Finance and Services Scrutiny Committee
9 September 2019

TREASURY MANAGEMENT 2018-19 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 2018/19 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 2018/19.

3 Review of 2018/19 Treasury Management

3.1 The objectives for the Treasury Management team for 2018/19 were laid out in the Treasury Management Strategy agreed by Council in February 2018.

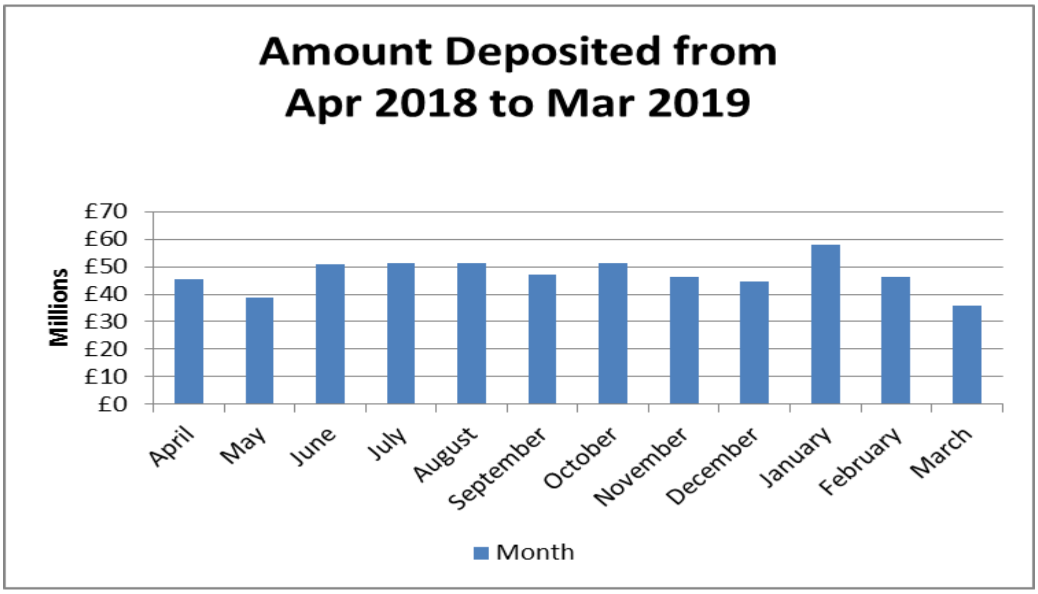
3.2 The main activities continue to be:

- 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 Average	7 Day LIBID	3 Mnth LIBID
Q1 2018	0.61	0.360	0.441
Q2 2018	0.64	0.361	0.553
Q3 2018	0.76	0.511	0.658
Q4 2018	0.82	0.583	0.736
Q1 2019	0.87	0.573	0.755

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

3.7 For March 2019, the weighted average rate of return for the Council was 0.87% (on investment of £25.7). This compares to Benchmarking data where, across 231 authorities, the weighted average rate of return was also 0.86%, on investment average of £83.3m. (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 2019.

2017/18	Capital Financing and Borrowing (£000s)	2018/19
41,204	Capital Financing Requirement (CFR)	36,523
41,204	Underlying borrowing requirement	36,523
23,225	External Borrowing	18,003
17,979	Internal Borrowing	18,520
-23,167	Net Borrowing (exc TFR Debt)	-17,764
51,693	Balances available for investment	51,852
46,392	External Investments	35,767
5,301	Internal Investments	16,085
-12,061	Total working capital surplus	-2,435

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 2018/19 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 £375,867. This was £15,867 higher than planned and £100,781 higher than in 2017-18. 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 May 2019, the Bank of England kept UK interest rates at 0.75 per cent. Market intelligence on forecast rates are informed by the political and economic markets. Low inflation combined and the Brexit negotiations are forecast to keep monetary policy steady and interest rates are not expected to rise until the British economy is on a firmer footing.

5 Money Market Funds

5.1 The council operates three Money Market Funds to give the in-house team easy access to surplus funds. A third money market fund was opened during 2018/19 through Invesco Asset Management Ltd. This has given us greater short-term flexibility as well as security, as we can now keep more money in AAA rated instant access 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 Loans of £5m were repaid in May 2018.

6.3 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.

6.4 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 2019-20

8.1 The Treasury Management Strategy was presented to Council in February 2019.

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 2019-20 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 At the meeting of Cabinet on 20th November 2018, a decision was made to utilise the Interest Equalisation reserve to support cost pressures arising from the unitary decision. Whilst there is some risk in terms of financial volatility in delivery of planned investment returns, in recent times there have been better than expected investment income and the expected outlook does not signify a significant risk in the short term. The reserve was held to smooth out fluctuations in interest rates.

11.2 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.

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Background Documents	Treasury Management Strategy 2018/19 and 2019/20