SELBY

DISTRICT COUNCIL

Report Reference Number: E/18/03

To:	Executive
Date:	24th May 2018
Status:	Non Key Decision
Ward(s) Affected:	All
Author:	John Raine – Head of Technical Finance
Lead Executive Member:	Councillor Cliff Lunn
Lead Officer:	Karen Iveson – Chief Finance Officer, S151

Title: **Treasury Management – Annual Review 2017/18**

Summary:

This report reviews the Council's borrowing and investment activity (Treasury Management) for the financial year to 31 March 2018 and presents performance against the Prudential Indicators.

Investments – On average the Council's investments totalled £51.3m over the year at an average rate of 0.53% and earned interest of £271k (£209k allocated to the General Fund; £62k allocated to the HRA) which was £146k above budget.

Borrowing – Long-term borrowing totalled £59.3m at 31 March 2018 (£1.6m relating to the General Fund; £57.7m relating to the HRA), with an average interest rate of 4.19%. Interest payments of £2.5m were made in 2016/17 (£0.1m allocated to the General Fund; £2.4m to the HRA). The Council had no short term borrowing in place as at 31 March 2018.

Prudential Indicators – the Council's affordable limits for borrowing were not breached during this period.

Recommendations:

i. **Councillors endorse the actions of officers on the Council's treasury activities for 2017/18 and approve the report.**

Reasons for recommendation

To comply with the Treasury Management Code of Practice, the Executive is required to receive and review regular treasury management monitoring reports.

1. Introduction and background

1.1 This is the final monitoring report for treasury management in 2017/18 and covers the period 1 April to 31 March 2018. During this period the Council complied with its legislative and regulatory requirements.

1.2 Treasury management in Local Government is governed by the CIPFA "Code of Practice on Treasury Management in the Public Services" and in this context is the management of the Council's cash flows, its banking and its capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. This Council has adopted the Code and complies with its requirements.

1.3 The Council's Treasury Strategy, including the Annual Investment Strategy and Prudential Indicators was approved by Council on 25 February 2016.

1.4 The two key budgets related to the Council's treasury management activities are the amount of interest earned on investments £125k (£100k General Fund, £25k HRA) and the amount of interest paid on borrowing £2.729m (£91k General Fund, £2.638m HRA).

2. The Report

Interest Rates and Market Conditions

2.1 Following the Monetary Policy Committee of 4 August 2016, the Bank of England cut interest rates from 0.50% to 0.25%. Where it remained until Q3 2017/18, when it increased to 0.50%. Q4 saw a gradual improvement in returns as the increase was reflected in market rates.

2.2 The Council's treasury advisors Link summarised the key points associated with economic activity in 2017/18 as follows:

- Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant hold up in progress;
- UK growth in 2017 was weak in the first half of the year, although it did pick up modestly in the second half of 2017;
- There was a sharp increase in inflation caused by the devaluation

of sterling after the EU referendum

- As expected the MPC raised Bank Rate from 0.25% to 0.50% on 2 November;
- Market expectations for increases in Bank Rate shifted during the second half of 2017/18 and resulted in investment rates up to 12 months increasing sharply;
- The FTSE 100 hit a new peak in early 2018 before there was a sharp selloff;

2.3 Deposit rates continued into the start of 2017/18 at previously depressed levels but then slowly increased after the 2nd November, following the increase in bank base rate.

Table 1: Average Interest Rates 1 April 2017 31 March 2018

Item	***Range during Year***	***Start of Year***	***End of Year***	***Average during Year***
	%	*%*	*%*	*%*
Base Rate	0.25 - 0.50	0.25	0.50	
7 day LIBID	0.10 – 1.37	0.11	0.36	0.22
1 month	0.13 – 0.39	0.13	0.39	0.23
3 month	0.14 – 0.59	0.21	0.59	0.29
6 month	0.27 – 0.70	0.37	0.7	0.61
1 year	0.46 – 0.88	0.59	0.88	0.61

2.4 The Council's Treasury Advisors, Link provided a forecast for interest rates for both investments and PWLB borrowing as part of the Treasury Management Strategy. Table 2 shows the actual bank rate and PWLB rates at the end of the year compared to the forecasts during the year.

Table 2: Forecast for Interest Rates Included in Treasury Strategy

	Forecast	**Forecast**	**Forecast**	**Forecast**	**Actual**
	Q1 2017/18	**Q2 2017/18**	**Q3 2017/18**	**Q4 2017/18**	**31 March 2018**
Bank Rate	0.25	0.25	0.25	0.25	0.50
5 Yr PWLB	1.60	1.60	1.60	1.70	1.85
25 Yr PWLB	2.90	2.90	2.90	3.00	2.69
50 yr PWLB	2.70	2.70	2.70	2.80	2.41

Annual Investment Strategy

2.7 The Annual Investment Strategy outlines the Council's investment priorities which are consistent with those recommended by DCLG and CIPFA:

- Security of Capital and
- Liquidity of its investments

2.8 The Council aim was to achieve an optimum return on investments commensurate with these priorities. In the current economic climate officers are striving to achieve a balance of investments that will provide the best possible return whilst minimising the on-going risks within the banking sector.

2.9 The Council continues to invest in only highly credit rated institutions using the Link suggested creditworthiness matrices which take information from all the credit ratings agencies. Officers can confirm that the Council has not breached its approved investment limits during the year.

2.10 The level of funds available for investment during 2017/18 was higher than anticipated with an average of £51.3m available (against a forecast of £35-50m) for investment during the year. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of business rates and precept payments, receipt of grants, savings achieved and progress on the capital programme which has increased cash available to invest in the short term. The Council holds approximately £28m of core cash balances made up of earmarked reserves and capital receipts set aside to repay debt for investment purposes (i.e. funds available for more than one year).

2.11 The investment of the cash balances of the Council are fully managed as part of the investment pool operated by North Yorkshire County Council (NYCC).

2.12 The Council achieved an annual rate of return of 0.53% in investments (0.49% NYCC Sweeping, 4.45% SDHT Loans), and higher than anticipated cash balances resulted in a surplus in investment income, the overall return of £271k was £146k above budget. The surplus on the investment income budget contributed towards the year end surplus on the overall revenue budget. The £271k investment income was allocated £209k to the General Fund and £62k to the HRA.

Borrowing

2.13 It is a statutory duty for the Council to determine and keep under review its "Affordable Borrowing Limits". The Council's approved Prudential Indicators (affordable limits) were outlined in the Treasury Management Strategy Statement (TMSS). A list of the limits is shown at Appendix A.

Officers can confirm that the Prudential Indicators were not breached during the year.

2.14 The TMSS indicated that there was a requirement to take long term borrowing during 2017/18 to support the budgeted capital programme. However, the 2017/18 forecast borrowing requirement is entirely dependent on the level of funding required for the Housing Development programme which was delayed. Any borrowing requirement will be confirmed as the development plans progress.

2.15 The Council approved an Authorised Borrowing Limit of £81m (£80m debt and £1m Leases) and an Operational Borrowing Limit of £76.0m (£75m debt and £1m Leases) for 2017/18. The highest total gross amount of debt in the year to 31 December has not been more than £60.0m on any occasion.

2.16 The strategy, in relation to capital financing, is to continue the voluntary set aside of Minimum Revenue Provision (MRP) payments from the HRA in relation to self-financing debt in order to create capacity to internally borrow to support the Housing Delivery Programme. £1.3m was set aside during 17/18.

2.17 As a result, the Council was in an over-borrowed position of £5.8m as at 31 March 2018. This means that capital borrowing is currently in excess of the Council's underlying need to borrow. The slight reduction in the over-borrowed position compared with 16/17 outturn (£6.2m over-borrowed) is as a result of £1m GF debt repayment in 17/18 and HRA Housing Investment.

2.18 The 2018/19 Treasury Management Strategy forecasts an under-borrowed position by the end of 18/19, rising to £14.5m by the end of 20/21 as loans are made to support the Housing Trust, and HRA Housing Investment Programme. Plans to undertake any additional long term borrowing in the short/medium term will be kept under review as the Extended Housing Delivery Programme progresses and while borrowing rates remain low.

3. Alternative Options Considered

3.1 Not Applicable

4.0 Implications

4.1 **Legal Implications**

There are no legal issues as a result of this report.

4.2 **Financial Implications**

The Councils investment income during the year has been highlighted through in-year monitoring and is reported in the surplus outturn position for the General Fund and HRA.

5. Conclusion

5.1 The impact of the economy, and the turmoil in the financial markets, continues to have an impact on the Council's investment returns. Forecasts predict steady growth in bank rates over the long terms and therefore low returns are expected to continue for some while. This has been mitigated in 2017/18 by better than expected cash flows, largely as a result of the timing of collection fund cash-flows and is therefore not expected to repeat year after year.

5.2 The Council's debt position is in line with expectations set out in the Strategy, with no immediate changes on the horizon. However, as the Housing Delivery programme progresses and interest rates begin to rise, opportunities to optimise the Council's debt portfolio will be kept under review.

5.3 The Council operated within approved Strategy Indicators for the year, with no breaches on authorised limits. The Prudential Indicators are reviewed annually as part of the Treasury Strategy to ensure approved boundaries remain appropriate; activities during 17/18 have not highlighted any concerns.

6. Background Documents

Finance Treasury Management Files

Contact Details
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Appendices:
Appendix A – Prudential Indicators as at 31 March 2018