RICHMONDSHIRE DISTRICT COUNCIL

Item 6

Corporate Board
10 July 2018

TREASURY MANAGEMENT OUTTURN REPORT 2017/18

Report of Senior Management Team

All Wards
Key Decision = Y

1.0 Purpose of Report

1.1 The purpose of this report is to present a summary of the treasury management activities for the last financial year in line with the Treasury Management Code of Practice. The Annual Treasury Management Report for 2017/18 is attached as **Appendix 1.**

2.0 Decisions sought

2.1 A year end report to Members is a requirement of the Code of Practice which this Council has adopted. Members are asked to approve the report.

3.0 Link to Corporate Priorities

3.1 Treasury management activities underpin all corporate priorities by ensuring that Council funds are invested safely and that the maximum return on investments is gained commensurate with risk.

4.0 Introduction & Background

4.1 The Chartered Institute of Public Finance and Accountancy's revised Code of Practice on Treasury Management was adopted by Richmondshire District Council on 27 April 2010. The primary requirements of the Code are included in Appendix 1 and include reporting requirements which this report fulfils.

4.2 The report covers the performance over the financial year in regard of investments and the borrowing position. Prudential indicators are included at Annex A to Appendix 1.

4.3 The report will be submitted to Audit, Governance & Standards Committee on 30 July 2018 for consideration. Verbal feedback will be provided to Corporate Board on any issues raised at that meeting.

5.0 Recommendation

5.1 Members are requested to recommend to Council, approval of the Annual Treasury Management Report for 2017/18.

6.0 Corporate Implications

Scrutiny Consultation	The Audit, Governance & Standards Committee is the scrutiny body for treasury management. This report will be considered by the Audit, Governance & Standards Committee at its meeting on 30 July 2018. Any comments from the Committee will be reported verbally to Council.
Community Engagement	None.
Environment & Sustainability	None.
Financial Implications and Efficiencies	The financial aspects of this report are contained within the body of the Appendix.
Legal Implications	The CIPFA Code of Practice requires the outturn of the Treasury Management position and Prudential Indicators are submitted before members.
Risk Implications	None.
Human Resource Implications	None.
Equalities Implications	None.
Health & Safety Implications	None.

7.0 Further Information

7.1 Background Papers – Capita Annual Treasury Management Report Template
- CIPFA Prudential Code, Guidance Notes for Practitioners

7.2 File Reference – None.

7.3 Appendices - Appendix 1 – Annual Treasury Management Report for 2017/18

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Appendix 1

ANNUAL TREASURY MANAGEMENT REPORT FOR 2017/18

1.0 INTRODUCTION:

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury review of activities and the actual prudential and treasury indicators for 2017/18. 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).

1.2 During 2017/18 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Corporate Board 17/01/17)
- a mid year treasury update report (Corporate Board 16/10/17)
- an annual report following the year describing the activity compared to the strategy (this report)

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit, Governance and Standards Committee before they were reported to the full Council.

2.0 BACKGROUND - THE ECONOMY AND INTEREST RATES:

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 on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth 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, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

2.2 The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.

2.3 Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in **investment rates** from 3 – 12 months increasing sharply during the spring quarter.

2.4 **PWLB borrowing rates** increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to **US treasuries**. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

2.5 The major UK landmark event of the year was the inconclusive result of the **general election** on 8 June. However, this had relatively little impact on financial markets.

3.0 OVERALL TREASURY POSITION AS AT 31 MARCH 2018:

3.1 At the beginning and the end of 2017/18 the Council's treasury position was a follows:-

Prudential and Treasury Indicators	**31 March 2017**		**31 March 2018**	
	£000	**Av. Rate %**	**£000**	**Av. Rate %**
Actual Capital Expenditure	2,683		2,826	
Capital Financing Requirement	23,288		22,135	
External Debt	19,536	3.08	18,436	3.08
Over/(Under) Borrowing	(3,751)		(3,699)	
Investments	7,220	0.41	7,240	0.38

3.2 Other prudential and treasury indicators are to be found in the main body of this report and in Annex A. The Corporate Director, Resources and S151 Officer confirms that the statutory borrowing limit (the authorised limit), was not breached.

4.0 THE STRATEGY FOR 2017/18:

4.1 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31.3.20. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

During 2017/18, longer-term PWLB rates were volatile but with little overall direction, whereas shorter-term PWLB rates were on a rising trend during the second half of the year.

5.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2017/18:

5.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

5.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

	2016/17 Actual £000	**2017/18 Original £000**	**2017/18 Actual £000**
Non-HRA capital expenditure	847	699	802
HRA capital expenditure	1,836	2,058	2,146
Total capital expenditure	2,683	2,757	2,948
Resourced by:			
• Capital receipts	254	100	101
• Capital grants	171	119	121
• Capital reserves	1,510	1,796	1,627
• Revenue	748	272	1,099
Unfinanced capital expenditure (Net borrowing need for the year)	0	470	0

6.0 THE COUNCIL'S OVERALL BORROWING NEED:

6.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR).

	2016/17 Actual £000	2017/18 Original £000	2017/18 Actual £000
Non-HRA CFR	3,062	3,396	2,888
HRA CFR	20,226	19,247	19,247
Total CFR	23,288	22,643	22,135

This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. The 2017/18 capital expenditure was fully financed so caused no increase in the CFR. However, it does represent prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

6.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

6.3 **Reducing the CFR** – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR however the Council's 30 Year Business Plan for the HRA does make provision for the repayment of debt). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

6.4 The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

6.5 The Council's 2017/18 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2017/18 on 17 January 2017.

6.6 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes leasing schemes on the balance sheet, which increase the Council's borrowing need, the CFR. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR	31 Mar 2017 Actual £0	31 Mar 2018 Original Indicator £0	31 Mar 2018 Actual £0
Opening Balance	24,423	23,484	23,288
Add unfinanced capital expenditure (as above)	0	470	0
MRP/VRP *	(1,135)	(1,099)	(1,153)
Finance lease transactions	0	0	0
Closing Balance	**23,288**	**22,643**	**22,135**

* Includes voluntary application of capital receipts

6.7 The implementation of housing finance reform at the end of 2011/12 abolished the housing subsidy system financed by central government and, consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council made a capital payment to the Department of Communities and Local Government of £22,188,000. This resulted in a significant increase in 2011/12 in the CFR and new external borrowing with the Public Works Loans Board of £22,188,000.

6.8 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2017/18.

The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31-Mar-17 Actual	31-Mar-18 Original	31-Mar-18 Actual
Net Borrowing Position	£19.536 m	£18.437 m	£18.437 m
CFR	£23.288 m	£22.643 m	£22.135 m

6.9 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2016/17 the Council has maintained gross borrowing within its authorised limit.

6.10 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

6.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2017/18
Authorised limit	£31.500m
Maximum gross borrowing position	£19.536m
Operational boundary	£30.000m
Average gross borrowing position	£18.986m
Financing costs as a proportion of net revenue stream	3.57%

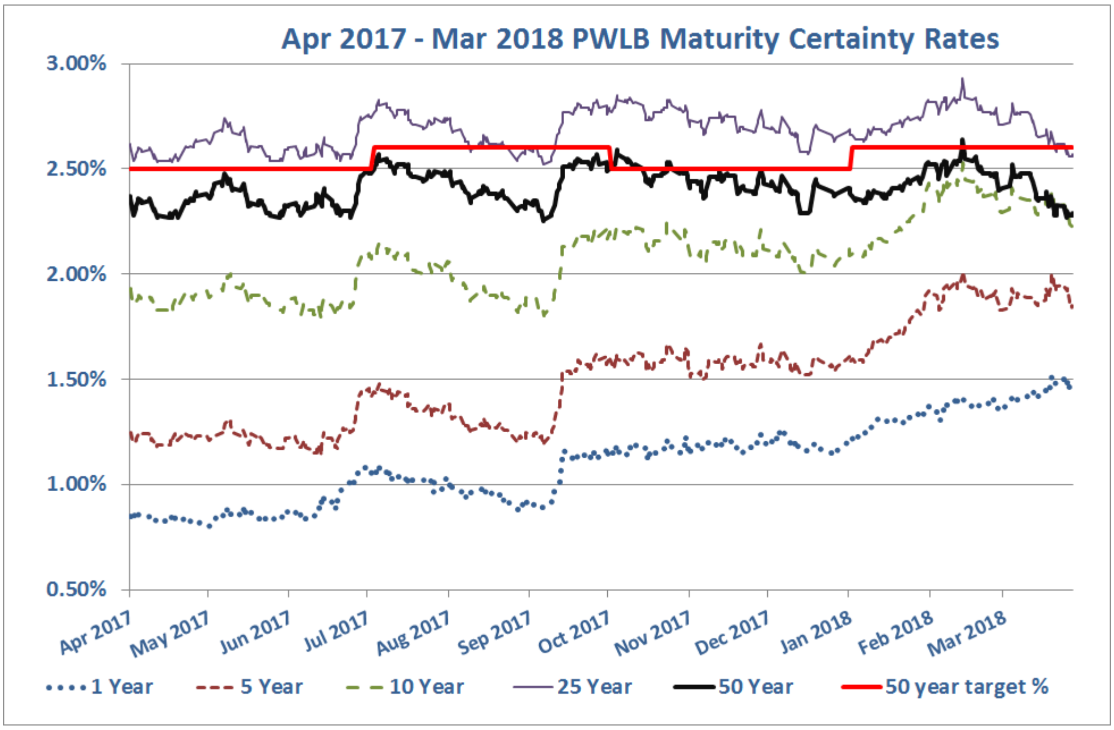
7.0 BORROWING RATES IN 2017/18

7.1 **PWLB certainty maturity borrowing rates**

As depicted in the graph below, PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March.

During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarters 1 and 3 and 2.60% in quarters 2 and 4.

The graph for PWLB rates shows, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



8.0 THE BORROWING OUTTURN FOR 2017/18

8.1 **Treasury Borrowing** – the Council undertook no external borrowing for cash flow purposes during 2017/18.

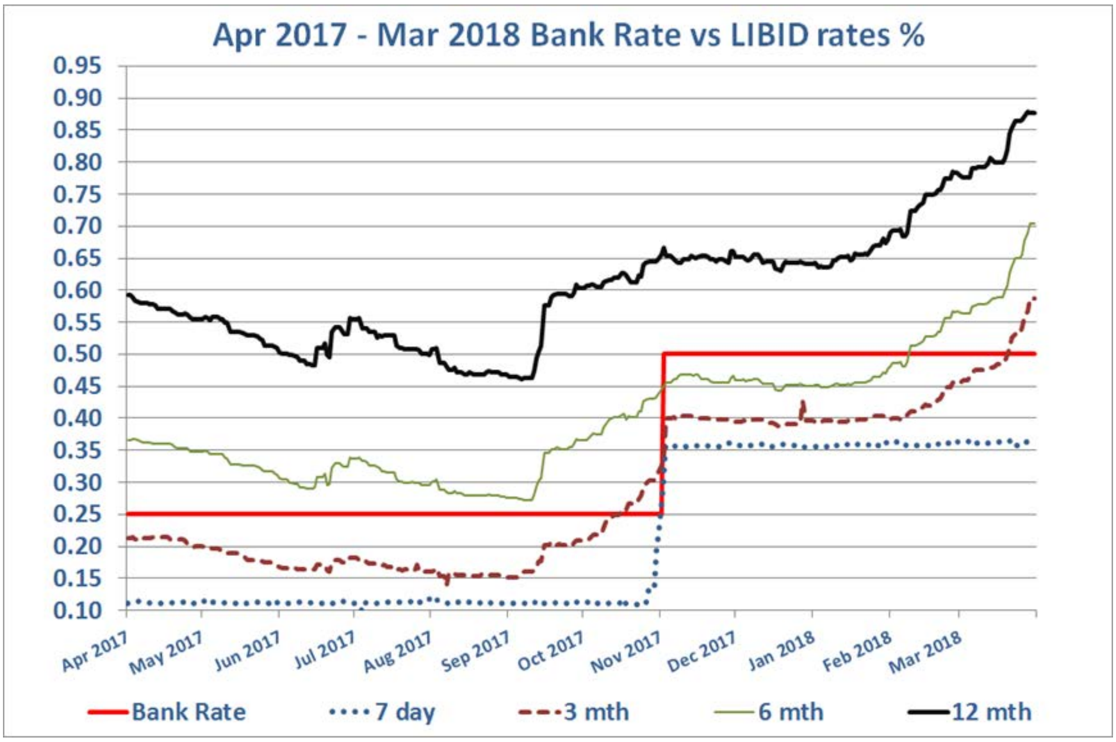
8.2 **Borrowing** – the Council undertook no external borrowing for financing purposes during 2017/18. The capital programme was fully financed by a mixture of external grants, capital receipts, reserve funding and revenue contributions. There was no shortfall in funding therefore there was no requirement to borrow. The Council will need to continue to monitor the internal debt position during 2018/19 in the light of PWLB interest rate movements.

8.3 **Rescheduling** – the Council undertook no rescheduling of debt during 2017/18.

8.4 **Repayment** – the Council repaid principal on loans with the PWLB in line with the loan agreements.

9.0 INVESTMENT RATES IN 2017/18

9.1 Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2.11.17 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28.2.18.



10.0 **INVESTMENT OUTTURN FOR 2017/18**

10.1 **Investment Policy** – the Council's investment policy is governed by MHCLG guidance, which was been implemented in the annual investment strategy approved by the Council on 17 January 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

10.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

10.3 **Investments held by the Council** - the Council maintained an average balance of £13.458m of internally managed cash flow funds. These internally managed cash flow funds earned an average rate of return of 0.38% yielding £50,006 of interest. The comparable performance indicator is the average 7-day LIBID rate, which was 0.21%. This compares with a budget assumption in 2017/18 for investment interest earned of £30,000.

Annex A

PRUDENTIAL INDICATORS – OUTTURN 2017/18

PRUDENTIAL INDICATORS	2016/17	2017/18	2017/18
	Actual	**Original**	**Actual**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non - HRA	847	699	802
HRA (applies only to housing authorities)	1,836	2,058	2,146
TOTAL	2,683	2,757	2,948
Ratio of financing costs to net revenue stream			
Non - HRA	3.81%	5.49%	3.57%
HRA (applies only to housing authorities)	23.09%	23.20%	23.3%
Net borrowing requirement			
brought forward 1 April	24,423	23,484	23,288
carried forward 31 March	23,288	22,643	22,135
in year borrowing requirement	(1,135)	(841)	(1,153)
Capital Financing Requirement as at 31 March			
Non – HRA	3,062	3,396	2,888
HRA (applies only to housing authorities)	20,226	19,247	19,247
TOTAL	23,288	22,643	22,135
Annual change in Cap. Financing Requirement			
Non – HRA	(181)	137	(174)
HRA (applies only to housing authorities)	(954)	(978)	(979)
TOTAL	(1,135)	(841)	(1,153)
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum	0.04	(0.09)	(0.03)
Increase in average housing rent per week (housing authorities only)	(0.18)	(0.70)	0.69

TREASURY MANAGEMENT INDICATORS	2016/17	2017/18	2017/18
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	30,000	30,000	30,000
other long term liabilities	1,500	1,500	1,500
TOTAL	31,500	31,500	31,500
Operational Boundary for external debt -			
borrowing	29,000	29,000	29,000
other long term liabilities	1,000	1,000	1,000
TOTAL	30,000	30,000	30,000
Actual External Debt	19,583	18,437	18,437
Upper limit for fixed interest rate exposure expressed as:- Net principal re fixed rate borrowing / investments:-	31,500	31,500	31,500
Upper limit for variable rate exposure expressed as:- Net principal re variable rate borrowing / investments	Nil	Nil	Nil
Upper limit for total principal sums invested for over 364 days (per maturity date)	5,000	5,000	5,000

Maturity structure of fixed rate borrowing during 2017/18	upper limit	lower limit
under 12 months	6%	6%
12 months and within 24 months	6%	6%
24 months and within 5 years	19%	19%
5 years and within 10 years	33%	33%
10 years and above	36%	36%