

Audit and Governance Committee

30 May 2019

TREASURY MANAGEMENT OUTTURN REPORT 2018/19

WARDS AFFECTED

All.

EXEMPT/CONFIDENTIAL ITEM

No.

1.0 PROPOSED DECISION

1.1 Members are requested to consider and note the Treasury Management Outturn Report for the financial year 2018/19.

2.0 JUSTIFICATION FOR THE DECISION

2.1 The Terms of Reference of the Audit and Governance Committee require it to ensure that the financial management and control systems are effective, including risk management arrangements. Such responsibilities incorporate those arrangements relating to the Treasury Management activity of the Council.

2.2 In accordance with The Chartered Institute of Public Finance & Accountancy (CIPFA) Standard of Professional Practice on Treasury Management it is those Members who are responsible for ensuring effective scrutiny of the treasury management strategy and policies of the Council.

3.0 FACTS SUPPORTING THE PROPOSED DECISION

3.1 Appended to this report is the Council's Treasury Management Outturn Report for 2018/19. This document is included in the Corporate Financial Report to be considered by the Cabinet at its meeting on 12 June 2019.

3.2 The Council is committed to maintaining, and constantly seeking to improve wherever possible, the control, risk management and governance of its activities. It is, therefore, appropriate that the Treasury Management function is subject to robust Member overview and that the Treasury Management Outturn Report is subject to consideration by the Audit and Governance Committee as the nominated responsible body of the Council.

4.0 RISKS ASSOCIATED WITH THE PROPOSED DECISION

4.1 None.

5.0 OTHER IMPLICATIONS

5.1 None.

6.0 PREVIOUS APPROVAL/CONSULTATION

6.1 The Treasury Management Strategy Statement for 2018/19 has previously been considered and approved by Cabinet, Council and this committee, whilst each Corporate Financial Report contained commentary on Treasury Management activity.

7.0 ALTERNATIVE OPTIONS AND IMPLICATIONS THEREOF

7.1 None.

8.0 APPENDICES

Appendix A – Treasury Management Outturn Report 2018/19.

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The Contact Officer for this report is Jon Ridgeon, Business Support Manager (Corporate Finance) (telephone 01744 676701).

TREASURY MANAGEMENT OUTTURN REPORT 2018/19

- 1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. 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 2018/19 the agreed reporting requirements were as follows:
- (i) An annual Treasury Management Strategy Statement (approved by Cabinet on 21 February 2018, by Council on 28 February 2018 and considered by Audit and Governance Committee on 21 March 2018);
 - (ii) A mid-year treasury update report (Approved by Cabinet on 24 October 2018, by Council on 31 October 2018 and considered by Audit and Governance Committee on 12 November 2018);
 - (iii) An annual review following the end of the year describing the activity compared to the strategy (this report); and
 - (iv) In addition, the Cabinet and Council have received regular treasury management reports via each Corporate Financial Report.
- 1.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore 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 The Council confirms that it has complied with the requirement under the Code to give scrutiny to the relevant treasury management reports by the Cabinet before they were reported to the full Council.
- 1.5 The main contents of this report are:
- (i) Borrowing activity 2018/19;
 - (ii) Investment activity 2018/19;
 - (iii) Effects on the Council budget;
 - (iv) The Council's treasury position at 31 March 2019;
 - (v) Performance measurement; and
 - (vi) Compliance with Treasury Limits and Prudential Indicators.

BORROWING ACTIVITY 2018/19

- 2.1 The Treasury Management Strategy Statement for 2018/19 did not envisage any new borrowing being undertaken outside any prudential borrowing agreed within the capital programme. Whilst the Council's Capital Financing Requirement at that point indicated that the Council had an underlying need to borrow, the general strategy adopted by the Council has been to finance capital expenditure by running down reserves and balances in lieu of new borrowing. In the event, no new borrowing was undertaken during the year.

- 2.2 During the year, the Council monitored PWLB certainty rates. Table 1 below shows how rates have remained fairly subdued, although there has been volatility in rates during the year, with a peak during October 2018 and then a general downward trend, with rates (apart from the 1 year rate) reaching lows for the year towards the end of March.

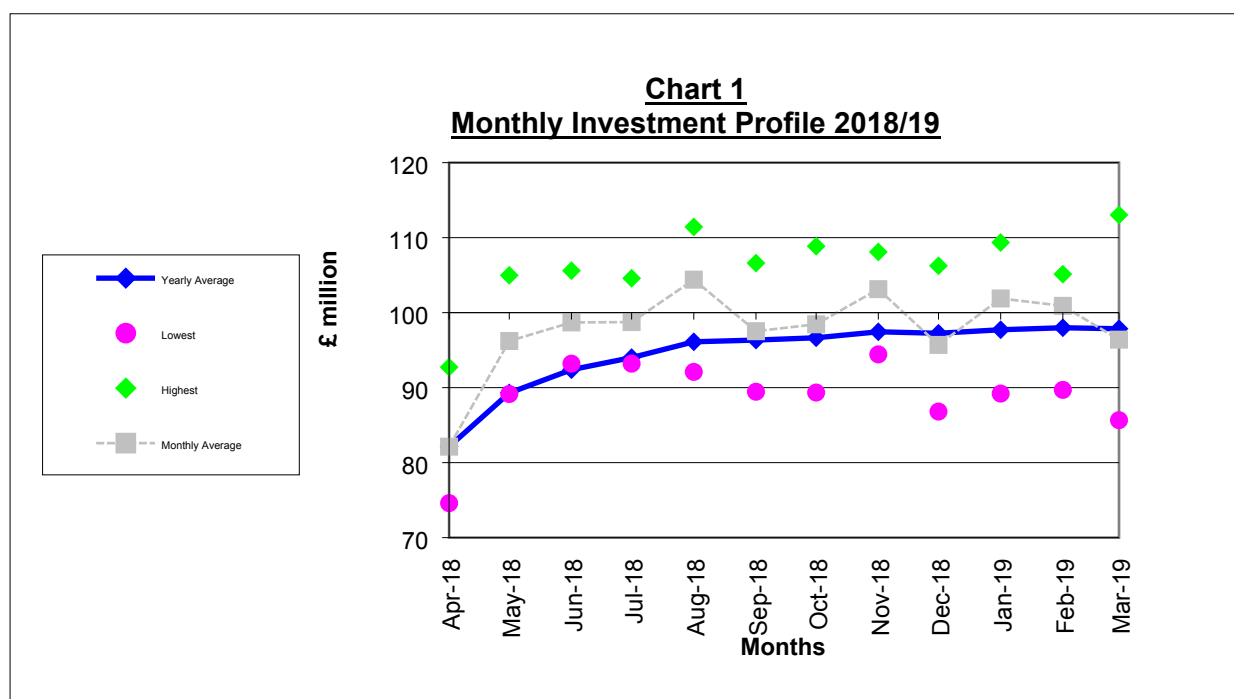
Table 1 - PWLB borrowing rates 2018/19 for 1, 5, 10, 25 & 50 years					
	1 Year	5 Year	10 Year	25 Year	50 Year
1 April 2018	1.48%	1.85%	2.23%	2.57%	2.29%
31 March 2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Date	29/05/2018	26/03/2019	28/03/2019	26/03/2019	26/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%

- 2.3 Despite PWLB borrowing attracting low rates of interest, no debt rescheduling was undertaken during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.
- 2.4 The Government confirmed at the Autumn Budget 2017 it would lend local authorities in England up to £1billion at a new discounted rate of gilts +60 basis points for three years to support infrastructure projects that are high value for money. Local Authorities were required to prepare bids to access the discounted rate. St Helens submitted a bid for the A49 to M6 Junction 22 Link Road scheme, and was notified by HM Treasury on the 29th October 2018 the application had been successful, and was awarded £6.17m of discounted borrowing at the local infrastructure rate, which can be drawn down between the 29th October 2018 and 1st April 2022.

INVESTMENT ACTIVITY 2018/19

- 3.1 The Bank Rate started the year at 0.50%, until a vote by the Monetary Policy Committee on 2 August 2018 to increase the rate to 0.75% and it remained at this level for the rest of the year. Economic forecasters' original expectations were that the Bank Rate would remain static until the early part of 2019. These forecasts were subsequently revised, with more increases forecast, at a steady rate, through to a peak of 2.00% in March 2022.
- 3.2 Continued uncertainty in the financial markets, which has existed since the 2008 financial crisis, has promoted a cautious approach whereby investments continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
- 3.3 As detailed in the Annual Investment Strategy the general policy objective of the Council is the prudent investment of its surplus funds. The Council's investment priorities are the security of capital and liquidity of investments. The Council's investment dealings in the year have been undertaken in order to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity and having properly assessed all inherent risks. All investments made during the year have been made in accordance with this strategy.

- 3.4 The Council manages the cash position of Merseyside Recycling and Waste Authority (MRWA) as part of a service level agreement. Historically, this has involved investing the cash balance of MRWA in accordance with the Council's treasury strategy. During 2018/19, MRWA have been in an overdrawn cash position and, in accordance with the service level agreement, the Council has received interest of 2% above Bank Rate for this overdrawn amount. Regular meetings are held with MRWA to review the cash position and on 22 March 2019, MRWA borrowed £25.0m from PWLB to address their overdrawn cash position.
- 3.5 The Council maintained an average balance of £97.851m during the year; Chart 1 profiles the monthly average balances.



EFFECTS ON THE COUNCIL BUDGET

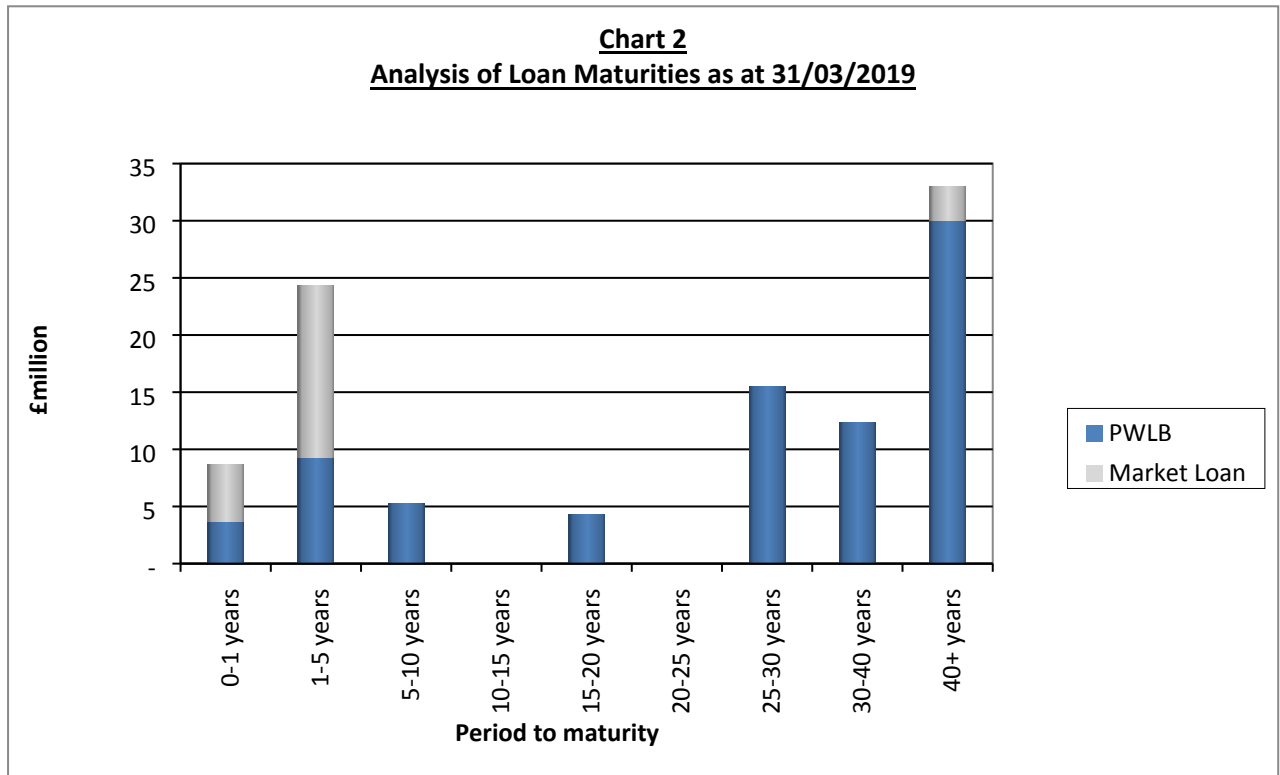
- 4.1 The overall effect on the Council's General Fund budget in 2018/19 was as follows:

Table 2 - Treasury Allowed Estimate & Outturn 2018/19			
	Allowed Estimate £m	Revised Estimate £m	Outturn £m
Minimum Revenue Provision (MRP)	2.909	2.888	2.888
Debt Management Costs	8.550	8.175	8.175
SUB-TOTAL	11.459	11.063	11.063
Investment Income	(0.616)	(1.081)	(1.446)
NET TREASURY COSTS	10.843	9.982	9.617

- 4.2 The increase in investment income at outturn was due to interest received from third parties.

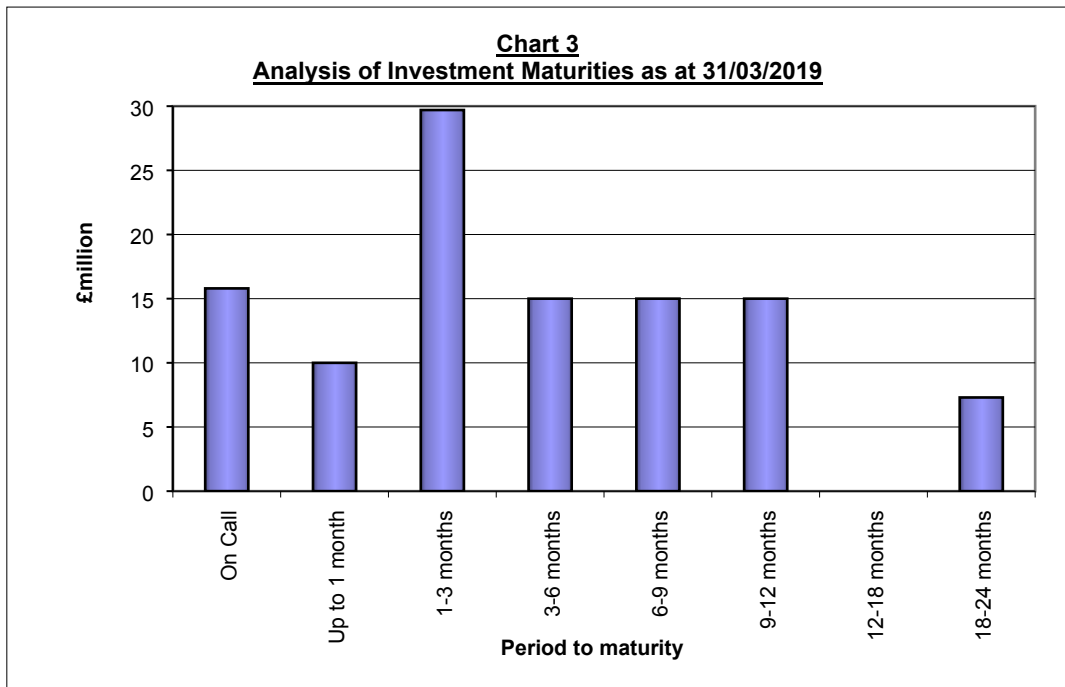
COUNCIL'S TREASURY POSITION

- 5.1 As at 31 March 2019, the Council's debt portfolio comprised of PWLB and market debt totalling £103.336m. The maturity profile of the debt outstanding is highlighted in Chart 2.



In accordance with the revised Prudential Code, the maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender does have the right to increase the interest rate payable (as is the case with a Market Loan (LOBO – Lender Option Borrower Option loan)), then this should be treated as a right to require payment. Due to this guidance the maturity dates of the Council's LOBO loans have been profiled as the next call date for each. This has made the Council's position look much more short-term when all of these loans have maturity dates of 29+ years. In the current interest climate, it is unlikely that these loans will be called imminently.

- 5.2 The investments held at 31 March 2019 amounted to £107.8m. The composition of these are shown in Chart 3 and includes those managed on behalf of Schools (balances of £8.316m) and MRWA (cash of £6.655m).



5.3 The detailed investment holdings as at 31 March 2019 are included at Annex (i).

PERFORMANCE MEASUREMENT

6.1 No new borrowing was undertaken during 2018/19, therefore no table can be produced to provide a comparison of debt performance.

6.2 When analysing performance of the Council's investment activity there are more readily identifiable indicators available to determine performance, as detailed in Table 3.

Month	Returns Achieved			Benchmark Returns			Performance relative to Benchmarks		
	Fixed Term Investments	Call Accounts	Combined Return	1 Year LIBID	7 Day LIBID	Combined LIBID	Fixed Term	Call	Overall +/- return
April	0.788%	0.508%	0.719%	0.903%	0.362%	0.769%	(0.115%)	0.146%	(0.050%)
May	0.813%	0.495%	0.734%	0.804%	0.360%	0.695%	0.009%	0.135%	0.039%
June	0.817%	0.518%	0.759%	0.813%	0.361%	0.727%	0.004%	0.157%	0.032%
July	0.826%	0.517%	0.767%	0.887%	0.364%	0.786%	(0.061%)	0.153%	(0.019%)
August	0.864%	0.636%	0.811%	0.920%	0.583%	0.841%	(0.056%)	0.053%	(0.030%)
September	0.894%	0.732%	0.864%	0.927%	0.588%	0.863%	(0.033%)	0.144%	0.001%
October	0.925%	0.697%	0.873%	0.948%	0.582%	0.865%	(0.023%)	0.115%	0.008%
November	0.947%	0.706%	0.891%	1.014%	0.586%	0.914%	(0.067%)	0.120%	(0.023%)
December	0.964%	0.736%	0.924%	1.035%	0.582%	0.954%	(0.071%)	0.154%	(0.030%)
January	0.985%	0.729%	0.933%	1.049%	0.577%	0.955%	(0.064%)	0.152%	(0.022%)
February	1.017%	0.779%	0.981%	1.072%	0.573%	0.995%	(0.055%)	0.206%	(0.014%)
March	1.051%	0.778%	1.010%	0.980%	0.570%	0.918%	0.071%	0.208%	0.092%
Average rate of return *	0.911%	0.645%	0.857%	0.946%	0.507%	0.858%	(0.035%)	0.138%	(0.001%)

* Inclusive of treasury costs and exclusive of interest from third parties.

- 6.3 Throughout the year, the Council has performed in line with the accepted benchmark levels even though these fluctuated throughout the year. Higher returns have been achieved at the start of the year, with average returns slipping just below benchmark at certain points in the year as a result of rises in the LIBID rates. Any sudden changes in rates will impact upon performance against benchmarks as investment decisions need to be made based upon both the desire to maximise interest returns and, more importantly, managing the liquidity of the authorities investments for cashflow purposes. For a number of years, where possible, the Council has taken advantage of favourable rates and locked into investment deals for longer periods.

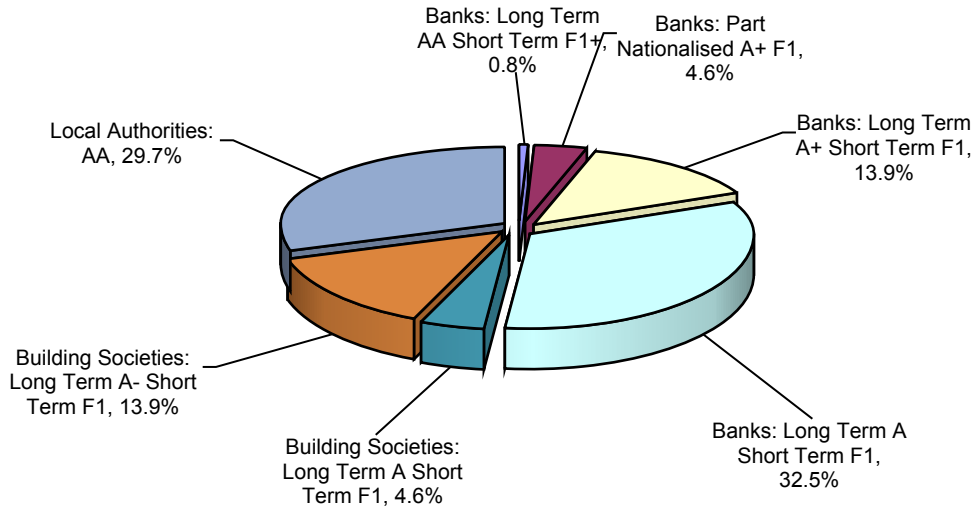
COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

- 7.1 During 2018/19 the Council complied with its legislative and regulatory requirements. The revised Treasury Limits and Prudential Indicators are included at Annex (ii) and, where appropriate, outturn figures for the indicators have been produced by analysis.

Annex (i)

Investments held as at 31 March 2019			
Counterparty	Sum Invested £m	Maturity Date	Interest Rate %
Banks			
Bank of Scotland	5.0	15/05/2019	1.00%
Bank of Scotland	5.0	18/10/2019	1.10%
Close Brothers	5.0	18/04/2019	1.20%
Close Brothers	5.0	22/07/2019	1.15%
Close Brothers	5.0	17/09/2019	1.10%
Danske	15.0	Call	0.80%
Handelsbanken	0.8	Call	0.55%
Lloyds	5.0	05/11/2019	1.10%
Lloyds	5.0	23/03/2020	1.25%
Royal Bank of Scotland	5.0	05/04/2019	0.90%
Building Societies			
Coventry BS	5.0	14/06/2019	0.79%
Leeds BS	5.0	10/05/2019	0.84%
Yorkshire BS	10.0	20/03/2020	1.16%
Local Authorities			
Bracknell Forest Council	5.0	20/05/2019	0.90%
Broxbourne Borough Council	4.7	12/06/2019	0.80%
Cambridgeshire County	5.0	18/09/2019	1.05%
Cambridgeshire County	5.0	29/01/2021	1.45%
London Borough of Enfield	5.0	13/12/2019	1.10%
Isle of Wight Council	5.0	17/06/2019	0.95%
London Borough of Sutton	2.3	21/12/2020	1.45%

Analysis of Investments by Credit Ratings as at 31/03/2019



Key to Credit Ratings

Local Authorities AA

Sovereign (part nationalised banks) A+

Long Term A A-

Short Term F1+ F1

Very high credit quality

High credit quality

High credit quality

Highest short-term credit quality

Annex (ii)

Treasury Limits and Prudential Indicators 2018/19			2018/19 Estimates	2018/19 Outturn
1(i)	Proposed capital expenditure that the Council plans to commit to during the forthcoming and subsequent two financial years.	Capital Expenditure (£m)	26.002	26.361
1(ii)	Additional in-year borrowing requirement for capital expenditure.	In Year Capital Financing Requirement (CFR) (£m)	1.445	1.838
2	The CFR is an aggregation of historic and cumulative capital expenditure, which has yet been paid for by either revenue or capital resources.	Capital Financing Requirement as at 31 March (£m)	178.720	179.114
3	The "net borrowing" position represents the net of the Authority's gross external borrowing and investments sums held.	Net Borrowing Requirement: External Borrowing (£m) Investments Held (£m) Net Requirement (£m)	103.336 <u>(120.000)</u> 16.664	103.336 <u>(101.173)</u> (2.163)
4	Identifies the impact and trend of the revenue costs of capital financing decisions will have on the General Fund Budget over time.	Ratio of financing cost to net revenue stream	6.41%	6.25%
5	The Council's Budget Strategy with regards to unsupported borrowing is such that there is no incremental impact to Council Tax.	Incremental impact of capital investment decisions (increase in Council Tax Band D equivalent)	Nil	Nil

6	This represents an absolute limit of borrowing at any one point in time. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.	Authorised Limit for External Debt (£m)	165.207	Complied within limit
7	This is the limit beyond which external debt is not normally expected to exceed.	Operational Limit for External Debt (£m)	144.514	Complied within limit
8	These limits seek to ensure that the authority does not expose itself to an inappropriate level of interest rate risk, and has a suitable proportion of debt.	Upper Limit for Fixed Interest Rate Exposure	100%	Complied within limit
		Upper Limit for Variable Interest Rate Exposure	50%	Complied within limit
9	This limit seeks to ensure liquidity and reduce the likelihood of any inherent or associated risk.	Upper Limit for Sums Invested over 365 Days	60%	Complied within limit
10	This indicator is used to highlight where an authority may be borrowing in advance of need	Gross Debt and the CFR (£m)	(51.998)	(52.391)