Public
Key Decision - No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Treasury Management Annual Report 2017/18
Meeting/Date:	Cabinet – 21st June 2018
Executive Portfolio:	Executive Member for Strategic Resources – Councillor Jonathan Gray
Report by:	Head of Resources
Wards affected:	All Wards

Executive Summary:

The Council's 2017/18 Treasury Management Strategy, was approved by Council on the 22nd February 2017.

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 16th November 2017) 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 2017/18 influencing the Council's decision-making were;

- A moderate improvement in the credit rating of financial institutions, although some institutions ratings have been affected by ring-fencing of retail activity from investment activity.
- 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 0.40%.

The Council's response to the key issues in 2017/18 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 ranges from 2.18% to 3.90%.

Recommendation(s):

The Cabinet is recommended to

- Comment on the 2017/18 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 2017/18 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, allowing the Council to borrow at low interest rates both for short-term cash flow purposes and for longer term borrowing. However there is now evidence that rates may start to rise although at a slow rate.
- 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 had started to rise slowly as the fall in the value of sterling takes effect, however towards the end of the year the rate had started to fall back.
- Whilst wages growth has been low or negative in recent years, there is now evidence of increasing wage inflation, as a result of low unemployment rates.

Performance of Council Funds

3.2 The following table summarises the treasury management transactions undertaken during the 2017/18 financial year and the details of the investments and loans held as at 31st March 2018 are shown in detail in **Appendix B**.

	Principal Amount £m	Interest Rate %
Investments		
at 31st March 2017	10	2.24
less matured in year	-216.0	
plus arranged in year	+221.7	
at 31st March 2018	15.7	0.40
Average Investments (Annual)	**18.0**	**3.72**
Borrowing		
at 31st March 2017	6	0.32
less repaid in year	-9.0	
plus arranged in year	+14.0	
at 31st March 2018	**11.00**	**0.73**
Average Borrowing (Annual)	**16.1**	**0.41**

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 2017/18 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 3.72%, 3.62% above the 7 day LIBID (London Interbank Bid Rate) benchmark rate of 0.21%, this represents a return of over three times the bench-mark rate. This good performance was due to £1.078m of the investments being locked into higher rates before the year started together with the use of liquidity accounts with major banks and Money Market Funds which 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 0.22%, which is around 5% higher than the 7-day benchmark rate of 0.21%.

Borrowing

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

- £20.6m long term borrowing from the PWLB, at a weighted average rate of 2.94%.
- Short term borrowing at 31 March 2018 was nil.

3.7 The actual net investment interest payable (after deduction of interest receivable on loans) was £151,000 against a budget of £226,000. This is a saving of £75,000 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 2018 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;

- UK sovereign rate being downgraded by Moodys.
- Slight improvements in the credit ratings of financial institutions, but with effects from ring-fencing of retail and investment banks being factored in.
- The issue of new Treasury Management and Prudential Codes and new MHCLG guidance on investments and minimum revenue provision

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 2017/18 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 2017/18 were approved at the Council meeting on 22nd February 2017. **Appendix D** shows the relevant prudential indicators and the actual results, the table below is a summary of key indicators.

Prudential Management Indicators			
	2017/18 Estimate	**2017/18 Actual**	**Impact on the Council**
Net capital expenditure	£38.8m	£11.4m	Expenditure less than estimated as a result of rephasing asset schemes (£4.8m) and underspends (£0.6m), however DFGs were overspent by £0.8m. In addition the CIS did not spend the estimate of £30m.
Expenditure on interest and MRP (Minimum Revenue Provision)	19.5%	9.5%	As a result of underspends in 2016/17 the MRP is lower than estimated for 2017/18.
Capital Financing Requirement (CFR)	£70.1m	£46.6m	The CFR is lower due to reduced expenditure detailed above.
	31/03/17	**31/03/18**	
Long-term borrowing total	£15.9m	£20.9m	Borrowing has increased to fund expenditure on the CIS purchase at Fareham.
Treasury Management Indicators			
	2017/18 Limit	**2017/18 Actual**	
Authorised Limit for debt	£108.0m	£24.9m	The Council's debt has increased as a result of loans to finance the purchase of the CIS Property at Fareham, but is still within the approved limits
Operational boundary for debt	£103.0m	£24.9m	
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)	9%-100%	86%	The loan repayment profile has shortened from last year as the Luminus loans are repaid annually.

Investments longer than 364 days	£34.5m	£27.1m	Only short-term or instant access investments.

4. COMMENTS OF OVERVIEW AND SCRUTINY

4.1 The comments of the Overview and Scrutiny Panel (Performance and Growth) will follow the Panel meeting on the 14th June 2018.

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 achievement of the Councils three corporate priorities; consequently it is a key element in the budget setting and management process.

7.2 In addition, over the last year the Councils Treasury function directly contributed to the “Working with our communities” strategic theme (Corporate Plan 2014-2016) in that it provided loan finance to support an external partner (Luminus) to fund the construction of the Langley Court Extra Care Facility in St. Ives.

8. CONSULTATION

8.1 No consultation 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 2018
Appendix C – Risk Environment 2017-18
Appendix D – CIPFA Prudential Indicators

Appendix E – Commercial Investment Strategy Indicators (Preliminary)

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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