
TREASURY MANAGEMENT ANNUAL REVIEW 2018/19

1 SUMMARY

- 1.1 This report sets out a summary of the Council's Treasury Management activity for the 2018/19 financial year.
- 1.2 The council is required by the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities to produce an annual review of its treasury management activities.
- 1.3 Review Committee is asked to consider the contents of this report and recommend it for approval by Full Council on 16 July 2019.
- 1.4 The council's income from treasury management activities in 2018/19 was £96,473 against a budget of £50,000.

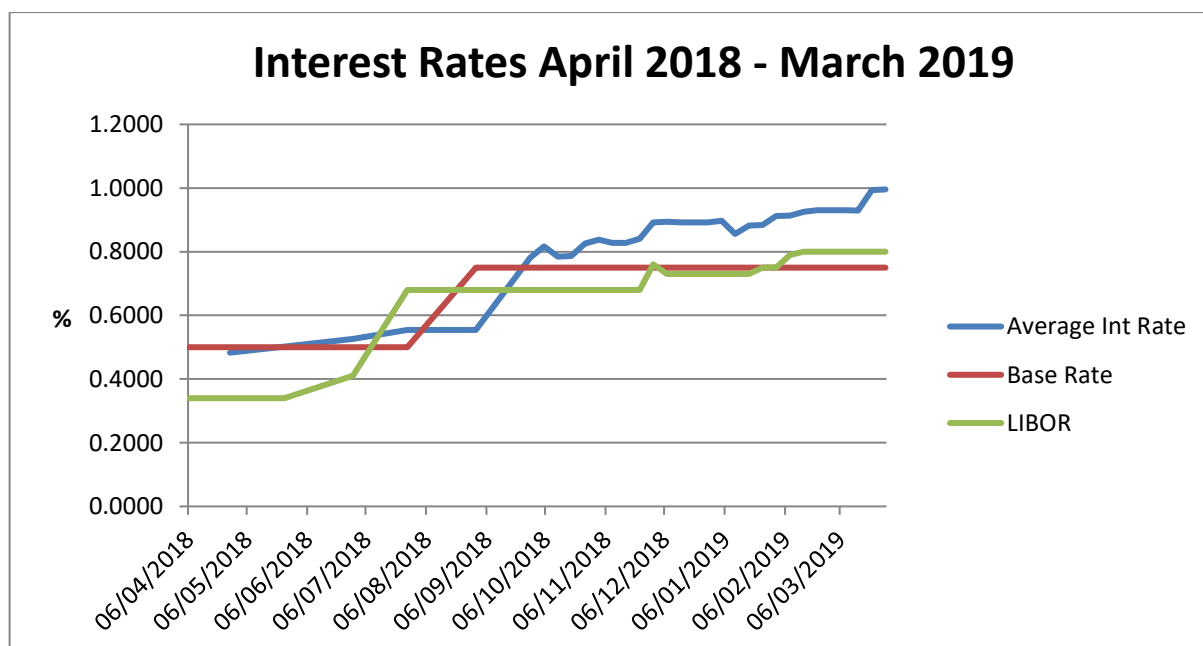
2 INTRODUCTION AND BACKGROUND

- 2.1 Treasury management is defined as "The management of the local authority's investments, 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."
- 2.2 All decisions on borrowing, investment or financing are delegated to the Section 151 Officer as the Chief Finance Officer and this delegation is documented in the Financial Regulations.
- 2.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members. Member training on treasury management issues was undertaken during the year on 11/10/2018 in order to support Members' scrutiny role.
- 2.4 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and report on the actual prudential and treasury indicators each year. 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).
- 2.5 The minimum reporting requirements are that Council should receive the following reports:
 - An Annual Treasury Strategy in advance of the year (Council 13/02/2018)
 - A Mid-Year Treasury Update Report (Council 11/12/2018)

- An Annual Review following the end of the year describing how actual activity compares to the Strategy (this report).

3 INVESTMENT PERFORMANCE FOR 2018/19

- 3.1 Investment returns remained relatively low during 2018/19. The expectation for interest rates was that Bank Rate would rise from 0.50% to 0.75% during the year. At the start of 2018-19, and after UK GDP growth had proved weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the Monetary Policy Committee (MPC) would raise the Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018.
- 3.2 It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019.
- 3.3 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back.
- 3.4 The following graph shows a comparison of average rate of interest earned, Bank base rate and the benchmark (7-day London Interbank Rate); this shows the correlation in average interest rate achieved compared to the Bank of England Base rate.



4 INVESTMENT POSITION

- 4.1 The Council's investment position at the beginning and the end of the year, as shown on the Council's Balance Sheet, was as follows:

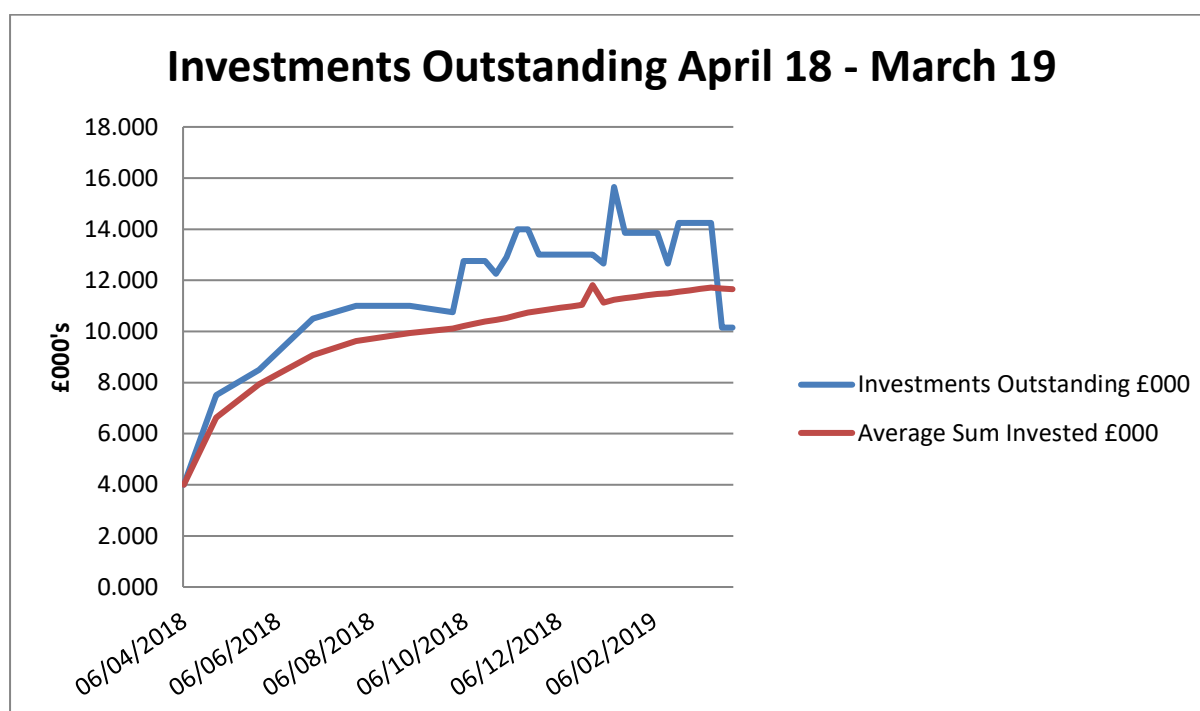
Balance as at 31 March 2018 £4.00m*

Balance as at 31 March 2019 £10.15m

** Note that historically the Council has not held Money Market Funds over the year-end period, which makes the total investments held at 2017/18 year-end look significantly lower than the 2018/19 position. However, the average total balances invested during 2017/18 was £8.5m (as reported in the 2017/18 Annual Review Report)*

- 4.2 The breakdown of the investments held at 31 March 2019 is three fixed rate investments totalling £5.65m with Santander and a fixed rate investment of £2m with Lloyds. The remaining £2.5m was placed in the Prime Money Market Fund.

- 4.3 The graph below shows the Council's average balances over the year.



- 4.4 Total external interest earned in 2018/19 was £96,473, compared to £32,841 in 2017/18. The increase was due to the higher value of cash balances held by the Council and an increase in average interest rates paid on investments.
- 4.5 In line with the Treasury Management Strategy agreed by Council the Authority takes advice from its Treasury Management Advisors Link Asset Services, which uses a combination of credit ratings and market intelligence, in order to decide which banks and financial institutions to deposit funds with.

5 COMPLIANCE WITH TREASURY LIMITS

- 5.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Management Strategy. The outturn for the Prudential Indicators, compared to the estimates made in February 2018, are shown below

PRUDENTIAL INDICATOR	2017/18	2018/19	2018/19
	Actual	Original Budget	Actual (subject to audit)
Capital Expenditure £000s	1,191	1.210	1.990
Ratio of Financing Costs to Net Revenue Stream	(0.37%)	(0.57%)	(1.22%)
Capital Financing Requirement as at 31 March £000s	777	777	777
Incremental Impact of Capital Investment Decisions - (Reduction) in Council Tax (band D) per annum £	0.03	0.03	0.06

6 RESOURCE IMPLICATIONS

- 6.1 The Council has not undertaken any external borrowing during the year and therefore no interest costs were incurred. Investment income remains a relatively small overall source of income to the Council; however, the Council continues to seek the best returns available within its agreed risk appetite.
- 6.2 The Council's current Treasury Management Advisors are Link Asset Services (LAS). The contract costs £7,750 per year which represents good value for money via the provision of specialist advice and training to the Council officers and members which enables sound investment decisions to be made.

7 RISK IMPLICATIONS

- 7.1 The Council's agreed Treasury Management Strategy sets out in detail the risks involved in making investments and, in particular, the risk that a counter party may fail during the duration of an investment. The Authority is responsible for managing the investment of public funds and must adopt a prudent approach.

8 RECOMMENDATION

- 8.1 It is proposed that the Review Committee **RESOLVES**

To recommend the contents of this report to Full Council.



Naomi Lucas

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Background Papers:-

None.

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