Report to Audit Committee

Treasury Management Review 2017/18

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Reason for Decision

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 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).

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 (approved 1 March 2017)
- a mid-year (minimum) treasury update report (approved 13 December 2017)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The presentation of this report demonstrates full compliance with the requirements as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. The Audit Committee is charged with the scrutiny of treasury management activities in Oldham and is therefore requested to review the content of the report prior to its consideration by Cabinet and Council.

Executive Summary

During 2017/18, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2016/17 Outturn £'000	2017/18 Revised Budget £'000	2017/18 Outturn £'000
Actual capital expenditure	42,873	35,882	25,807
Total Capital Financing Requirement:	521,790	520,936	505,049
Gross borrowing	147,866	147,850	147,851
External debt	411,813	403,821	403,966
Investments			
· Longer than 1 year	5,000	5,000	15,000
· Under 1 year	68,000	45,000	58,650
· Total	**73,000**	**50,000**	**73,650**
Net Borrowing	74,866	104,959	74,201

As can be seen in the table above, actual capital expenditure was less than the revised budget estimate for 2017/18 presented within the 2018/19 Treasury Management Strategy report considered at the Council meeting of 27 February 2018. This in turn was significantly less than the £69.783m original capital budget for 2017/18 as approved at Budget Council on 1 March 2017. During the course of the year the Capital Programme saw substantial rephasing. This was due primarily to delays in both start and development of some of the capital schemes that were expected to progress during the year. The planned expenditure has therefore been re-profiled into 2018/19 and future years. No borrowing was undertaken during the year. This was because of the policy of self- financing which was employed due to the uncertainty around interest rates and the availability of cash which caused the Council to use cash reserves rather than incur additional borrowing costs.

Other prudential and treasury indicators are to be found in the main body of this report. The Director of Finance also confirms that the statutory borrowing limit (the authorised limit) was not breached.

The financial year 2017/18 continued the challenging investment environment of previous years, namely low investment returns.

Recommendations

The Audit Committee is recommended to:

1) Approve the actual 2017/18 prudential and treasury indicators presented in this report
2) Approve the annual treasury management report for 2017/18
3) Commend this report to Cabinet

Audit Committee **16 July 2018**

Treasury Management Review 2017/18

1 Background

1.1 The Council has adopted the Revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2017. The primary requirements of the code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year
- Delegation by the Council of responsibilities for implementing and monitoring Treasury Management Policies and Practices and for the execution and administration of treasury management decisions. In Oldham, this responsibility is delegated to the section 151 Officer (Director of Finance).
- Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

Treasury management in this context is defined as:

"*The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.* "

1.2 The report therefore summarises the following:-

- Council's capital expenditure and financing during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

2 Current Position

2.1 The Council's Capital Expenditure and Financing during 2017/18

2.1.1 The Council incurs capital expenditure when it invests in or acquires 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, a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.1.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual level of capital expenditure and how this was financed. As can be seen in the table below, actual capital expenditure in 2017/18 was less than the revised budget estimate. The revised budget estimate is based on the month 9 2017/18 reported position included within the Annual Treasury Management Strategy 2018/19 report and not the latest reported position (March 2018) as presented in the final outturn report accompanying the Statement of Accounts. All prudential indicators in the 2018/19 strategy are based on this revised budget. Capital expenditure was less in year due primarily to delays in delivering some IT projects, transport, property related schemes and education schemes that were expected to progress during the year.

	2016/17 Outturn £'000	2017/18 Revised Budget £'000	2017/18 Outturn £'000
Non-HRA capital expenditure	41,625	34,838	25,014
HRA capital expenditure	1,248	1,044	789
Total capital expenditure	**42,873**	**35,882**	**25,803**
Resourced by:			
• Capital receipts	8,780	6,037	6,780
• Capital grants	17,304	13,859	10,821
• HRA		794	744
• Revenue	16,789	176	7,458
Unfinanced capital expenditure	**0**	**15,016**	**0**

2.2 The Council's Overall Borrowing Need

2.2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2017/18 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

2.2.2 Part of the Council's treasury activity 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 that 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.

Reducing the CFR

2.2.3 The Council's (non-Housing Revenue Account [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- HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). 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.

2.2.4 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).

2.2.5 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 1 March 2017.

2.2.6 The Council's CFR for the year is shown in the table below and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. In 2017/18 the Council had seven PFI schemes in operation; however no borrowing is actually required against these schemes as a borrowing facility is included within each contract.

CFR	2016/17 Outturn £'000	2017/18 Revised Budget £'000	2017/18 Outturn £'000
Opening balance	543,232	521,790	521,790
Add unfinanced capital expenditure (as above)	0	15,016	0
Add adjustment for the inclusion of on-balance sheet PFI and leasing schemes (if applicable)	296	0	379
Less MRP/VRP*	(13,620)	(9,021)	(10,271)
Less PFI & finance lease repayments	(8,118)	(6,849)	(6,849)
Closing balance	521,790	520,936	505,049

* Includes voluntary application of capital receipts and revenue resources

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

Gross borrowing and the CFR

2.2.8 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.

2.2.9 This essentially means that the Council is not borrowing to support revenue expenditure.

2.2.10 This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2017/18 if so required. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2016/17 Outturn £'000	2017/18 Revised Budget £'000	2017/18 Outturn £'000
Gross borrowing position	411,813	403,821	403,966
CFR - including PFI / Finance Leases	521,790	520,936	505,049

The table above shows the position as at 31 March 2018 for the Councils gross borrowing position and CFR. This shows, compared to the revised budget position:

- Slight movement in the gross borrowing position, reflecting the fact that a small amount of short term borrowing had been repaid and repayment of transferred debt and finance leases.
- A reduction in the CFR, predominantly due to the slippage in the capital programme and financing of capital through revenue resources.

The Authorised Limit

2.2.11 The authorised limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003 and was set at £545m. Once this has been set, the Council does not have the power to borrow above this level.

The Operational Boundary

2.2.12 The operational boundary is the expected borrowing position of the Council during the year and was set at £530m. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2017/18 Actual £'000
Authorised limit	545,000
Operational boundary	530,000

Actual financing costs as a proportion of net revenue stream

2.2.13 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 and is within expected levels.

	2017/18 Actual £'000
External Debt	147,851
PFI / Finance leases	256,115
Actual external debt (Gross Borrowing)	**403,966**
Financing costs as a proportion of net revenue stream (General Fund)	11.52%

2.2.14 The table above splits the gross borrowing position of the Council between actual external debt (loans) and PFI / Finance lease debt. As can be seen above the gross borrowing position is well within the Authorised Limit and Operational Boundary. The difference between the two reflects the Council's under borrowed position.

2.3 The Councils Debt and Investment Position

2.3.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

2.3.2 At the end of 2017/18 the Council's treasury position was as follows:

	31 March 2017 Principal £'000	Average Rate/ Return	Average Life (years)	31 March 2018 Principal £'000	Average Rate/ Return	Average Life (years)
Fixed rate funding:						
-PWLB	15,482			15,482		
-Stock	6,600			6,600		
Market	125,784			125,769		
Total borrowings	**147,866**	4.50%	37.42	**147,851**	4.49%	36.42
PFI & Finance lease liabilities	**263,947**			**256,115**		
Total External debt	**411,813**			**403,966**		
CFR	**521,790**			**505,049**		
Over/ (under) borrowing	**(109,977)**			**(101,083)**		
Investments:						
Financial Institutions/LA's	68,000	0.60%		58,650	0.43%	
Property	5,000	4.83%		15,000	4.55%	
Total investments	***73,000***			***73,650***		

2.3.3 The maturity structure of the debt portfolio was as follows:

	2016/17 Actual %	Upper Limit %	Lower Limit %	2017/18 Actual %
Under 12 months	33%	40%	0%	38%
12 months and within 24 months	0%	20%	0%	3%
24 months and within 5 years	25%	30%	0%	22%
5 years and within 10 years	4%	20%	0%	5%
10 years and above	37%	100%	40%	32%

In the table above, the 10 years and above percentage of 32% is lower than the limit at 40%. This is due to categorising the debt in relation to the call dates on the Council's LOBO loans rather than the remaining life of the loan. For information, from 2018/19 this indicator has been removed as part of the revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code issued by CIPFA.

2.3.4 The maturity structure of the investment portfolio was as follows:

	2016/17 Outturn £'000	2017/18 Outturn £'000
Investments		
Longer than 1 year	0	0
Under 1 year	68,000	58,650
Property	5,000	15,000
Total	**73,000**	**73,650**

2.3.5 Key features of the debt and investment position are:

a) Over the course of the year 2017/18, investments have increased slightly by £0.650m.

b) The average rate of return on investments with Financial Institutions decreased from 0.60% in 2016/17 to 0.43% in 2017/18. This decrease relates to the Bank of England base rate remaining at 0.25% until November 2017, with rates taking towards the end of the year to pick up.

c) A further investment of £10m was made with the property fund in this financial year, increasing the holding to £15m. This is a longer term investment with at least a 5 year time horizon for the investment that allows the Council to maximise investment income whilst cash reserves allow. During 2017/18 this provided a return of 4.55%, and generated £383k of income.

2.4 The Strategy for 2017/18

2.4.1 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 March 2020. 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.

2.4.2 The treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

2.4.3 During 2017/18 longer term Public Works Loan Board (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.

2.5 The Economy and Interest Rates

2.5.1 The outcome of the European Union (EU) referendum in June 2016 resulted in a gloomy outlook and economic forecasts from the Bank of England based around an expectation of a major slowdown in UK Gross Domestic Product (GDP) growth, particularly during the second half of 2016, which was expected to push back the first increase in Bank Rate for at least three years.

2.5.2 Consequently, the Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of cheap financing to the banking sector up to February 2018. Both measures were intended to stimulate growth in the economy. This gloom was overdone as the UK economy turned in a G7 leading growth rate of 1.8% in 2016, (actually joint equal with Germany), and followed it up with another 1.8% in 2017, (although this was a comparatively weak result compared to the US and EZ).

2.5.3 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; quarter 1 came in at +0.3% (+1.7% year on year (y/y)) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012.

2.5.4 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 in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

2.5.5 Consequently, market expectations during the autumn rose significantly that the monetary policy committee (MPC) would be heading in the direction of imminently raising Bank Rate. The MPC meeting of 14 September provided a shock to the markets with a sharp increase in tone in the minutes where the MPC considerably hardened its wording in terms of needing to raise Bank Rate very soon.

2.5.6 The 2 November 2017 MPC quarterly Inflation Report meeting duly delivered on this warning by withdrawing the 0.25% emergency rate cut which had been implemented in August 2016. Market debate then moved on as to whether this would be a one and only move for maybe a year or more by the MPC, or the first of a series of increases in Bank Rate over the next 2-3 years.

2.5.7 The MPC minutes from that meeting were viewed as being dovish, i.e. there was now little pressure to raise rates by much over that time period. In particular, the GDP growth forecasts were pessimistically weak while there was little evidence of building pressure on wage increases despite remarkably low unemployment.

2.5.8 The MPC forecast that CPI would peak at about 3.1% and chose to look through that breaching of its 2% target as this was a one off result of the devaluation of sterling caused by the result of the EU referendum. The inflation forecast showed that the MPC expected inflation to come down to near the 2% target over the two to three year time horizon. So this all seemed to add up to cooling expectations of much further action to raise Bank Rate over the next two years.

2.5.9 However, GDP growth in the second half of 2017 was stronger than expected, while in the New Year there was evidence that wage increases had started to rise. The 8 February 2018 MPC meeting minutes therefore revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years).

2.5.10 This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate. This shift in market expectations resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

2.5.11 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 basis points (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 Federal Reserve (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.

2.5.12 As for equity markets, the FTSE 100 hit a new peak near to 7,800 in early January 2018 before there was a sharp sell off in a number of stages during the spring, replicating similar developments in US equity markets.

2.5.13 The major UK landmark event of the year was the inconclusive result of the general election on 8 June 2017. However, this had relatively little impact on financial markets. However, sterling did suffer a sharp devaluation against most other currencies, although it has recovered about half of that fall since then. Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant hold up to making progress.

2.5.14 The manufacturing sector has been the bright spot in the economy, seeing stronger growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector has a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

2.5.15 **EU**. Economic growth in the EU, (the UK's biggest trading partner), was lack lustre for several years after the financial crisis despite the European Central Bank (ECB) eventually cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing to stimulate growth. However, growth eventually picked up in 2016 and subsequently gathered further momentum to produce an overall GDP figure for 2017 of 2.3%. Nevertheless, despite providing this massive monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in March 2018, inflation was still only 1.4%. It is, therefore, unlikely to start an upswing in rates until possibly towards the end of 2019.

2.5.16 **USA**. Growth in the American economy was volatile in 2015 and 2016. This volatility remained in 2017 with quarter 1 at 1.2%, quarter 2 at 3.1%, quarter 3 at 3.2% and quarter 4 at 2.9%. The annual rate of GDP growth for 2017 was 2.3%, up from 1.6% in 2016. Unemployment in the US also fell to the lowest level for 17 years, reaching 4.1% in October to February, while wage inflation pressures, and inflationary pressures in general, have been building.

2.5.17 The Federal Reserve has been the first major western central bank to start on an upswing in rates with six increases since the first one in December 2015 to lift the central rate to 1.50 – 1.75% in March 2018. There could be a further two or three increases in 2018 as the Fed faces a challenging situation with GDP growth trending upwards at a time when the recent Trump fiscal stimulus is likely to increase growth further, consequently increasing inflationary pressures in an economy which is already operating at near full capacity. In October 2017, the Fed also became the first major western central bank to make a start on unwinding quantitative easing by phasing in a gradual reduction in reinvesting maturing debt.

2.5.18 **China.** Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

2.5.19 **Japan.** GDP growth has been improving to reach an annual figure of 2.1% in quarter 4 of 2017. However, it is still struggling to get inflation up to its target rate of 2% despite huge monetary and fiscal stimulus, although inflation has risen in 2018 to reach 1.5% in February. It is also making little progress on fundamental reform of the economy.

2.6 Borrowing Rates in 2017/18

PWLB certainty maturity borrowing rates

2.6.1 As depicted in the graph and tables below and in Appendix 3, 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.

2.6.2 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.

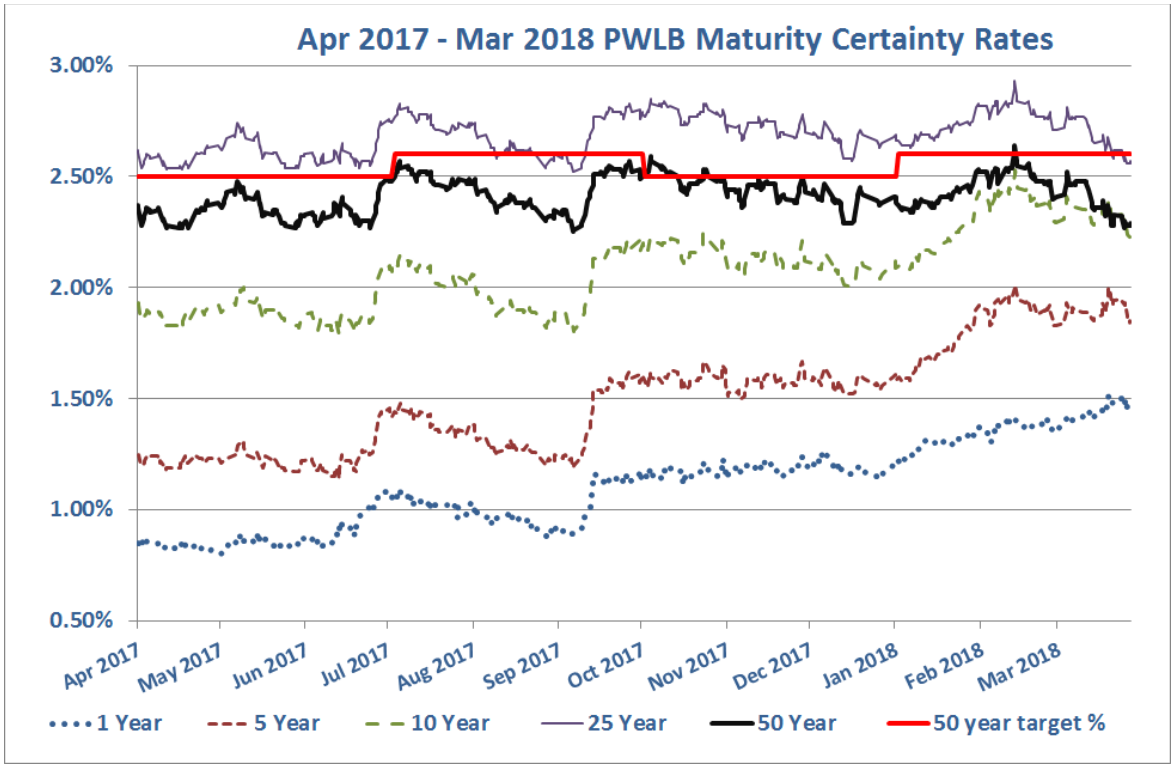
2.6.3 The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.

- 5 year PWLB rate - started the year at 1.25%, falling to a low for the year at 1.14% in June 2017, peaking at 2.01% in February 2018 and finishing the year at 1.85%.

- 10 year PWLB rate - started the year at 1.93%, falling to a low for the year at 1.78% in June 2017, peaking at 2.53% in February 2018 and finishing the year at 2.23%.

- 25 year PWLB rate - started the year at 2.62%, falling to a low for the year at 2.52% in September 2017, peaking at 2.93% in February 2018 and finishing the year at 2.57%.

- 50 year PWLB rate. - started the year at 2.37%, falling to a low for the year at 2.25% in September 2017, peaking at 2.64% in February 2018 and finishing the year at 2.29%.



2.7 Borrowing Outturn for 2017/18

Treasury Borrowing

2.7.1 The Council did not undertake any borrowing in 2017/18, due to investment concerns with both counterparty risk and low investment returns.

Repayment of Debt

2.7.2 In July 2017 £16k was repaid in relation to Charitable Investments that the Council held.

2.8 Compliance with Treasury Limits.

2.8.1 During the financial year the Council operated within the prudential indicators as set in the annual treasury management strategy. The outturn for all the prudential indicators and treasury management indicators is shown in Appendix 1.

2.9 Investment Rates in 2017/18

2.9.1 Investment rates for 3 months and longer were 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.

2.9.2 Bank Rate was duly raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years.

2.9.3 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 February 2018. Deposit rate movements are summarised below;

- 7 Day rate: this started the year at 0.111% and ended the year at 0.364%
- 1 month rate: this started the year at 0.132% and ended the year higher at 0.386%
- 3 month rate: this started the year at 0.212%, ending on a high of 0.587%. The average for the year was 0.286%
- 6 month rate: rates opened the year at 0.366% and ended on a high 0.704%. The average for the year was 0.401%
- 12 month rate: this started the year at 0.593%, reaching a high point of 0.878% by the end of the year, with an average in year of 0.606%.

2.10 Investment Outturn

Investment Policy

2.10.1 The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy which for 2017/18 was approved by Council on 1 March 2017. At the Council meeting on 13 September 2017, a revision to the non-specified investment category within the 2017/18 Treasury Management Strategy was approved. The amendment covered fixed term deposits and property fund. 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.).

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

Resources

2.10.3 The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2017 (£'000)	31 March 2018 (£'000)
Balances General Fund	14,744	13,991
Balances HRA	18,366	20,162
Earmarked reserves	94,838	92,005
Provisions	29,008	33,130
Usable capital receipts	4,164	8,747
Total	**161,120**	**168,035**

Investments at 31/3/18

2.10.4 The Council managed all of its investments in house with the institutions listed in the Council's approved lending list. At the end of the financial year the Council had £73.650m of investments as follows:

Institution	Type	Amount £'000	Term/ Days	Rate%	Start date	End date
CCLA Property	Property	15,000		4.77%		
		15,000				
Suffolk County Council	Fixed	2,000	38	0.55%	06-Mar-18	13-Apr-18
Glasgow City Council	Fixed	5,000	31	0.95%	20-Mar-18	20-Apr-18
Goldman Sachs Bank	Fixed	5,000	90	0.51%	26-Jan-18	26-Apr-18
Suffolk County Council	Fixed	5,000	45	0.80%	27-Mar-18	11-May-18
Surrey Heath Borough Council	Fixed	3,000	181	0.52%	24-Nov-17	24-May-18
GMCA	Fixed	5,000	92	0.57%	29-Mar-18	29-Jun-18
Eastleigh Borough Council	Fixed	5,000	182	0.55%	22-Jan-18	23-Jul-18
Total Fixed Deposits		**30,000**				
Bank of Scotland	Notice	10,000	32	0.57%	01-Mar-18	01-Apr-18
Bank of Scotland	Notice	2,500	95	0.70%	01-Mar-18	01-Apr-18
Santander	Notice	2,500	180	0.70%	05-Jan-18	05-Jul-18
Total Notice Accounts		**15,000**				
Federated MMF	MMF	6,950	3	0.43%	29-Mar-18	01-Apr-18
Standard Life MMF	MMF	6,700	5	0.43%	27-Mar-18	01-Apr-18
Total Money Market Funds (MMF)		**13,650**				
Total Investments		**73,650**				

** Money Market Funds (MMF)

2.10.5 The Council's investment strategy was to maintain sufficient cash reserves to give it necessary liquidity, whilst trying to attain a benchmark average rate of return of London Interbank Bid Rate (LIBID) on the relevant time deposit multiplied by 5%, whilst ensuring funds were invested in institutions which were the most secure. The table below shows the returns by the relevant time period

	LIBID + 5%	Actual Return %
7 Day	0.225%	0.294%
1 Month	0.245%	0.452%
3 Month	0.300%	0.489%
6 Month	0.421%	0.513%
12 Month	0.636%	0.860%

2.10.6 The Council's overall average performance on its cash investments exceeded its LIBID benchmark in all periods.

2.10.7 The investments held with the CCLA property fund generated £383k of income with an average return in year of 4.55%. Furthermore the Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during 2017/18.

Other Key Issues

2.10.8 It is important to be able to maximise investment income to support the overall financial position of the Council. Within the existing strategy, the Council has the ability and authorisation to invest in asset backed bonds that may be unrated but provide a higher rate of return. At present no investments of this nature have been entered into but as at July 2018 officers are currently looking at bonds available in the market. Members should be assured that any investments will only be undertaken after an appropriate due diligence exercise and having regard to the Treasury Management principles of security, liquidity, yield and ethical investments.

Revised Codes

2.10.9 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.

2.10.10 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.

Markets in Financial Instruments Directive II (MIFID II)

2.10.11 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 meant that Councils would either be classed as having “retail status” and would not have access to investments or they could opt up to the more advantageous “professional status” providing certain criteria was met, which would enable access to investments to continue. The Council successfully opted up to professional status and therefore has continued access to a full range of investment opportunities.

3 Options/Alternatives

3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management the Council has no option other than to consider and approve the contents of the report. Therefore no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the contents of the report are reviewed and recommended to Cabinet for approval.

5 Consultation

5.1 There has been consultation with Link Asset Services, Treasury Management Advisors.

5.2 The presentation of the Treasury Management Review 2017/18 to the Audit Committee for detailed scrutiny is in compliance with the requirements of the CIPFA Code of Practice.

6 Financial Implications

6.1 All included in the report.

7 Legal Services Comments

7.1 None

8 Cooperative Agenda

8.1 The treasury management strategy embraces the Council's cooperative agenda. The Council will develop its investment framework to ensure it complements the cooperative ethos of the Council.

9 Human Resources Comments

9.1 None

10 Risk Assessments

10.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in Internal Audit reports and in the External Auditors' reports presented to the Audit Committee.

11 IT Implications

11.1 None

12 Property Implications

12.1 None

13 Procurement Implications

13.1 None

14 Environmental and Health & Safety Implications

14.1 None

15 **Equality, community cohesion and crime implications**

15.1 None

16 **Equality Impact Assessment Completed?**

16.1 No

17 **Key Decision**

17.1 N/A

18 **Key Decision Reference**

18.1 N/A

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are provided in Appendices 1, 2 and 3
Officer Name:	Lee Walsh
Contact No:	0161 770 6608

20 **Appendices**

Appendix 1 Prudential and Treasury Management Indicators
Appendix 2 Graphs
Appendix 3 Borrowing and Investment rates

Appendix 1: Prudential and Treasury Indicators

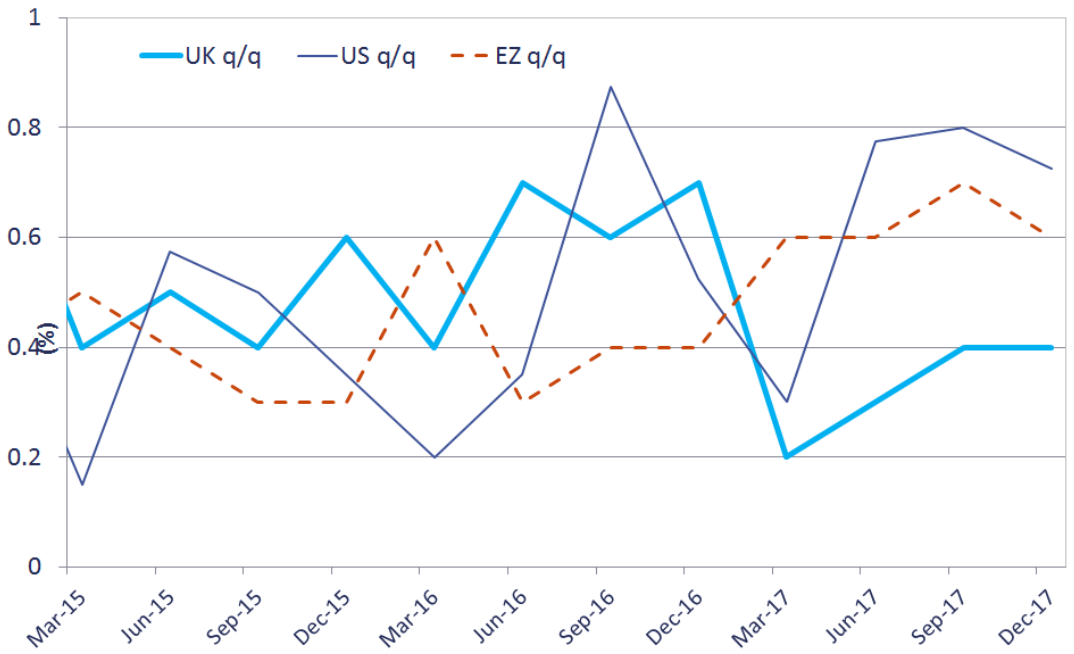
TABLE 1: Prudential indicators	2016/17	2017/18	2017/18	2017/18
	Outturn	Original	Revised	Outturn
	£'000	£'000	£'000	£'000
Capital Expenditure				
Non – HRA	41,625	66,935	34,838	25,014
HRA	1,248	2,848	1,044	789
TOTAL	42,873	69,783	35,882	25,803
Ratio of financing costs to net revenue stream				
Non – HRA	15.43%	16.99%	16.99%	11.52%
In year Capital Financing Requirement				
Non – HRA	(21,442)	13,798	(854)	(16,741)
TOTAL	(21,442)	13,798	(854)	(16,741)
Capital Financing Requirement as at 31 March	521,790	554,403	520,936	505,049
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p
Increase/(Decrease) in Council Tax (band D) per annum	£10.00	£31.47	£31.47	(£30.35)

TABLE 2: Treasury management indicators	2016/17	2017/18	2017/18	2017/18
	Outturn	Original Budget	Revised	Outturn
	£'000	£'000	£'000	£'000
Authorised Limit for external debt -				
Borrowing	325,000	330,000	285,000	285,000
Other long term liabilities	275,000	250,000	260,000	260,000
TOTAL	**600,000**	**585,000**	**545,000**	**545,000**
Operational Boundary for external debt -				
Borrowing	305,000	310,000	275,000	275,000
Other long term liabilities	265,000	250,000	255,000	255,000
TOTAL	**570,000**	**560,000**	**530,000**	**530,000**
Actual external debt	411,813			403,966
Upper limit for fixed interest rate exposure				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Actual	100%			100%
Upper limit for variable rate exposure				
Net principal re variable rate borrowing / investments	30%	40%	40%	40%
Actual	0%			0%
Upper limit for total principal sums invested for over 364 days	20,000	50,000	50,000	50,000

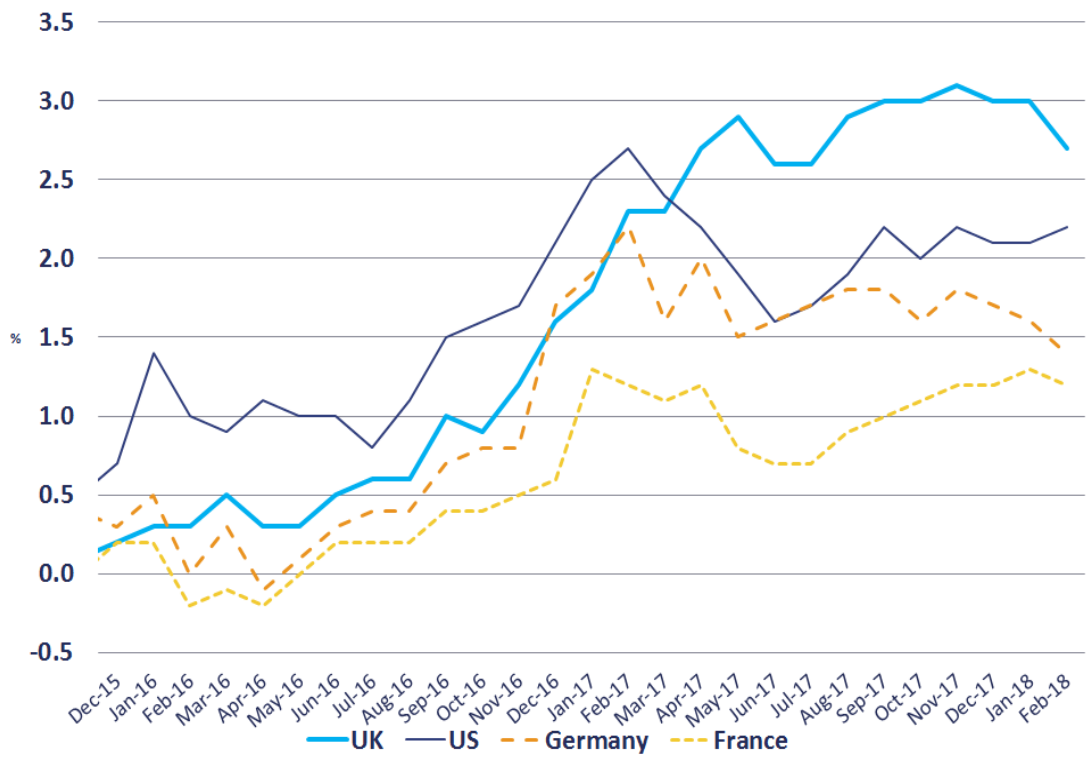
Maturity structure of fixed rate borrowing during 2017/18	Upper Limit	Lower Limit	Actual
Under 12 months	40%	0%	38%
12 months and within 24 months	20%	0%	3%
24 months and within 5 years	30%	0%	22%
5 years and within 10 years	20%	0%	5%
10 years and above	100%	40%	32%

Appendix 2: Graphs

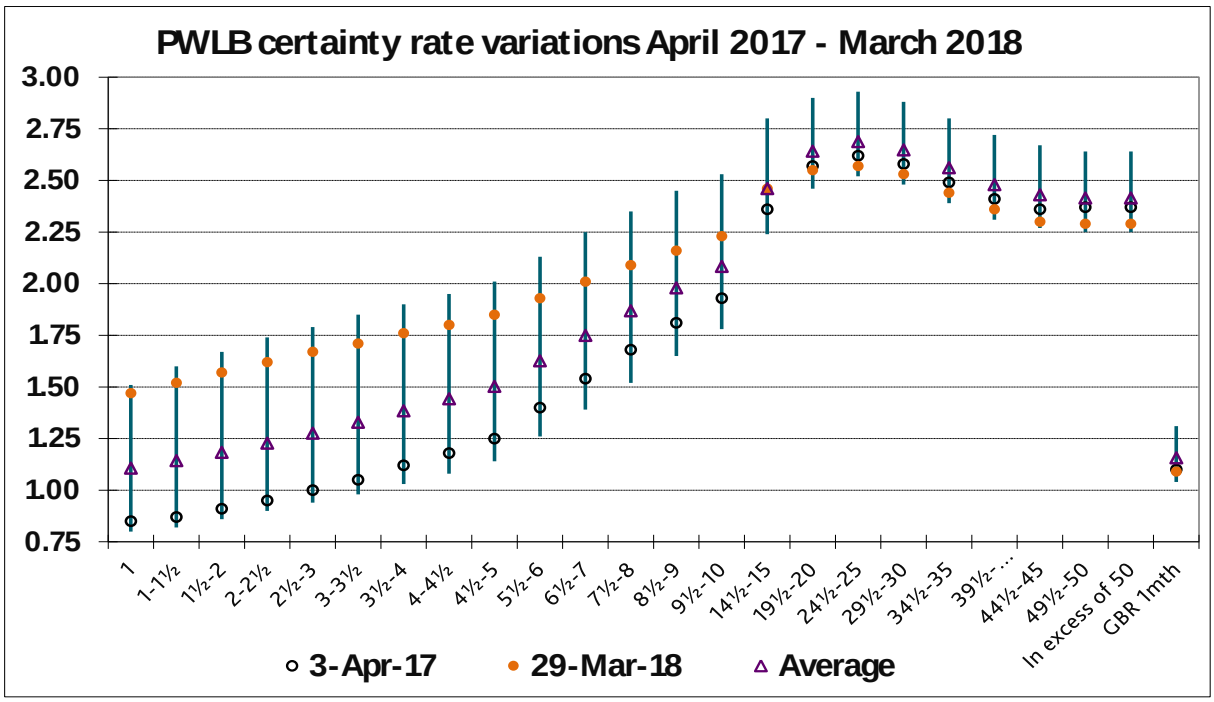
UK, US and EZ GDP growth



Inflation UK, US, Germany and France



Appendix 3: Borrowing and investment rates



	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
3/4/17	0.850%	0.870%	1.000%	1.120%	1.250%	1.930%	2.620%	2.370%	1.100%
29/3/18	1.470%	1.520%	1.670%	1.760%	1.850%	2.230%	2.570%	2.290%	1.090%
High	1.510%	1.600%	1.790%	1.900%	2.010%	2.530%	2.930%	2.640%	1.310%
Low	0.800%	0.820%	0.940%	1.030%	1.140%	1.780%	2.520%	2.250%	1.040%
Average	1.107%	1.143%	1.276%	1.384%	1.503%	2.083%	2.688%	2.415%	1.157%
Spread	0.710%	0.780%	0.850%	0.870%	0.870%	0.750%	0.410%	0.390%	0.270%
High date	21/03/2018	21/03/2018	21/03/2018	21/03/2018	15/02/2018	15/02/2018	15/02/2018	15/02/2018	21/03/2018
Low date	03/05/2017	03/05/2017	30/05/2017	15/06/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017	04/04/2017

	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	1.47%	1.85%	2.23%	2.57%	2.29%
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%

Money Market Investment % rates 2017/18

	7 day	1 month	3 month	6 month	1 year
1/4/17	0.111	0.132	0.212	0.366	0.593
31/3/18	0.364	0.386	0.587	0.704	0.878
High	0.366	0.390	0.587	0.704	0.879
Low	0.099	0.122	0.140	0.273	0.461
Average	0.215	0.233	0.286	0.401	0.606
Spread	0.267	0.268	0.447	0.432	0.418
High date	27/2/18	22/3/18	29/3/18	29/3/18	28/3/18
Low date	4/7/17	10/8/17	7/8/17	7/9/17	6/9/17