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<b>PART B:</b>	<b>RECOMMENDATIONS TO COUNCIL</b>
<b>REPORT TO:</b>	<b>OVERVIEW AND SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>22 NOVEMBER 2018</b>
<b>REPORT OF THE:</b>	<b>CHIEF FINANCE OFFICER (s151) – ANTON HODGE</b>
<b>TITLE OF REPORT:</b>	<b>TREASURY MANAGEMENT ANNUAL REPORT 2017-18</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

### **2.0 RECOMMENDATIONS**

2.1 That Council is recommended to:

- (i) Note the annual treasury management report for 2017/18; and
- (ii) Approve the actual 2017/18 prudential and treasury indicators in this report.

### **3.0 REASON FOR RECOMMENDATIONS**

3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

### **4.0 SIGNIFICANT RISKS**

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

### **5.0 POLICY CONTEXT AND CONSULTATION**

5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.

5.2 The Council uses the services of Link Asset Services – Treasury Solutions (Link) to

provide treasury management information and advice.

## REPORT

### 6.0 REPORT DETAILS

6.1 During 2017/18 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 21 February 2017)
- A mid year (minimum) treasury update report (Council 14 December 2017)
- An annual review following the end of the year describing the activity compared to the strategy (this report).

6.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

6.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council.

6.4 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Summary of interest rate movement in the year;
- Detailed borrowing activity;
- Detailed investment activity.

#### **The Council's Capital Expenditure and Financing 2017/18.**

6.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

6.6 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2017/18 Actual (£)	2016/17 Actual (£)
<b>Total Capital Expenditure</b>	<b>852,664</b>	<b>537,842</b>
Resourced by:		
Capital receipts	86,468	185,315
Capital grants and contributions	652,324	311,680

Capital reserves	113,871	40,847
External Borrowing	-	-
Total	852,664	537,842

## The Economy and Interest rates

6.7 The Council's treasury advisors Link Asset Services – Treasury Solutions (Link) summarised the key points associated with economic activity in 2017/18 as follows:

- Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant hold up in progress;
- UK growth in 2017 was weak in the first half of the year, although it did pick up modestly in the second half of 2017;
- There was a sharp increase in inflation caused by the devaluation of sterling after the EU referendum;
- As expected the MPC raised Bank Rate from 0.25% to 0.50% on 2 November;
- Market expectations for increases in Bank Rate shifted during the second half of 2017/18 and resulted in investment rates up to 12 months increasing sharply;
- The FTSE 100 hit a new peak in early 2018 before there was a sharp selloff.

## Overall Treasury Position as at 31 March 2018

6.10 At the beginning and the end of 2017/18 the Council's treasury position was as follows (excluding finance leases):

	31 March 2018 Principal	31 March 2017 Principal
Total Debt	£1.63m	£1.67m
CFR	£1.66m	£1.69m
Over/(Under) borrowing	<b>-£0.03m</b>	<b>-£0.02m</b>
Total Investments	£17.12m	£16.01m
Net Debt	<b>-£15.49m</b>	<b>-£15.99m</b>

## The Strategy for 2017/18

6.11 The Treasury Management Strategy for 2017/18 was approved by members at full Council on 21 February 2017.

6.12 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated a low but rising Bank Rate, and gradual rises in medium and longer term fixed borrowing rates during 2017/18.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk by utilising available cash balances. However, this approach was to be carefully reviewed to monitor potential borrowing requirements and borrowing costs.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year),

compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

### The Borrowing Requirement and Debt

6.13 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) (excluding borrowing by finance leases).

	31 March 2017 Actual	31 March 2018 Budget	31 March 2018 Actual
Total CFR	£1.695m	£1.974	£1.659m

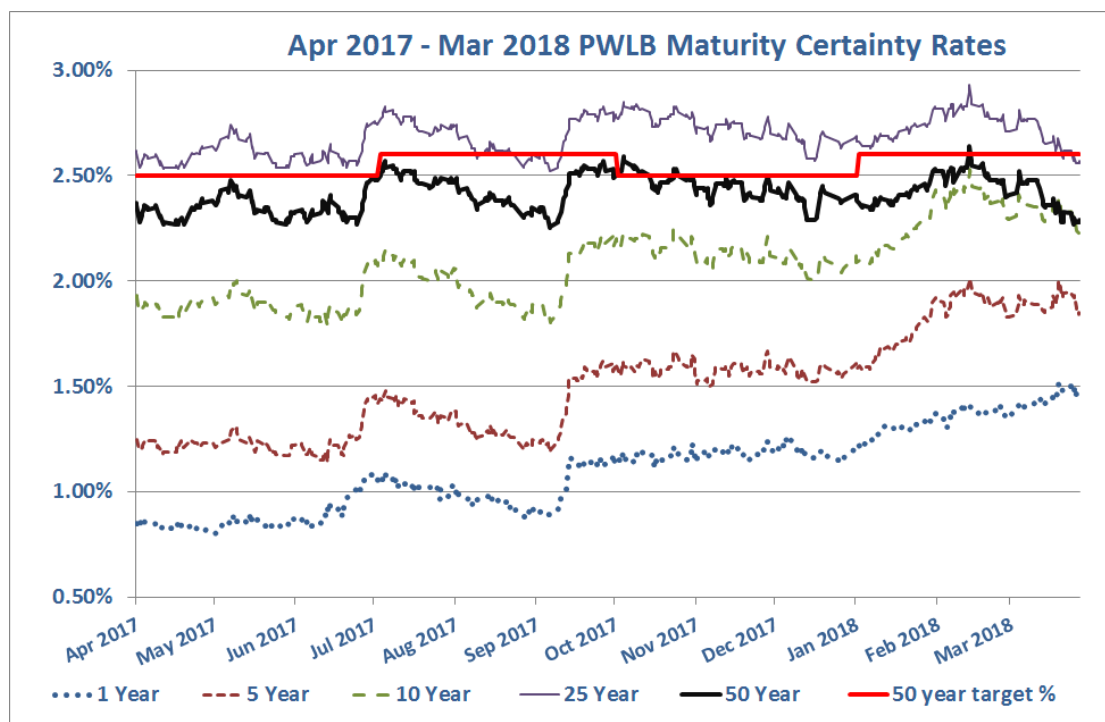
### Borrowing Rates in 2017/18

#### PWLB certainty maturity borrowing rates

As depicted in the graph and tables below and in appendix 4, PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March.

During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarters 1 and 3 and 2.60% in quarters 2 and 4.

The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



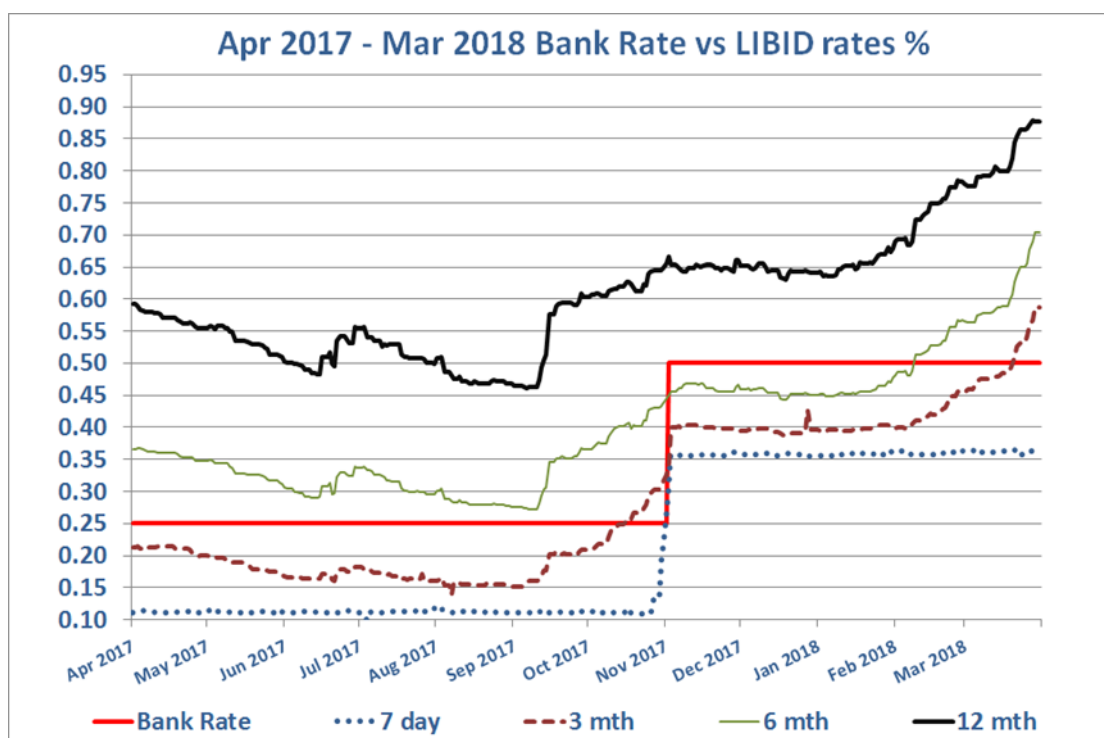
### Borrowing Outturn for 2017/18

- 6.14 No new borrowing was undertaken during the year and scheduled repayments were made. At the end of the financial year the debt portfolio was as follows:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£1.00m	Maturity	3.69%	50 years
PWLB	£0.63m	EIP	2.99%	19 years

### Investment Rates in 2017/18

- 6.15 Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2.11.17 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28.2.18.



### Investment Outturn for 2017/18

- 6.16 The Council's investment policy is governed by DCLG guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 21 February 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).
- 6.17 The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- 6.18 The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the internally managed funds against the 7-

day LIBID uncompounded rate bench mark:

	Average Total Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
<b>Internally Managed:</b>				
Temporary & On-Call Investments	£6,727,832	0.25%	n/a	n/a
Fixed Term Deposits	£14,862,192	0.43%	n/a	0.20%

6.19 **The interest received by the Council from investments in 2017/18 totalled £85k; this compares to an original estimate of £65k.**

6.20 The Council's investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities and security of investments. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Treasury Management Practices. At the beginning and the end of 2017/18 the Council's investments position was as follows:

	31 March 2018 (£)	31 March 2017 (£)
Internally Managed Investments	19,776,864	16,072,738

6.21 The maturity of the investment portfolio was as follows;

	31 March 2018 (£)	31 March 2017 (£)
On-call Investments	2,676,864	72,738
Fixed Term Deposits:		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	2,500,000	0
Repayable 3 months to 6 months	12,600,000	14,000,000
Repayable 6 months to 12 months	2,000,000	2,000,000
Repayable 12 months to 24 months	0	0
<b>Total</b>	<b>19,776,864</b>	<b>16,072,738</b>

6.22 Investments were placed with the following institutions:

Type of Institution	31 March 2018 (£)	31 March 2017 (£)
UK Clearing Banks	12,776,864	8,172,738
Foreign Banks	4,000,000	5,000,000
Building Societies	3,000,000	2,900,000
Local Authorities	0	0
<b>Total</b>	<b>19,776,864</b>	<b>16,072,738</b>

### **Compliance with Treasury Limits**

6.23 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (annex B).

## **7.0 IMPLICATIONS**

7.1 The following implications have been identified:

- a) Financial  
The results of the investment strategy effect the funding of the capital programme.
- b) Legal  
There are no legal implications within this report
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)  
There are no additional implications within this report.

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**Background Papers:** None