Meeting:	**Cabinet** **Audit and Governance Committee**	**13 June 2018** **23 July 2018**
Subject:	**Treasury Management Update – Annual Report 2017/18**	
Report Of:	**Cabinet Member for Performance and Resources**	
Wards Affected:	**All**	
Key Decision:	**No** **Budget/Policy Framework:** **No**	
Contact Officer:	**Jon Topping, Head of Finance**	
	Email: jon.topping@gloucester.gov.uk	**Tel: 396242**
Appendices:	**1. Prudential and Treasury Indicators** **2. Interest rate forecasts**	

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 This 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 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 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.

1.3 This report will highlight issues specific to the Council and also highlight interest rate forecasts as provided by the Council's treasury advisors Capita Asset Services.

1.4 The body of the report provides an overview of the Councils performance for 2017/18;

- **Appendix 1** highlights the key performance indicators in line with the Councils Treasury Management Strategy.
- **Appendix 2** Interest Rate Forecast.

2.0 Recommendations

2.1 Audit and Governance Committee is asked, subject to any recommendations it wishes to make to Cabinet, to note the contents of the report.

2.2 Cabinet is asked to **RESOLVE** that the contents of the report be noted.

3.0 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2017/18, which includes the Annual Investment Strategy, was approved by the Council on 23rd March 2017. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

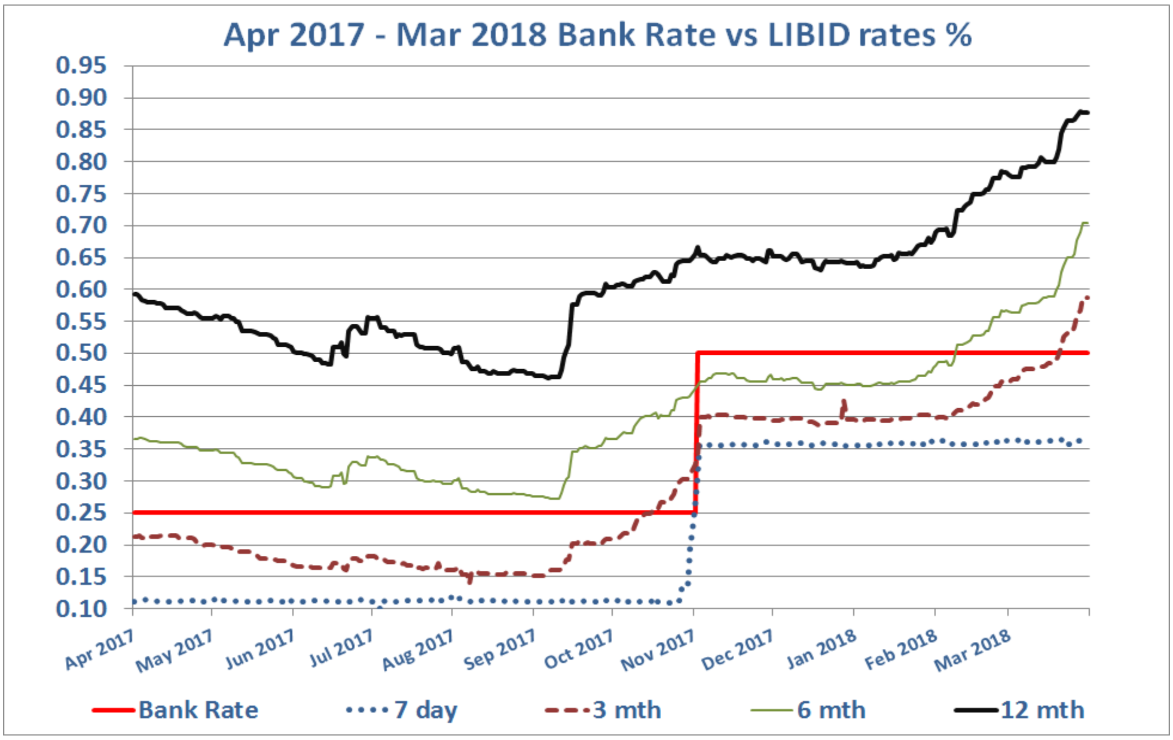
3.1 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

3.2 Investment rates available in the market were broadly stable during the year continuing at historically low levels as a result of the ultra-low Bank Rate. The Council maintained an average balance of £7.4M internally managed funds. The comparable performance indicator is the average 7-day LIBID rate, which was 0.20%. The Council investment funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council does not hold cash balances for investment purposes (i.e. funds available for more than one month).

Investment performance for the financial year 2016/2017

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.20	0.35	£14k
3 month	0.32	N/A	N/A

As illustrated, the Council outperformed the benchmark by 0.14 bps.



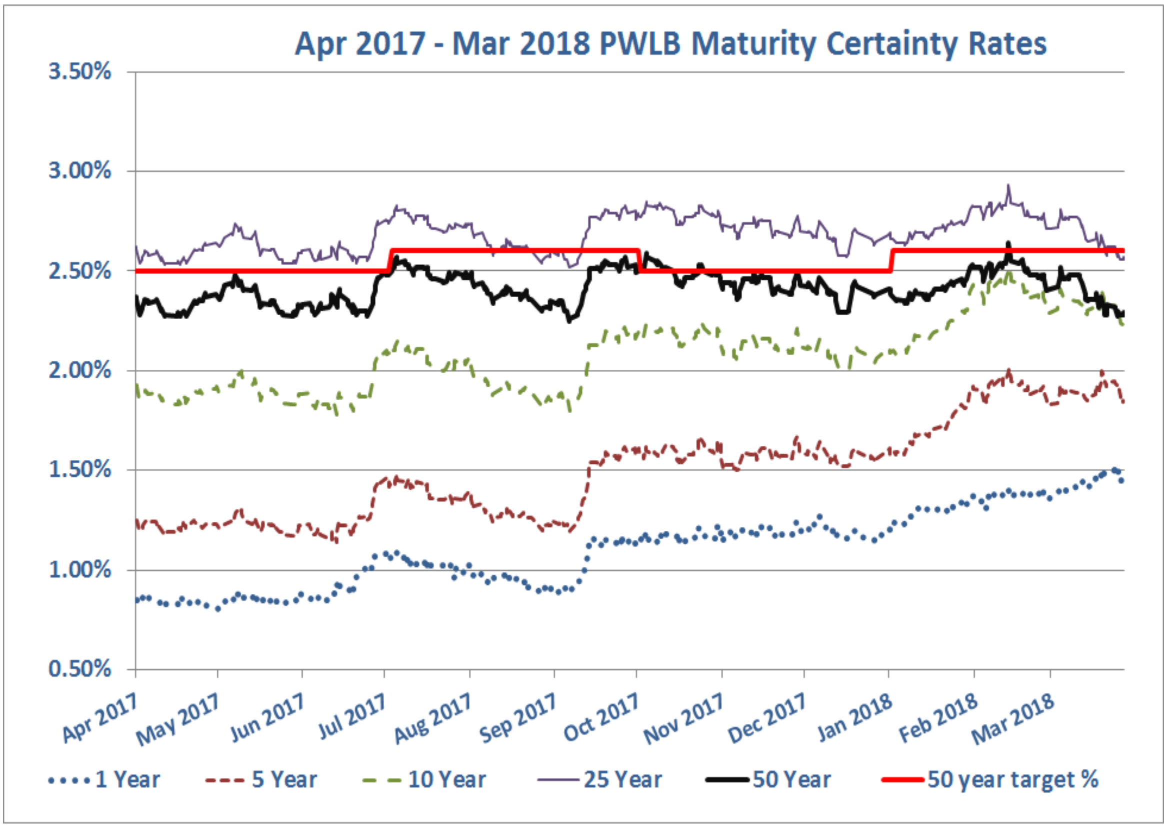
4.0 New Borrowing

4.1 As depicted in the graph and table 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

4.2 No long term borrowing was undertaken during the period.

4.3 **PWLB certainty rates, for the financial year to the 31st March 2017**

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/17	0.85%	1.25%	1.93%	2.62%	2.37%
31/3/18	1.67%	2.05%	2.43%	2.77%	2.49%
Low	0.80%	1.14%	1.78%	2.52%	2.25%
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.51%	2.01%	2.53%	2.93%	2.64%
Date	21/03/2018	15/02/2018	15/02/2018	15/02/2018	15/02/2018
Average	1.11%	1.50%	2.08%	2.69%	2.41%



4.4 **Borrowing in advance of need.**

The Council has not borrowed in advance of need during the period ended 31st March 2018.

5.0 Debt Rescheduling

5.1 During the year ended 31st March 2018, no debt rescheduling was undertaken.

6.0 Compliance with Treasury and Prudential Limits

6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

6.2 During the financial year the Council has operated within the treasury limits set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The Council debt profile is currently structured on short term borrowing. The Council is able to benefit from reduced costs associated with short term borrowing compared to longer term rates while operating within the Councils borrowing requirements, this strategy will continue to be reviewed in line with market expectations. The prudential and treasury Indicators are shown within appendix 1.

7.0 Other

7.1 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.
A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments. Officers will report to members when the implications of these new codes have been assessed as to the likely impact on this Authority.

7.2 The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this Authority apart from having to fill in forms sent by each institution dealing with this Authority and for each type of investment instrument we use, apart from for cash deposits with banks and building societies.

7.3 The Council continued to maintain an under-borrowed position in 2017/18.

7.4 This under-borrowing reflects that the Council resources such as reserves and provisions will have reduced debt rather than be externally invested. This strategy is sensible, at this point in time, for two reasons. Firstly, there is no differential between the marginal borrowing rate and investment rate so there is nothing to be gained by investing Council resources externally. Secondly, by using the resources to reduce debt the Council will reduce exposure to investment counterparty risk.

7.5 The Council will continue to monitor its approach to under borrowing in light of market movement and future events.

7.6 The Council has utilised short term borrowing in 2017/18 as part of its overall borrowing strategy, this policy has allowed the Council to benefit from lower interest rates available over the short term, reducing borrowing costs significantly in the short term. Over our current 2017/18 borrowing requirement, the Council has been able to obtain short term borrowing at 0.5 to 0.95% compared to current long term rates at 2.43% for 10 years.

7.7 The Council will continue to monitor its approach to short term borrowing in accordance with our treasury advisor forecasts and future Council events which impact on the Council borrowing requirement.

8.0 Asset Based Community Development (ABCD) Considerations

8.1 This report notes the treasury management performance of the Council. There are no anticipated ABCD implications from this report.

9.0 Financial Implications

9.1 Contained in the report

(Financial Services have been consulted in the preparation this report.)

10.0 Legal Implications

10.1 There are no legal implications from this report
(Legal Services have been consulted in the preparation this report.)

11.0 Risk & Opportunity Management Implications

11.1 There are no specific risks or opportunities as a result of this report

12.0 People Impact Assessment (PIA):

12.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

13.0 Other Corporate Implications
Community Safety

13.1 None

Sustainability

13.2 None

Staffing & Trade Union

13.3 None