EXECUTIVE – 28 JUNE 2018

TREASURY MANAGEMENT ANNUAL REPORT 2017-18

Executive Summary

The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management has been adopted by the Council and the Council fully complies with its requirements.

Primary requirements of the Code include: the receipt by the Council of an annual strategy report for the year ahead; monitoring and scrutiny during the year which Council has agreed will be satisfied through the regular Treasury reporting in the Green Book and a mid year report to the Overview and Scrutiny Committee; and an annual report of the previous year. The mid year and annual report are important in scrutiny, as they provide details of the treasury activities and demonstrate compliance with the Council's Treasury Management strategy and policies previously approved by Members.

These overall arrangements fulfil the requirements for the review and scrutiny of Treasury activities and ensure compliance with the code.

Recommendations

The Executive is requested to:

RESOLVE That

the annual report on Treasury Management performance for 2017/18 be received, and the compliance with the Council's approved arrangements be noted.

Reasons for Decision

Reason: To receive the annual report on Treasury Management performance for 2017/18 in accordance with the Council's policy on Treasury Management.

The Executive has the authority to determine the recommendation set out above.

Background Papers: None.

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1.0 Introduction

1.1 Treasury management is defined as:-

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks."

1.2 This annual treasury report covers:-

- the economy in 2017/18;
- the strategy for 2017/18;
- the actual borrowing for 2017/18;
- performance measurement;
- the Council's treasury position as at 31 March 2018;
- restructuring of borrowing;
- compliance with treasury limits and Prudential Indicators;
- investment activity in 2017/18; and
- loans and advances to group companies and joint ventures

1.3 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. Further details of the forthcoming changes are set out in Section 11 of this report.

2.0 The Economy

2.1 During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start rising. After strong growth in the second half of 2016, growth in the first half of 2017 was disappointingly weak, and in fact was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases.

2.2 Growth did pick up modestly in the second half of 2017, consequently market expectations rose during the autumn that bank rate would rise imminently, and the rate was increased from 0.25% to 0.50% following the Monetary Policy Committee meeting on 2 November 2017.

2.3 Public Works Loan Board (PWLB) borrowing shorter term rates increased correspondingly in response to the above developments. Longer term rates have been volatile during the year with little consistent trend.

3.0 The Council's Treasury Strategy for 2017/18

Borrowing

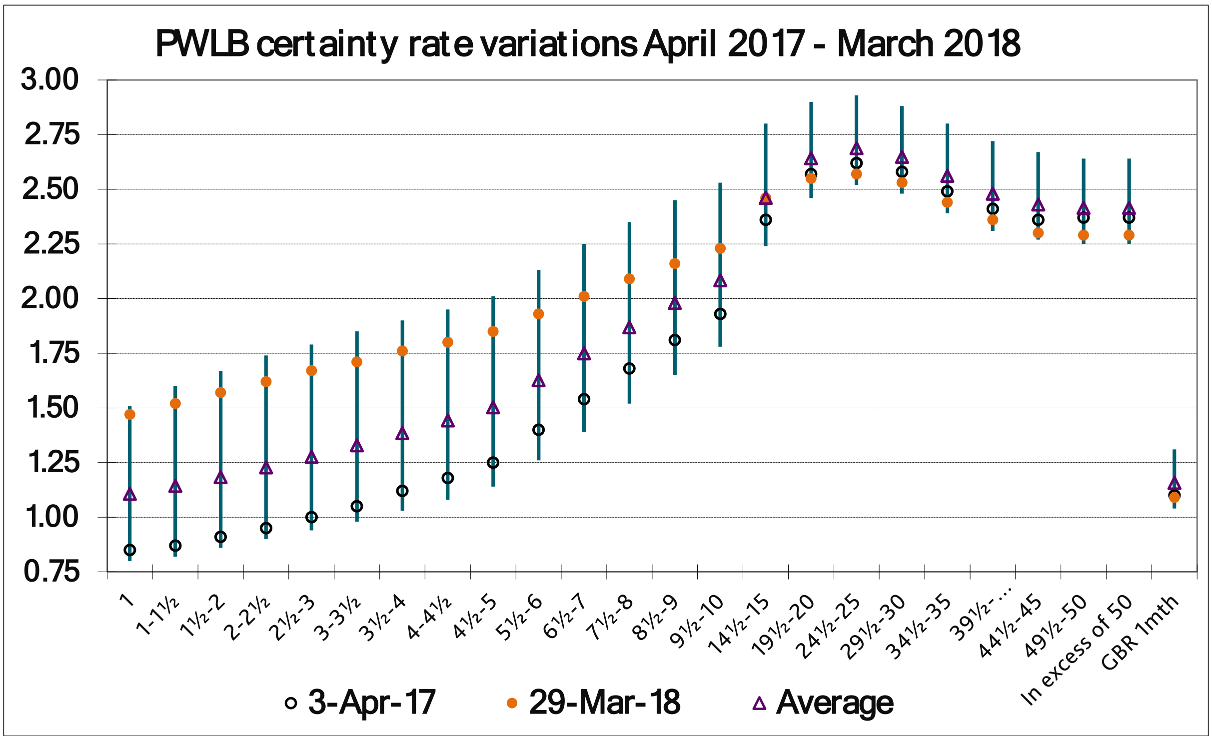
3.1 In 2017/18, the Council largely undertook borrowing for periods which aligned with the life of projects being undertaken during that financial year. The trigger point below which new long term borrowing would be considered was set at 2.80% for 50 year maturity loans in the Treasury Management Strategy. Increasing use was made of annuity loans during 2017/18 for which the 50 year borrowing rate equates to the rate available on a 30 year maturity loan. Consideration was also to be given to borrowing fixed rate market loans at 25 to 50 basis points below the PWLB target rate if they became available.

Investments

3.2 The Council's investment priorities were set as the security of capital and the liquidity of its investments whilst aiming to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council to Treasury Management is low in order to give priority to security of its investments.

4.0 Actual Borrowing in 2017/18

4.1 The graph below shows the range (high, low and average points) in Public Works Loan Board (PWLB) rates for each maturity period during the year, and individual rates at the start and end of the financial year.



4.2 It was recognised in the Treasury Management Strategy in advance of the financial year that there were likely to be opportunities to generate savings by undertaking short term borrowing. A mix of short term and long term borrowing was undertaken during the year to derive some benefit from the lower rates, but still taking some long term borrowing in recognition of the possibility of adverse interest rate movements prior to refinancing. Whilst borrowing is not generally specifically related to an activity, there are a number of short dated projects for which shorter term borrowing has been taken.

4.3 The details of new long term loans taken during the year are shown below, with the maturity details for all long term loans in Appendix 2.

Loan Type	Start date	Maturity date	Interest Rate	Principal
			%	(£m)
PWLB Annuity Loan	19/4/2017	19/4/2067	2.50	5.0
PWLB Maturity Loan	9/6/2017	9/6/2065	2.28	4.5
PWLB Annuity Loan	9/6/2017	9/6/2067	2.52	5.0
PWLB Annuity Loan	31/8/2017	31/8/2067	2.52	50.0
PWLB Annuity Loan	12/9/2017	12/9/2067	2.50	10.0
PWLB Maturity Loan	27/9/2017	31/8/2025	1.95	8.0
PWLB Annuity Loan	7/11/2017	7/11/2067	2.67	20.0

PWLB Annuity Loan	9/11/2017	9/11/2067	2.66	30.0
PWLB Annuity Loan	10/11/2017	10/11/2067	2.63	20.0
PWLB Annuity Loan	23/11/2017	23/11/2067	2.65	10.0
PWLB Annuity Loan	13/12/2017	13/12/2067	2.64	10.0
PWLB Maturity Loan	19/12/2017	19/12/2067	2.30	10.0
PWLB Annuity Loan	2/3/2018	2/3/2068	2.73	10.0
PWLB Annuity Loan	19/3/2018	19/3/2068	2.63	10.0
PWLB Annuity Loan	20/3/2018	20/3/2068	2.61	10.0
PWLB Annuity Loan	26/3/2018	26/3/2068	2.56	15.0
PWLB Annuity Loan	26/3/2018	26/3/2068	2.56	8.0
PWLB Annuity Loan	29/3/2018	29/3/2068	2.54	10.0

5.0 Performance

5.1 The average rate of interest is taken as the main guide to borrowing performance. In 2017/18 the Council's average interest rate for borrowing was 2.37%. This was due to the continuation of the approach of taking advantage of short term borrowing at low interest rates access to low rates on long term borrowing.

6.0 Treasury Management Position at 31st March 2018

6.1 The Council's borrowing and investment position at the beginning and end of the year is shown in the following table:

	31st March 2018 Principal		Rate	Average Life yrs	31st March 2017 Principal	Rate	Average Life yrs
Fixed Rate Funding:							
- PWLB	£709.5m				£472.6m		
- Market (long term)	£45.9m				£45.9m		
- Market (temp)	£50.0m				£54.0m		
		£805.4m	3.05%	37.63	£572.5m	3.21%	33.20
Variable Rate Funding:							
- Appeal deposits	£0.0m	£805.4m	0.36%	n/a	£0.0m	0.11%	n/a
Total Borrowing		£805.4m	3.05%		£572.5m	3.21%	

	31st March 2017 Principal		Rate	Average Life yrs	31st March 2017 Principal	Rate	Average Life yrs
Investments:							
- In-House	£38.0m		0.53%	0.00	£12.0m	0.29%	0.00
Total Investments		**£38.0m**	**0.53%**		**£12.0m**	**0.29%**	

7.0 Restructuring of Borrowing

7.1 No restructuring of borrowing took place during 2017/18.

8.0 Compliance with Treasury Limits

8.1 During the financial year, the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix 1.

9.0 Investment Activity in 2017/18

9.1 Priority continues to be given to security and liquidity over return on investment in order to reduce counterparty risk.

Internally Managed Investments

9.2 The Council has only invested with the institutions on its approved lending list. Investments are made for a range of periods from overnight to 364 days, primarily to manage the Council's cash flow.

9.3 Due to continuing low investment rates the Council's cash flow surplus was largely held in market funds, or in an interest bearing account at Lloyds. The money market funds offer security, instant access and rates which were above those available in the money markets for short periods. The maximum amount which can be held in the funds was increased during 2017/18 in order to manage the cash flows associated with the Victoria Square project.

9.4 Occasional fixed term deposits were made with other local authorities where rates were beneficial and the investment period was appropriate.

Investments Managed on External Advice

9.5 During the year, no investments were managed on external advice. Detailed below is the result of the investment strategy undertaken by the Council.

	Average Investment	Rate of Return (gross of fees)	Rate of Return (net of fees)	Benchmark Return *
Internally Managed	£16,672,603	0.23%	N/A	0.213%

* The benchmark for internally managed funds is the average 7-day LIBID rate (uncompounded).

9.6 No external institutions in which investments were made had any difficult in repaying investments and interest in full during the year.

10.0 Loans and Advances to Group Companies, Joint Ventures and External Organisations

10.1 During the year new loans were made of £3.85m to Thameswey Central Milton Keynes, £3.75m to Thameswey Housing Ltd, £21.75m to Thameswey Developments Ltd (relating to Thameswey Housing projects), £2.00m to Thameswey Developments Ltd (relating to Sheerwater Regeneration), £10.17m to Thameswey Housing Ltd (relating to Sheerwater Regeneration), £1m to Thameswey Energy Ltd, £60.54m to Victoria Square Ltd.

10.2 £72m was invested in the Dukes Court company acquired in November 2017. Of the total purchase value, £59.35m is a loan from the Council to the company, representing the previous level of debt in the company which was written out on acquisition, with the balance held as share premium. The loan will be repaid on transfer of the property back to the Council during 2018/19.

10.3 Intra-group loans are excluded from the information presented elsewhere in this report. Loans to subsidiaries are 'eliminated' on consolidation into group accounts.

10.4 In addition to the above loans, capitalisation payments totalling £6.575m have been made to Thameswey Limited in relation to Thameswey Housing.

11.0 Changes during the year

11.1 In December 2017, CIPFA issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. New guidance was then issued in February 2018 on the Minimum Revenue Provision and Investment Guidance.

11.2 These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. Given the timing of the new guidance, CIPFA issued a statement accepting that it would be very difficult for most authorities to implement both codes for the 2018/19 budget setting, and full implementation is not expected until the 2019/20 budget cycle.

11.3 There has been no change in the definition of Treasury Management in the Treasury Management Code, but the term "investments" has been specifically qualified to include non-financial assets which are held primarily for financial returns, such as investment property portfolios. The revised codes (in contrast to the draft codes on which the consultations were based) draw a clearer separation between treasury and non-treasury investments and the role of the treasury management team. It is now clearly recognised that this team is unlikely to have specialist skills in such areas as property investment, reporting will focus solely on treasury (financial) investments, therefore the Treasury Management Strategy will not include any level of detail on non-treasury investments.

11.4 The new codes require all local authorities to produce a separate Capital Strategy report from 2019/20, or as soon as is practicable. The Capital Strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future sustainability. The aim of this report is to ensure that members fully understand the overall strategy, governance procedures and risk appetite entailed by this strategy. The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

11.5 New guidance on the Minimum Revenue Provision (MRP), which essentially covers the setting aside of revenue to cover repayments of borrowing, comes into effect from April 2019, with some elements being effective from April 2018. Although the new guidance continues to provide significant flexibility in approach, there are some areas which the council will need to give further consideration to, particularly around the application of MRP to shares.

12.0 Member Development

12.1 There is a programme of financial training for Members; the next training will take place in Autumn 2018.

13.0 Implications

<u>Financial</u>

13.1 The financial implications are implicit in the body of this report.

Human Resource/Training and Development

13.2 The contract with Link Asset Services (previously Capita Asset Services) provides for staff attendance at various conferences and seminars throughout the year, as well as providing a helpline facility.

Community Safety

13.3 There are no community safety implications arising directly from this report.

Risk Management

13.4 Although the priority is given to security and liquidity of investments in the strategy, we seek to optimise the return within this framework, whilst minimising the level of risk of incurring losses. As mentioned above, no external institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

Sustainability

13.5 There are no sustainability implications arising directly from this report.

Equalities

13.6 There are no equalities implications arising directly from this report.

Safeguarding

13.7 There are no safeguarding implications arising directly from this report.

14.0 Consultations

14.1 No consultations have been undertaken in connection with this report.

REPORT ENDS

Appendix 1

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**
	2017/18 Budget	**Actual March 2018**
Authorised limit for external borrowing -		
Borrowing	£1,163,450	£805,407
other long term liabilities (PFI)	£28,296	£28,667
TOTAL	£1,191,746	£834,074
Operational boundary for external borrowing -		
Borrowing	£1,153,450	£805,407
other long term liabilities (PFI)	£28,296	£28,667
TOTAL	£1,181,746	£834,074
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	70%	0%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£3,000,000	£0

Maturity structure of fixed rate borrowing during 2016/17	upper limit	lower limit	actual
under 12 months	100%	0%	8%
12 months and within 24 months	100%	0%	1%
24 months and within 5 years	100%	0%	4%
5 years and within 10 years	100%	0%	3%
10 years and above	100%	0%	84%