

Gloucester City Council

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| Meeting: | Cabinet Audit and Governance Committee | Date: 12 June 2019 22 July 2019 |
| Subject: | Treasury Management Update – Annual Report 2018/19 | |
| Report Of: | Cabinet Member for Performance and Resources | |
| Wards Affected: | All | |
| Key Decision: | No | Budget/Policy Framework: No |
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| 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 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 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 Link Asset Services.
- 1.4 The body of the report provides an overview of the Council's performance for 2018/19;
 - **Appendix 1** highlights the key performance indicators in line with the Council's 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 2018/19, which includes the Annual Investment Strategy, was approved by the Council on 22nd March 2018. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

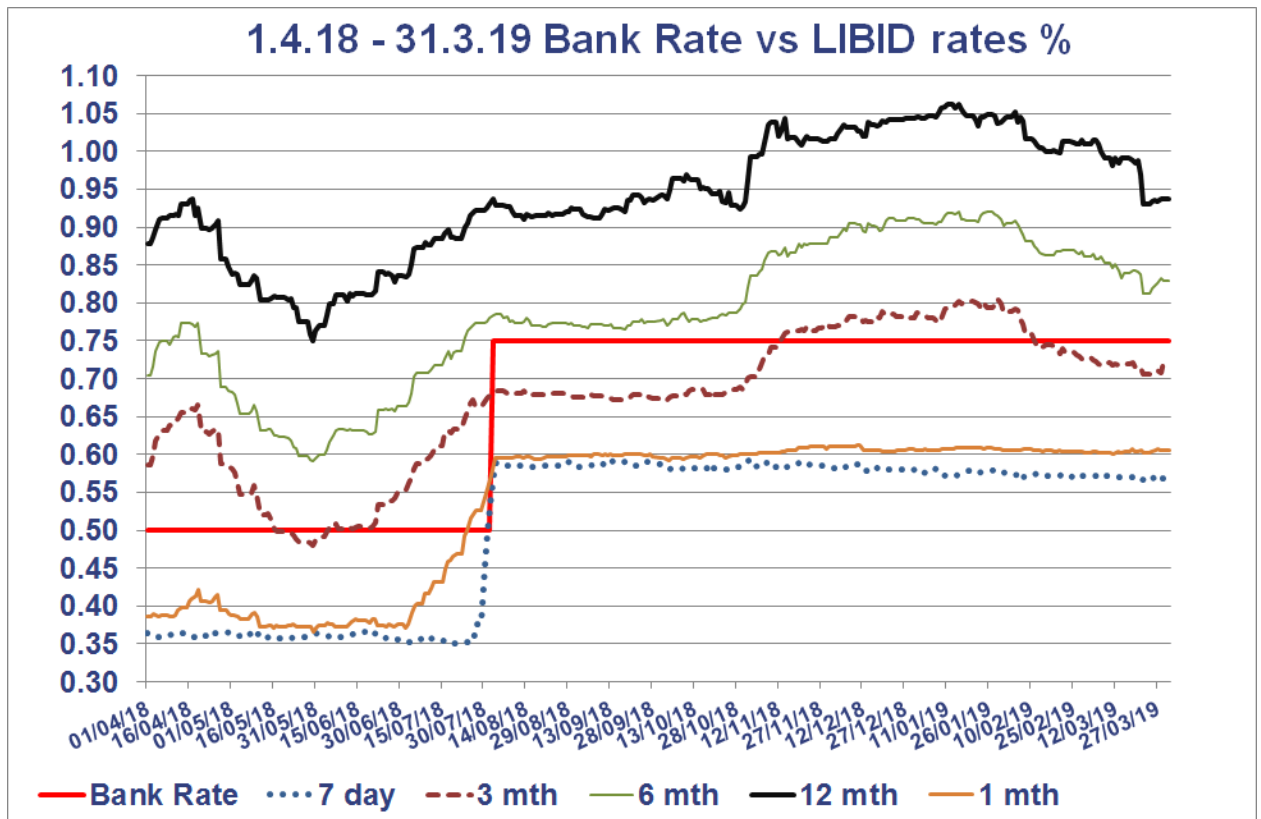
- 3.1 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available 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 The average level of funds available for investment purposes during the year was £11.2m. These 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 holds £10m core cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for the financial year 2018/2019

| Benchmark | Benchmark Return | Council Performance | Investment Interest Earned |
|-----------|------------------|---------------------|----------------------------|
| 7 day | 0.57 | 0.65 | £73k |
| 1 month | 0.61 | 0.68 | £2k |
| 3 month | 0.72 | 0.59 | £8k |
| 6 month | 0.83 | 0.83 | £22k |

As illustrated, the Council outperformed the benchmarks by 0.02 bps.

Longer term investment rates were on a rising trend for most of the year until they started falling in December / January.



| | Bank Rate | 7 day | 1 mth | 3 mth | 6 mth | 12 mth |
|----------------|------------|------------|------------|------------|------------|----------|
| 1/4/18 | 0.50 | 0.36 | 0.39 | 0.59 | 0.70 | 0.88 |
| 31/3/19 | 0.75 | 0.57 | 0.61 | 0.72 | 0.83 | 0.94 |
| High | 0.75 | 0.59 | 0.61 | 0.81 | 0.92 | 1.06 |
| Date | 02/08/2018 | 01/11/2018 | 10/12/2018 | 29/01/2019 | 15/01/2019 | 11/01/19 |
| Low | 0.50 | 0.35 | 0.37 | 0.48 | 0.59 | 0.75 |
| Date | 01/04/2018 | 19/07/2018 | 30/05/2018 | 30/05/2018 | 30/05/2018 | 30/05/18 |
| Average | 0.67 | 0.51 | 0.54 | 0.68 | 0.79 | 0.94 |
| Spread | 0.25 | 0.24 | 0.25 | 0.33 | 0.33 | 0.31 |

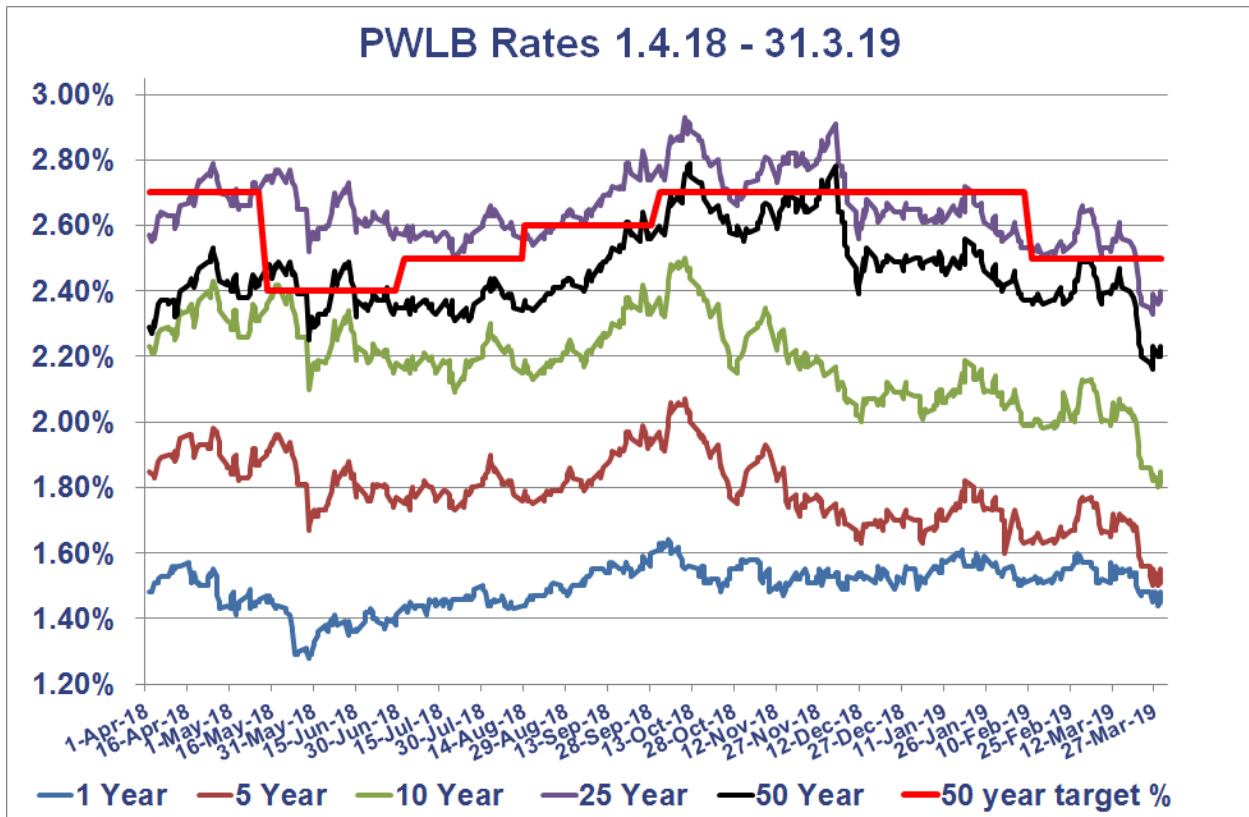
4.0 New Borrowing

4.1 No long term borrowing was undertaken during the year ended 31 March 2019.

4.2 Since PWLB rates peaked during October, most PWLB rates have been on a general downward trend since then, though longer term rates did spike upwards again during December, and, (apart from 1 year), reached lows for the year at the end of March. The 50 year PWLB target (certainty) rate for new long term borrowing varied between 2.40% and 2.70% during this period.

PWLB certainty rates, for the financial year to the 31st March 2019

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|----------------|------------|------------|------------|------------|------------|
| 2/4/18 | 1.48% | 1.85% | 2.23% | 2.57% | 2.29% |
| 29/3/19 | 1.48% | 1.55% | 1.85% | 2.40% | 2.23% |
| Low | 1.28% | 1.56% | 1.86% | 2.36% | 2.20% |
| Date | 29/05/2018 | 22/03/2019 | 22/03/2019 | 22/03/2019 | 22/03/2019 |
| 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% |



5.0 Debt Rescheduling

5.1 During the year ended 31st March 2019, 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 Council's 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 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of

investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

- 7.2 The Council continued to maintain an under-borrowed position in 2018/19.
- 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 2018/19 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 2018/19 borrowing requirement, the Council has been able to obtain short term borrowing at 0.80% compared to current long term rates at 2.20 % for 10 year. Over the year the policy has reduced annual borrowing costs by £210k.
- 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