Report of	Meeting	Date
Chief Finance Officer	Governance Committee	25 July 2018

TREASURY MANAGEMENT ANNUAL REPORT 2017/18

PURPOSE OF REPORT

1. To report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2018.

RECOMMENDATION(S)

2. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

3. This report advises on compliance with Prudential and Treasury Indicators in 2017/18. The return on investments for the year was 0.26%, which exceeded the benchmark of 0.24%. Details of borrowing and investments as at 31 March 2018 are presented.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

4. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	√

BACKGROUND

5. The current regulatory environment concerning treasury management places a greater onus on members to scrutinise treasury policy and activity. To enable that, each year the Council is required to consider, as a minimum, three treasury reports. These consist of an annual strategy statement in advance of the year (Council 28 February 2017), a mid-year review of that strategy (Governance Committee 20 September 2017), and finally this out-turn report.

6. Revised Prudential and Treasury Indicators for 2017/18 were included in the report “Treasury Strategy 2018/19 to 2020/21”, presented to Special Council of 27 February 2018. Where relevant, comparisons with 2017/18 indicators in this report are to those approved most recently.

PRUDENTIAL INDICATORS

7. Capital Expenditure and Financing 2017/18

The Council's 2017/18 Capital Programme has been reported to Executive Cabinet and Council at intervals during the year. An analysis of capital expenditure in the year and variances from budgets, including rephasing of expenditure to 2018/19 was given in the report "Provisional Revenue and Capital Outturn 2017/18", presented to the Executive Cabinet meeting of 21 June 2018.

In summary, capital expenditure for 2017/18 (including Revenue Expenditure Funded from Capital Under Statute) was £11.391m, compared to the estimate of £17.400m when the prudential indicator for the year was revised.

Table 1 - Capital Expenditure 2017/18	2017/18 Revised £000	2017/18 Actual £000	2017/18 Variance £000
Corporate	3,483	1,315	(2,168)
Policy & Governance	1,601	1,495	(106)
Early Intervention	1,083	815	(268)
Regeneration & Inward Investment	11,233	7,766	(3,467)
Capital Expenditure Total	**17,400**	**11,391**	**(6,009)**

Table 2 shows the estimated and actual financing of the capital expenditure in Table 1. Net financing (or prudential borrowing) represents the expenditure which is financed by an increase in the Capital Financing Requirement.

Table 2 - Capital Financing 2017/18	2017/18 Revised £000	2017/18 Actual £000	2017/18 Variance £000
Capital expenditure (Table 1)	17,400	11,391	(6,009)
Less application of -			
Capital Receipts	(775)	(280)	495
Grants & Contributions	(10,692)	(5,086)	5,606
Revenue and Reserves	(1,427)	(1,048)	379
Capital expenditure financed in year	(12,894)	(6,414)	6,480
Net financing needed for year	**4,506**	**4,977**	**471**

8. Capital Financing Requirement 2017/18

The Capital Financing Requirement is a measure of the capital expenditure incurred by the Council which still has to be paid for. Financing of such expenditure is by a combination of external borrowing, generally loans from the Public Works Loan Board (PWLB), or temporary use of internal cash balances. Ultimately the expenditure has to be paid for and will be a charge to Council Tax payers. The Minimum Revenue Provision (MRP) charged to the Council's revenue budget each year is based on the CFR. Its impact on reducing the CFR is shown in Table 3.

The revised CFR estimated for 2017/18 was £43.231m; therefore the actual CFR of £41.507m was £1.724m less than estimated. The main reason for the variance was that capital receipts totalling £2.270m were applied to reduce the Capital Financing Requirement rather than to finance new capital expenditure. Financing by prudential borrowing was higher as a consequence, but the effect of the change to capital financing is to reduce MRP for the next few years.

Table 3 - Capital Financing Requirement 2017/18	**2017/18 Revised £000**	**2017/18 Actual £000**	**2017/18 Variance £000**
Opening CFR	39,287	39,287	0
Net financing need for the year (Table 2)	4,506	4,977	471
Less MRP/VRP	(562)	(2,757)	(2,195)
Closing CFR	**43,231**	**41,507**	**(1,724)**

9. The CFR and Gross Debt

Table 4 confirms that gross debt (excluding accrued interest) was £26.240m less than the Capital Financing Requirement at 31 March 2018. This represents the use of the Council's own cash to finance capital expenditure as a form of internal borrowing, rather than taking external loans. Under borrowing was higher than estimated because new loans taken in the year were lower than planned, which produced savings against the budget for interest payable. Additional borrowing will be required during 2018/19, as anticipated in the Treasury Strategy for 2018/19 to 2020/21.

Table 4 - Portfolio Position 31 March 2018	**2017/18 Revised £000**	**2017/18 Actual £000**	**2017/18 Variance £000**
Debt at 1 April	18,537	18,537	0
Other long-term liabilities (OLTL)	16	16	0
Total gross debt 1 April	18,553	18,553	0
Change in Debt	1,715	(3,285)	(5,000)
Change in OLTL	0	(1)	(1)
Change in gross debt	1,715	(3,286)	(5,001)
Gross debt 31 March	20,268	15,267	(5,001)
Capital Financing Requirement (Table 3)	43,231	41,507	(1,724)
Under borrowing	**22,963**	**26,240**	**3,277**

The effect of the under borrowing was that cash available to invest remained low, as shown in Table 5. Cash was held in highly liquid accounts, in particular call accounts and money market funds. Balances were not sufficient to justify placing cash in term deposits in order to achieve a higher rate of interest.

Table 5 - Year-End Resources 2017/18	**2017/18 Revised £000**	**2017/18 Actual £000**	**2017/18 Variance £000**
Core Funds/Working Balances	(23,963)	(27,596)	(3,633)
Under borrowing (Table 6)	22,963	26,240	3,277
Investments	**(1,000)**	**(1,356)**	**(356)**

The revised Treasury Strategy for 2017/18 permitted the investment of sums up to £4m in total with UK local authorities (maximum £2m per authority) for greater than 365 days. No sums were invested for more than 365 days. As indicated above, all investments were in highly liquid accounts so that cash could be withdrawn whenever necessary to make payments.

10. Compliance with Borrowing Limits (Operational Boundary & Authorised Limit)

The Prudential Indicators include two borrowing limits: the Operational Boundary, which reflects the expected borrowing position; and the Authorised Limit, which provided headroom to cater for unanticipated cash movements.

The revised Operational Boundary for 2017/18 was set at £20.268m, which included £20.252m estimated external borrowing plus £0.016m other long-term liabilities. The actual total for the year was £15.267m (excluding accrued interest, but including other long-term liabilities), and the reason for the reduction was the continuing use of internal cash balances rather than external borrowing to finance capital expenditure. Use of internal cash balances in this way reduces the net cost of financing capital investment for the time being, though in the longer run additional external borrowing will be required. New long-term loans totalling £5m were taken from the PWLB, but these were required to replace borrowing repaid during 2017/18 and in earlier years.

The revised Authorised Limit was set at £23.268m, to allow a margin for temporary borrowing if required for cash management purposes. Actual borrowing and other long-term liabilities were £15.267m in total and therefore were below the limit.

11. Ratio of Financing Costs to the Revenue Stream

This indicator identifies the percentage of the Council's income from Government grants, Council Tax, and the local share of business rates which has been used to meet net interest costs and debt repayment (MRP). The estimated percentage reported in the Treasury Strategy 2017/18 was 8.11%. The actual ratio as shown in Table 6 was 5.61%.

Table 6 - Ratio of Financing Costs to Net Revenue Stream 2017/18	2017/18 Estimate %	2017/18 Actual %	2017/18 Variance %
Ratio	8.11	5.61	-2.50

The main variance was in financing costs, which were lower than estimated because the carrying cost of taking new loans to replace internal borrowing was minimised. In addition, the Revenue Stream exceeded the estimated total. Variances included an increase in S31 Grants to fund business rates reliefs, and a reduction in the tariff to reflect the loss of rates income as a result of the 2017 revaluation.

The Revenue Stream excludes the income from assets such as Market Walk. In practice the income from Market Walk is more than covering the financing costs, but this cannot be reflected in the Prudential Indicator.

12. Investments and Average Rate Achieved

The average interest earned of 0.26% exceeded the performance benchmark of 0.24%, being the 7-day London Inter-Bank Bid Rate (LIBID) plus 15%. Though cash and cash equivalents peaked at £12.7m during the year, which exceeded the peak of £11.1m in 2016/17, such high balances were always temporary and were achieved shortly before payments were due to central government and other local authorities for their shares of business rates or council tax. This meant that it was not possible to place cash balances in term deposits, which pay higher interest rates than call accounts and money market funds.

The average rate achieved in 2017/18 has reduced compared to 2016/17, when 0.29% was achieved. During 2017/18 all investment counterparties were offering lower rates of interest than in the previous year. The likelihood is that the average rate achieved in 2018/19 will remain low, especially if cash continues to be placed in call accounts and money market funds rather than term deposits. This supports the strategy of using internal cash balances where possible in order to minimise additional borrowing required to finance capital investment.

Appendix A presents the Link Asset Services commentary on interest rate forecasts. Currently Link are forecasting a first Bank Rate increase in November 2018, to be followed by further increases in September 2019, June 2020 and November 2020.

Such interest rate increases will have an effect on future earnings, but also on interest payable on external loans for capital financing. The net impact will be considered in more detail in the mid-year treasury activity review to be presented to Governance Committee, and in revenue budget monitoring reports to Executive Cabinet.

IMPLICATIONS OF REPORT

13. This report has implications in the following areas and the relevant Directors’ comments are included:

Finance	√	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

14. This report meets statutory reporting requirements. Its statistical content is consistent with the Council's draft financial accounts for the financial year 2017/18.

COMMENTS OF THE MONITORING OFFICER

15. The Monitoring Officer has no comments.

GARY HALL
CHIEF EXECUTIVE & STATUTORY FINANCE OFFICER

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Treasury Strategy 2017/18 Treasury Strategy 2018/19	28/2/17 27/2/18		Town Hall

Report Author	Ext	Date	Doc ID
Michael Jackson	5490	17 July 2018	Treasury Management Annual Report 2017-18 v2.docx