

TREASURY MANAGEMENT 2017-18 YEAR END REPORT

1 Purpose

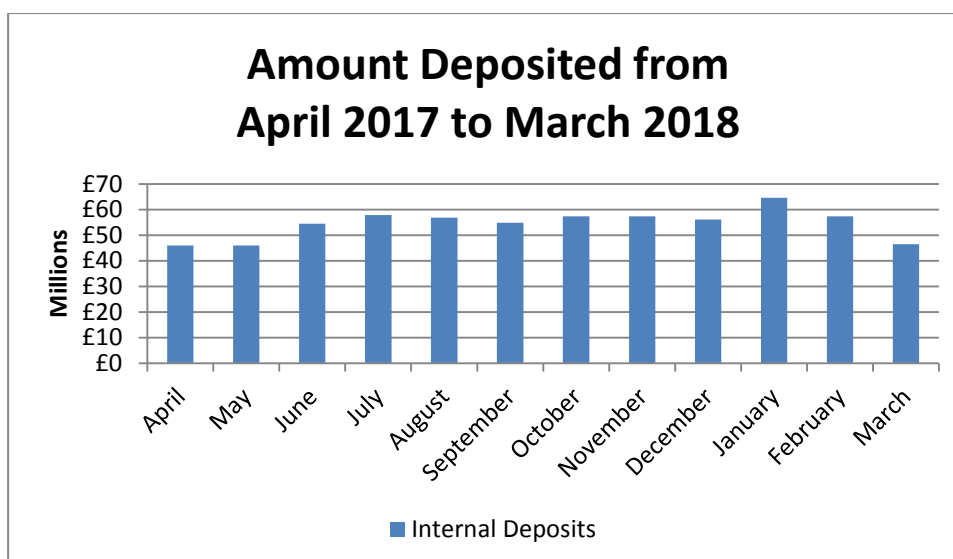
- 1.1 The Authority's Treasury Management Strategy requires that an annual report be brought to Council after each year end. This report sets out the performance of the Treasury Management section for the 2017/18 financial year.
- 1.2 The report also provides an update for the 2018-19 financial year.

2 Recommendations/for decision

- | |
|---|
| 2.1 To note the performance against the Treasury Management Strategy for 2017/18. |
|---|

3 Review of 2017/18 Treasury Management

- 3.1 The objectives for the Treasury Management team for 2017/18 were laid out in the Treasury Management Strategy agreed by Council in February 2017.
- 3.2 The main activities continue to be:
- Foremost, to maintain, the security of the Council's deposits by only depositing with trusted financial institutions and limiting the size and length of deposit with each organisation.
 - To directly manage a range of deposits in order to provide sufficient flexibility to meet day to day operational needs
 - To only undertake new long term borrowing where the business case justifies it.
- 3.3 Actual performance was in line with the plan.
- The Council placed deposits in a decreasing market by spreading its deposits thinly across many trusted institutions in accordance with its policy.
 - The authority did not undertake any new long term borrowing.
 - The in-house team achieved interest rates above the 7 day LIBOR rate.
- 3.4 The average monthly balances deposited by the in house team generated by the in-house team are set out in the bar chart below:



3.5 The table below details average weighed rate of return received over the financial year compared to the LIBOR rates available.

Period	AVDC Weighted Average Rate of Return (%)	7 Day LIBID	3 Mth LIBID
Q1 2017	0.543	0.114	0.100
Q2 2017	0.458	0.112	0.180
Q3 2017	0.485	0.112	0.210
Q4 2017	0.512	0.275	0.348
Q1 2018	0.606	0.360	0.441

3.6 Over the financial year, the rate of return had increased, and credit risk reduced.

3.7 For March 2018, the weighted average rate of return for the Council was 0.61% (on investment of £45.4m) This compares to Benchmarking data where, across 227 Authorities, Weighted average rate of return was 0.61%, on investment average of £67.1m. (Source of data: Link Asset Services)

3.8 The table below shows the Council performance against capital and treasury indicators, as indicated by the Council Balance sheet , as at 31st March 2018.

2016/17	Capital Financing and Borrowing (£000s)	2017/18
34,485	Capital Financing Requirement	41,204
34,485	Underlying Borrowing Requirement	41,204
23,410	External Borrowing	23,225
11,075	Under Borrowing	17,979
-19,366	Net Borrowing (exc TFR debt)	-23,167
47,139	Balances available for Investment	51,693
42,776	External Investments	46,392
4,363	Internal Investments	5,301
-6,712	Total Working capital surplus	-12,678

4 In House Treasury Team Performance

4.1 When managing the Council's deposits the primary consideration is to protect capital rather than to maximise return. This reflects the fact that the deposited sums are public money and, therefore, any loss of capital should be avoided at all costs.

- 4.2 The Treasury Management team continue to invest money in line with its list of approved (safe) institutions, varying the amounts and length of deposit according to the institution and the cash flow requirements at the time.
- 4.3 Although, a safe list of institutions is maintained, major unexpected events or a sudden loss of confidence in the banking sector cannot always be predicted.
- 4.4 Historically, the majority of the Council's lending has been with Banks and Building Societies but over the last year the Council has increased its range of investment with some of the major UK banks in order spread the risk of its portfolio. The Council has also started to lend to other Local Authorities to reduce exposure to smaller un-rated building societies. The lending list is monitored throughout the year to take account of any changes within the sector i.e. building society mergers / conversions to banks. During 2017/18 there were no mergers that affected the Council's lending list.
- 4.5 With interest rates still at low levels, the actual amount of deposit income generated was £275,086. This was £15,086 higher than planned. This was due to the high level of money available for deposit from unspent reserves and balances held to meet capital programme obligations.
- 4.6 With the prevailing low rates the likelihood of an increase in the interest generated remains low.
- 4.7 In November 2017, the Bank of England raised Bank Rate to 0.5% from 0.25%. Market intelligence on forecast rates are informed by the political and economic markets. There was no change to the rate in June 2018, although there is some indication that the interest rate may increase in August by 0.25%

5 Money Market Funds

- 5.1 The council continues to operate two Money Market Funds to give the in-house team easy access to surplus funds.
- 5.2 MMF interest rates have broadly increased in line with the Bank of England base rate. Returns for money market funds remain below those of fixed term deposits but they offer greater security being triple A rated. Although, the returns have reduced the MMFs are required to manage the daily cash flow as they offer daily access without any loss of interest.

6 New Borrowing

- 6.1 No new borrowing was taken out during the year.
- 6.2 Any borrowing that the council undertakes must be within the Authority's Authorised Limit and Operational Boundary, which are set at the beginning of each year.
- 6.3 It is a requirement of the code that any deviations from these limits, approved or otherwise, are reported to Council.

7 Fund Manager Performance

- 7.1 The council does not use fund managers to aid its investment decisions.

8 Treasury Management in 2018-19

- 8.1 The Treasury Management Strategy was presented to Council in February 2018.

- 8.2 The key messages were:
- Investments – the primary governing principle will remain security over return and the criteria for selecting counterparties reflect this.
 - Borrowing – overall, this will remain fairly constant and the Council will remain under-borrowed against its borrowing requirement due to the higher cost of carrying debt.
 - Governance – strategies will be reviewed by the Audit Committee with continuous monitoring. A Mid-Year report will be completed in due course.

8.3 An update on the Treasury Management for 2018-19 will be prepared mid-year for review by Members.

9. Scrutiny

9.1 Finance and Services Scrutiny Committee receive the Treasury Management Strategy prior to Council.

10. Reasons for Recommendation

10.1 Under the terms of the Statutory Code of Practice for Treasury Management, the Council is required to receive an annual report on its Treasury Management performance as well as a mid term report on the current year. This report represents the fulfilment of that requirement.

11. Resource implications

- 11.1 The authority continues to operate an Interest Equalisation Reserve to smooth out fluctuations in interest rates.
- 11.2 As a result of the increase in the level of sums managed by the Council during 2017/18 and despite the reduced interest rates available, the interest generated, although low compared to previous year, exceeded expectations.
- 11.3 As at March 2018, the balance of the interest equalisation reserve stands at £2.022 million.
- 11.4 The phased use of the balance on the Interest Equalisation Reserve forms part of the annual budget setting exercise. Following the last budget setting exercise, it was agreed that the current balance on the reserve was overly prudent, as there are expected increases in interest rates in the medium term. In 2017/18, £875,000 of the balance was released from the reserve and used to meet other corporate liabilities.
- 11.5 The Medium Term Financial Plan also recognises the Council's use of capital and other balances in delivering its plans and the impact that this will have on interest earnings. The plan is, therefore, gradually reducing the Council's reliance on interest earnings over time, so as to manage the remaining balance on the interest equalisation reserve.