) affected:	All Wards

Executive Summary:

The Council's 2018/19 Treasury Management Strategy, was approved by Council on the 21st February 2018.

CIPFA's Treasury Management code requires Councils to report on performance of the treasury management function twice a year; the first report being the mid-year review (reported to cabinet on the 22nd November 2018) and the annual report after the financial year end.

The main purpose of the Treasury Management Strategy is to:

- Ensure the Council has sufficient cash to meet its day to day obligations.
- Borrow when necessary to fund capital expenditure, including borrowing in anticipation of need when rates are considered to be low.
- Invest surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest.

The key market Treasury Management issues through 2018/19 influencing the Council's decision-making were:

- A moderate recent improvement in the equity market, falling Gilt rates meaning lower borrowing costs, and falling credit default swap rates (less perceived risk in the financial market).
- A continuation of the Bank of England's policy of very low interest rates, with the result that market rates also remain very low. The Council's average investing rate was 0.75%.

The Council's response to the key issues in 2018/19 was:

- Where the Council has surplus funds to primarily make short term investments (the majority on call on a daily basis) in liquidity accounts and money market funds.

- Where possible to take a higher return without sacrificing liquidity.

- When borrowing the Council has used the Public Works Loan Board (PWLB), which offers low fixed rate borrowing over a long period. The interest rate on loans borrowed ranges from 1.48% to 3.91%.

Recommendation(s):

The Cabinet is recommended to

- Comment on the 2018/19 Treasury Management performance

1. PURPOSE OF THE REPORT

1.1 To report to members on the performance of the Treasury Management activity over the past financial year.

2. BACKGROUND

2.1 This report covers treasury activity and the associated monitoring and control of risk. The key areas to be addressed includes

- Economic Review
- Performance of Funds
- Risk Environment
- Risk Management
- Compliance with Regulations and Codes

2.2 The key points in the 2018/19 Strategy were:

- Ensuring the Council has sufficient cash to meet its day to day obligations.
- Borrowing when necessary to fund capital expenditure.
- Investing surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest.

3. ANALYSIS

Economic Review

3.1 An economic review of the year has been provided by our Treasury Management advisors, Arlingclose and is attached with an analysis of the local context implications in **Appendix A**. The main reliance to the Council is

- Interest rates are likely to remain low in the short-term, the last increase by the Bank of England was in August 2018 (to 0.75%)
- The continued low rates mean few opportunities to make significant returns from investments. This requires the Council to use other investing opportunities which the Commercial Investment Strategy provides through property rents and returns from the CCLA Property Fund.
- Inflation was 1.9% (year on year) just above forecast but in line with the Bank of England's forecast.
- Whilst wages growth has been low or negative in recent years, the rate has now risen steadily to 3.4%.

Performance of Council Funds

3.2 The following table summarises the treasury management transactions undertaken during the 2018/19 financial year and the details of the investments and loans held as at 31st March 2019 are shown in detail in **Appendix B**.

Investments and Borrowing	Principal Amount £m	Interest Rate %
Investments		
at 31st March 2018	3.46	0.40
less matured in year	-236.17	
plus arranged in year	+235.63	
at 31st March 2019	2.92	0.75
Average Investments (Annual)	**11.5**	**0.75**
Borrowing		
at 31st March 2018	20.70	2.94
less repaid in year	-0.26	
plus arranged in year	+8.09	
at 31st March 2019	**28.53**	**2.81**
Average Borrowing (Annual)	**24.62**	**2.81**
Note; Interest rates above are as at dated apart from averages, where these are the average for the whole year.		

Investments

3.3 The Council's strategy for 2018/19 was based on all investments being managed in-house. The investments were of three types:

- Time deposits, these are deposits with financial institutions that are of fixed term and mature on an agreed date. In the Council's case usually in 1 to 2 weeks.

- Liquidity (call) accounts, these are accounts held with banks where there is no fixed term and the money can be deposited or withdrawn on the day.

- Money Market Funds, these are funds where investor's deposits are aggregated together and invested across a large range of financial products, giving a high degree of diversification.

3.4 The average rate of interest on all investments was 3.40%, 2.89% above the 7 day LIBID (London Interbank Bid Rate) benchmark rate of 0.51%, this represents a return of over six times the bench-mark rate. This good performance was due to interest received from loans borrowed to other organisations which interest rates were higher than rates available on Money Market Funds. The use of liquidity accounts with major banks and Money Market Funds gave the added safety of instant access together with interest rates in excess of the benchmark.

3.5 When only short-term cash flow investment activity is considered, the rate of interest on investments was 0.75%, which is around 47% higher than the 7-day benchmark rate of 0.51%. In addition, dividend received on CCLA Property Fund investment for 2018/19 was £167,820 on shareholding of 1,292,970 units.

Borrowing

3.6 The Council's exposure to interest rate risk at the end of the year was:

- £28.53m long term borrowing from the PWLB, at a weighted average rate of 2.81%.
- Short term borrowing at 31 March 2019 was nil.

3.7 The actual net investment interest payable (after deduction of interest receivable on loans) was £342,499 against a budget of £565,000. This is a saving of £222,501 against the original budget. This is due to delays in capital, CIS and revenue expenditure resulting in higher than estimated average cash balances which have been invested

3.8 Short-term borrowing at 31 March 2019 was nil as the Council held sufficient cash balances to meet its obligations.

Risk Environment

3.9 The changes to the environment in which investing takes place are detailed in **Appendix C** the main points to note are;

- Credit Default Swap rates fell in 2019 after rising slightly in 2018. This indicates that the market feels there has been a moderate reduction in credit risk.

- Gilt yields for a 5 year period fell to 0.8%, with a consequent effect on PWLB rates (reduced)

Risk Management

3.10 The Council's primary objectives for the management of its investments are to give priority to the **security** and **liquidity** (how quickly cash can be accessed) of its funds before seeking the best rate of **return**.

3.11 The Council manages security by investing short-term with highly-rated banks and building societies, as well as investing with local authorities in the UK which are deemed to be intrinsically safe, apart from Northamptonshire County Council.

3.12 In addition to this the Council makes significant use of a number of Money Market Funds, where a large numbers of investors' funds, including the Council's, are aggregated and spread across a wide range of investments. The Council is therefore able to access a spread of investments across a number of funds not available if it were to invest on its own.

3.13 In order to manage liquidity the Council invests funds in call accounts or Money Market Funds, which provide instant access to funds.

3.14 The Council's priority has been security and liquidity, over the return on investments, which resulted in investments during 2018/19 generally being of short duration (the majority on call). The result of low interest rates across the market is that the margin gained from the benefit of investing for longer period does not out-weigh the potential costs of failure of the investment.

Compliance with Regulations and Codes

3.15 All the treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice, and relevant MHCLG legislation.

3.16 The Code requires the Council to approve both Treasury Management and Prudential Indicators. Those for 2018/19 were approved at the Council meeting on 21st February 2018. **Appendix D** shows the relevant prudential indicators and the actual results, the table below is a summary of key indicators.

Prudential Management Indicators			
	2018/19 Estimate	**2018/19 Actual**	**Impact on the Council**
Net capital expenditure	£21.1m	£16.1m	Expenditure less than estimated as a result of rephasing asset schemes (£2.7m) and underspends (£0.7m). Overspends totalled £0.5m including DFGs at £0.3m. In addition the CIS was underspent by £2.1m on the original £30m.
Expenditure on interest and MRP (Minimum Revenue Provision)	23.1%	12.1%	As a result of underspends in 2017/18 the MRP is lower than estimated for 2018/19.
Capital Financing Requirement (CFR)	£69.4m	£57.7m	The CFR is lower due to reduced expenditure detailed above.
	31/03/18	**31/03/19**	
Long-term borrowing total	£15.9m	£28.5m	Borrowing has increased due to two loans borrowed in March 2019 of which £0.8m was lent on to Huntingdon Town Council and a loan of £7.3m, was used for the purchase of Rowley Centre at St Neots.
Treasury Management Indicators			
	2018/19 Limit	**2018/19 Actual**	
Authorised Limit for debt	£123m	£34.20m	The Council's debt has increased as a result of loans to finance the purchase of the Rowley Centre in St Neots and to fund a loan to Huntingdon Town Council but this is still within the approved limits
Operational boundary for debt	£118m	£34.20m	
Borrowing fixed and variable interest	75%-100%	100%	All borrowing has been undertaken at a fixed rate to avoid the risk of interest rate increases in the future.
Borrowing repayment profile (10 years)	20%-100%	86%	The loan repayment profile has shortened from last

			year as Urban & Civic have started paying interest quarterly.
Investments longer than 364 days	£68m	£0	Only short-term or instant access investments used.

4. COMMENTS OF OVERVIEW & SCRUTINY

4.1 The comments of the Overview and Scrutiny Panel (Performance and Growth) will follow the panel meeting on the 4 June 2019.

5. RISKS

5.1 The risks arising from treasury management activities are highlighted in the report and are measured by reference to the prudential indicators in **Appendix D**.

6. WHAT ACTIONS WILL BE TAKEN

6.1 Treasury management activities will continue to be monitored, in order to mitigate security and liquidity risks.

7. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND / OR CORPORATE OBJECTIVES

7.1 Treasury management activity is a corporate function of the Council and supports the corporate vision in relation to aspirations for People and Place.

7.2 In addition, over the last year the Council's treasury function directly contributed to the "Place – provide new community facilities" strategic theme (Corporate Plan 2018-2022) in that it provided loan finance to support an external partner (Places for People) to fund the construction of the Langley Court Extra Care Facility in St. Ives. In addition loans were provided to Cambridge Regional College to improve facilities (People – Skilled Workforce theme), Urban and Civic to fund the Incubator Unit (Place – Business Growth theme) and Huntingdon Town Council to finance a new community centre (Place – Community Facilities).

8. CONSULTATION

8.1 No consultation was required or has taken place.

9. LEGAL IMPLICATIONS

9.1 No direct, legal implications arise out of this report

10. RESOURCE IMPLICATIONS

10.1 The resource implications relating to the net interested due to the council is explained in paragraph 3.7.

11. OTHER IMPLICATIONS

11.1 No other implications have been considered.

12. REASONS FOR RECOMMENDED DECISIONS

12.1 The reason for the recommended decision is discussed in section 3 Analysis.

13. LIST OF APPENDICES INCLUDED

Appendix A – Economic review (Source: Arlingclose)
Appendix B – Borrowing and Investments as at 31st March 2019
Appendix C – Risk Environment 2018-19
Appendix D – CIPFA Prudential Indicators
Appendix E – Commercial Investment Strategy Indicators

BACKGROUND PAPERS

Working papers in Resources; including investment and borrowing records, capital programme outturn, prudential indicator calculations.
CIPFA Treasury Management Code of Practice

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