
REPORTS FROM THE EXECUTIVE AND COMMITTEES TO COUNCIL

REPORT OF THE REVIEW COMMITTEE

1 TREASURY MANAGEMENT ANNUAL REVIEW 2017/18

- 1.1 This item of business was referred by the Review Committee on 2 July 2019 to Full Council with a recommendation on the Council's Treasury Management Annual Review 2018/19. An extract of the key elements of the report of the Section 151 Officer to the Committee is attached at Appendix A.
- 1.2 In response to questions it was noted that:
- 1.3 In the graph in paragraph 4.3 of the report, the average sum invested showed the average amount invested over the course of the year to date, whereas the investments outstanding showed the amounts invested at any specific point in time. At the start of the year the amount invested was lower, which had brought the average down. The graph could be amended in future reports to make this clearer. Members felt that a clearer explanation needed to be provided when the report was presented to Council and the Section 151 Officer would provide this clarification at the Full Council meeting. This clarification is attached at appendix B to this report.
- 1.4 In respect of paragraph 4.4 of the report, which stated a return on investments of £96,473 in 2018/19, compared to £32,841 in 2017/18, Members requested a breakdown of how much this increase was due to the increase in monies on deposit and how much to the higher interest rates paid on investments. The Section 151 Officer advised that she would provide a response on this separately.
- 1.5 In accordance with the Council's investment strategy, the terms of any investment could not exceed one year; the average term of the Council's investments is up to 3 months, depending on cash flow requirements.

2 RECOMMENDATION

- 2.1 It is proposed that Council **RESOLVES**

That the contents of the Treasury Management Annual Review be noted.

If you would like this report in large print, Braille or another language please contact 01702 318111.

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.

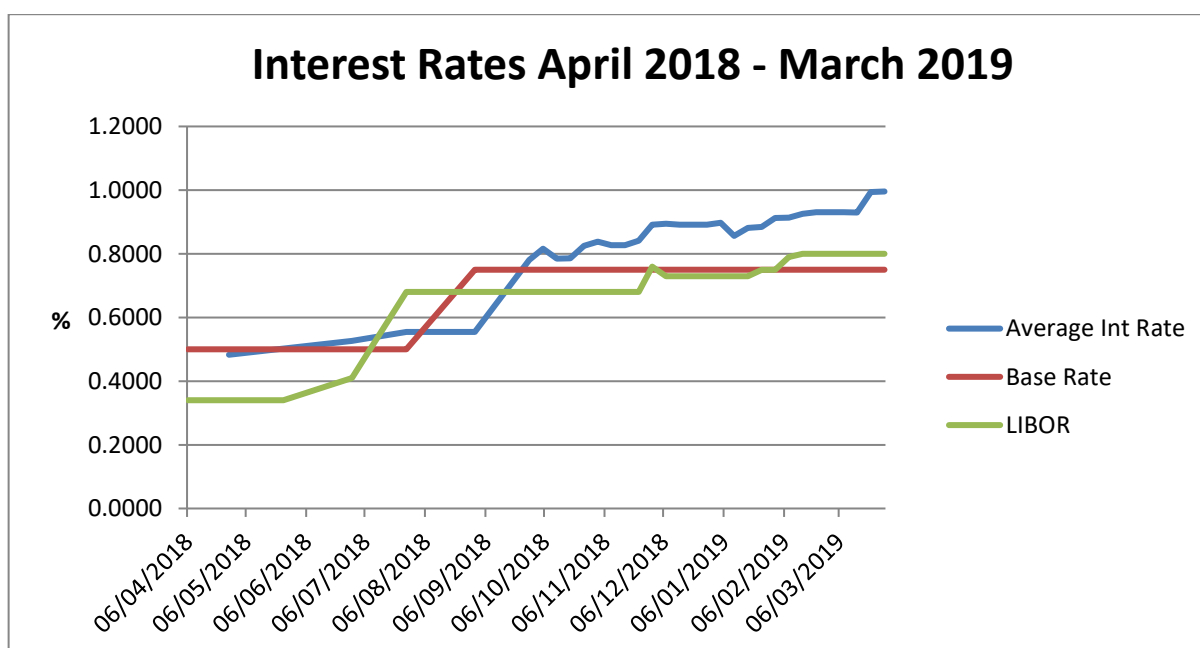
2 INTRODUCTION AND BACKGROUND

- 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

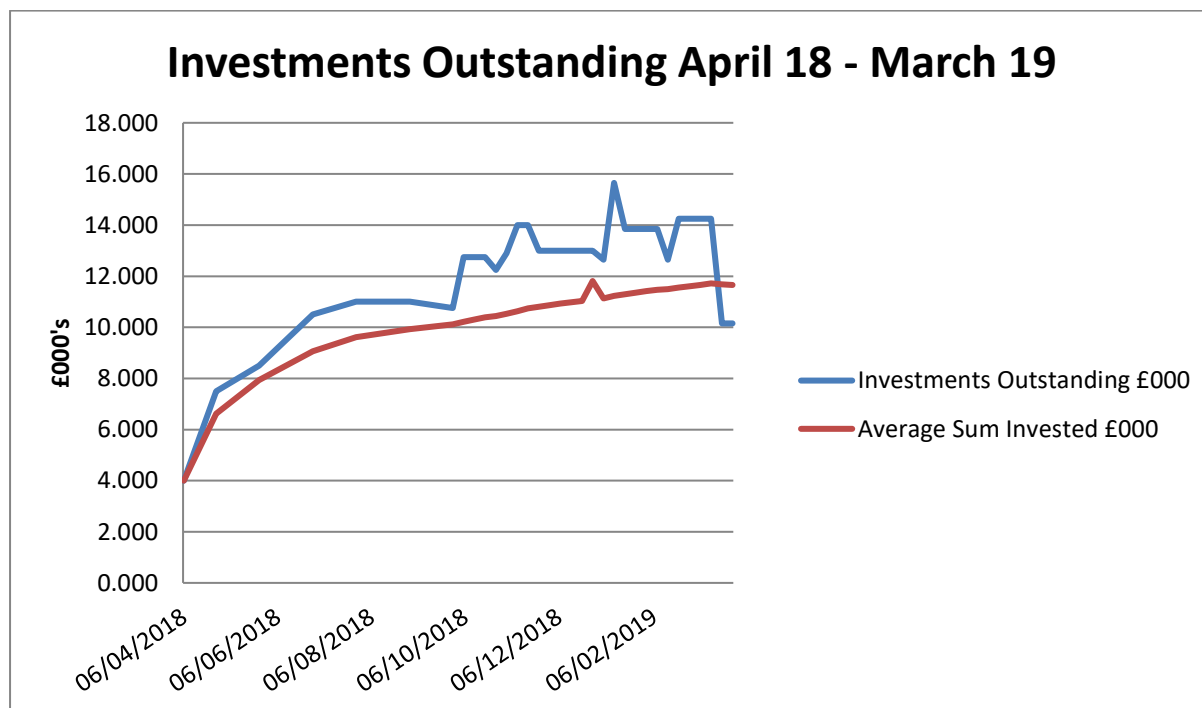
4.1 The Council's investment position at the beginning and the end of the year, as shown on the Council's Balance Sheet, was as follows:

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.

If you would like this report in large print, Braille or another language please contact 01702 546366.

Addendum to Treasury Management Annual Review 2018/19 Report

At Review Committee on 2 July 2019, a Member requested clarification on the information in the graph in paragraph 4.3 of the report, which showed the Council's average investment balances over the course of the year.

A further explanation of this is provided in this addendum.

On the graph (shown below) the average sum invested (red line) shows a rolling average of the amounts invested over the course of the year to date, whereas the investments outstanding (blue line) shows the total amount invested at any specific point in time.

As the Council's cash flows can fluctuate from day to day depending on its cash requirements, simply looking at the total amount invested on any given day could potentially give a misleading impression of how much cash the council normally has invested.

For that reason, the graph also shows the average amount invested over the financial year, to give a truer reflection of the amounts the council had invested over the period.

At the start of the year the amount invested was unusually low at £4m (since historically the council has not held Money Market Funds over the financial year end period). However, the investments then rose during the year.

As the total amount invested was rising during the year, the average for the year to date (red line) was lower than the total amount invested (blue line), at any point in time.

To provide a worked example:

On 6 April 2018 the Council had £4m invested but over the next three weeks up to 27 April 2018 it had £7.5m invested (both dates shown on the graph as points on the blue line)

Therefore, on 27 April the average amount that had been invested over the four weeks of the year to date was: $(£4m + £7.5m + £7.5m + £7.5m)/4 \text{ weeks} = £6.625m$ weekly average (shown on the red line) which is lower than the £7.5m invested on that date.

