

Report Title:	Treasury Management Strategy Outturn 2018/19
Contains Confidential or Exempt Information?	No – Part I
Member reporting:	Councillor Hilton, Lead Member for Finance and Ascot
Meeting and Date:	Full Council - 24 September 2019
Responsible Officer(s):	Duncan Sharkey, Managing Director & Rob Stubbs, Deputy Director and Head of Finance (s151 Officer)
Wards affected:	All

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REPORT SUMMARY

1. This report sets out the Annual Treasury Management Outturn for 2018/19 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Council by the 30 September each year.
2. Treasury management comprises:
 - managing the Council's borrowing to ensure funding of the Council's future capital programme is at optimal cost;
 - investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.
3. The report complies with CIPFA's Code of Practice on Treasury Management, and covers the following:

Review of the Council's investment portfolio for 2018/19 to include the treasury position as at 31 March 2019.

 - Review of the Council's borrowing strategy for 2018/19.
 - Review of compliance with Treasury and Prudential Limits for year to 2018/19.
 - An economic update in relation to Treasury Management.
4. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS).

1. DETAILS OF RECOMMENDATION

RECOMMENDATION: That Council notes the annual treasury management strategy report and final outturn for 2018/19.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 Investments

- 2.1.1 The Council's policy objective is the prudent investment of balances to achieve optimum returns on investments, subject to maintaining adequate security of

capital and a level of liquidity appropriate to the Council's projected need for funds over time.

2.1.2 The table below provides a breakdown of investments, together with comparisons for the previous financial year end.

	Opening Balances	Deposits and subscriptions	Maturities and redemptions	Closing Balances
	31/03/2018			31/03/2019
	£'000	£'000	£'000	£'000
INVESTMENTS				
Fixed Term Deposits				
RBWM Trading Companies	1,764	-	(100)	1,664
Revolving Credit Facility				
Achieving For Children	4,810	5,850	(4,576)	6,084
Cash equivalents				
Money Market Funds	2,900	61,000	(49,600)	14,300
Cash deposit accounts	4,900	284,640	(289,540)	-
TOTAL INVESTMENTS	14,374	351,490	(343,816)	22,048

2.1.3 Liquid balances are managed through Money Market Funds providing same day liquidity.

2.1.4 The Bank of England reduced the Base Rate in August 2016. However, since the latter half of 2017, rates have steadily improved. This is due to the November 2017 and August 2018 Bank of England base rate increases.

2.1.5 Average investment balances during 2018/19 were £19.7m and generated investment income of £210,000. This equates to an average interest rate of 1.06% compared to the average benchmark (Bank of England base rate plus 25 basis points) during 2018/19 of 0.92%.

2.1.6 The Council also prepaid its LGPS pension contributions to The Royal County of Berkshire Pension Fund. The return on the prepayment of Pension Fund contributions for 2018/19 was £226,800. This amount is not included in the investment return reported above but it contributes towards budget targets, which were achieved in 2018/19.

2.1.7 The Following tables show the interest earned on investments and the interest paid on borrowing in the financial year to 31st March 2019 compared to the financial year to 31st March 2018:

	Interest earnt	Interest earnt
	2017/18	2018/19
INTEREST EARNT	£'000	£'000
Fixed Term Deposits		
RBWM Trading Companies	74	71
Revolving Credit Facility		
Achieving For Children	20	54
Cash equivalents		
Money Market Funds	47	50
Cash deposit accounts	20	34
TOTAL INTEREST EARNT	160	210

2.2 Borrowing

2.2.1 At £102m, Council borrowing was well within the Prudential Indicator for external borrowing, namely, that borrowing should not exceed £172m in 2018/19.

2.2.2 Actual borrowing is set out in the table below:

	Opening Balances	New Borrowing	Maturities	Closing Balances
	31/03/2018			31/03/2019
	£000	£000	£000	£000
Long Term Borrowing				
PWLB	44,049	-	-	44,049
LOBO	13,000	-	-	13,000
Short Term Borrowing				
Local authorities	20,000	63,000	(38,000)	45,000
Total Borrowing	77,049	63,000	(38,000)	102,049

2.3 Interest Paid on Borrowing

2.3.1 The table below compares borrowing paid on borrowing in 2018/19 compared to 2017/18.

	Interest paid	Interest paid
	2017/18	2018/19
	£'000	£'000
PWLB	2,187	2,198
LOBO	545	545
Short Term Borrowing		
Local authorities	2	69
TOTAL INTEREST PAID	2,734	2,812

2.4 Compliance with Treasury Limits and Prudential Indicators

2.4.1 During the financial year to 31 March 2019, the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council as part of the budget report of 20th February 2018 and is set out below.

Indicator	Limit	Actual
Authorised limit for external debt 2018/19	£172m	£102m
Operational boundary for external debt 2018/19	£152m	£102m
Ratio of financing costs to net revenue stream - loan financed 2018/19	6.1%	5.8%

2.4.2 Borrowing was well within both the Authorised Borrowing Limit and the Operational Boundary.

2.4.3 The Authorised Limit is a level for which the external borrowing cannot be exceeded without reporting back to Full Council. It therefore provides sufficient headroom such that in the event that the planned capital programme required new borrowing to be raised over the medium term, if interest rates were deemed favourable and a thorough risk analysis determined, the cost of carry was appropriate, this borrowing could be raised ahead of when the spend took place.

2.4.4 The Operational Boundary is set at a lower level and should take account of the most likely level of external borrowing. Operationally, in accordance with CIPFA best practice for Treasury Risk Management, a liability

2.4.5 The average rate on the fixed interest borrowing is 4.79% with an average redemption period of 21 years. This reflects the historical legacy of borrowing taken out some years ago by Berkshire County Council which is now higher than PWLB interest rates for comparable loans if they were taken out now. Officers have considered loan refinancing but premiums for premature redemption are prohibitively high making this option poor value for money.

2.4.6 The Council's borrowing portfolio contains £13m of Lender Option Borrower Option loans (LOBOs). These are long-term loans of up to 47 years. The lender option to increase interest rates has been removed and, as such, the rates are comparable with loans for similar durations provided by the PWLB.

2.5 The Economy and Interest Rates

2.5.1 After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over the UK's departure from the European Union, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y, confirming that the UK was the third fastest growing individual country in the G7 in quarter 4.

2.5.2 After the Bank of England Monetary Policy Committee (MPC) raised the Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit are clear. If a

disorderly exit resulted, it is likely that the Bank Rate would be cut to support growth.

- 2.5.3 Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5% (excluding bonuses) in the three months to December 2018 before falling marginally to 3.4% in the three months to January 2019. UK employers ramped up their hiring at the fastest pace in more than three years in the three months to January 2019 as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9%, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.
- 2.5.4 As for CPI inflation, this has been on a falling trend, reaching 1.8% in January 2019 before rising marginally to 1.9% in February 2019. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three-year time horizons remained marginally above the MPC's target of 2%.
- 2.5.5 The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e., a real terms wage increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.
- 2.5.6 The probability of a General Election in 2019 has increased over recent weeks and this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of weak Sterling and concerns around inflation picking up.

2.6 BACKGROUND

- 2.6.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report.

2.7 Options

Table 1: Options arising from this report

Option	Comments
N/A	The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy.

3. KEY IMPLICATIONS

Table 2: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
N/A					

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 The financial implications are contained in the body of this report.

5. LEGAL IMPLICATIONS

5.1 The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

6. POTENTIAL IMPACTS

6.1 Equalities. No impact

6.2 Climate change/sustainability. Not applicable.

6.3 Data Protection/GDPR. Not applicable.

7. TIMETABLE FOR IMPLEMENTATION

7.1 Implementation date: Immediately.

8. BACKGROUND DOCUMENTS

8.1 This report is supported by the following document:
Treasury Management – Annual Strategy for 2018/19, including Prudential indicators and statutory borrowing determinations

9. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Hilton	Lead Member for Finance and Ascot	16/9/19	16/9/19
Cllr Coppinger	Acting Leader of the Council	16/9/19	
Duncan Sharkey	Managing Director	16/9/19	
Russell O'Keefe	Executive Director	16/9/19	
Andy Jeffs	Executive Director	16/9/19	

Name of consultee	Post held	Date sent	Date returned
Nikki Craig	Head of HR and Corporate Projects	16/9/19	
Elaine Browne	Interim Head of Law and Governance	16/9/19	
Louisa Dean	Communications	16/9/19	
Kevin McDaniel	Director of Children's Services	16/9/19	
Hilary Hall	Deputy Director of Commissioning and Strategy	16/9/19	
	Other e.g. external		
Peter Robinson	CIPFA Associate	16/9/19	

REPORT HISTORY

Decision type: For information	Urgency item? No	To Follow item? No
Report Author: Rob Stubbs, Deputy Director and Head of Finance, 01628 796222		