

Item

**ANNUAL TREASURY MANAGEMENT (OUTTURN) REPORT
2017/18**



To:

The Executive Councillor for Finance & Resources:

Councillor Richard Robertson Strategy & Resources Scrutiny Committee
02/07/2018

Report by:

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Wards affected:

All Wards

Key Decision

1. Executive Summary

- 1.1 The Council is required by regulations issued under the Local Government Act 2003, to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for each financial year.
- 1.2 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) in respect of 2017/18. Both of these publications have been revised by CIPFA and references to these documents are specifically to the 2017 Editions.
- 1.3 During 2017/18 the minimum requirements were that Council should receive:-

- An annual strategy in advance of the year;
- A mid-year treasury update report; and;
- An annual review following the end of the year describing the activity compared to the strategy (this report)

1.4 In line with the above Code of Practice, all treasury management reports have been presented to both Strategy & Resources Scrutiny Committee and to full Council.

2. The Executive Councillor is asked to:

2.1 Recommend this report to Council, which includes the Council's actual Prudential and Treasury Indicators for 2017/18.

3. Background

3.1 This report summarises:

- Capital expenditure and financing activity during the year;
- The impact of capital spending on the Council's 'need to borrow';
- The Council's compliance with prudential & treasury indicators;
- Treasury Management Position as at 31st March 2018 (Appendix A);
- The Council's Treasury Management advisors (Link Asset Services Ltd) view on UK Interest & Investment rates (Appendix B);
- The actual prudential and treasury indicators (Appendix C);
- Counterparty List (Appendix D); and;
- A Glossary of Terms and Abbreviations (Appendix E)

3.2 The Council's Capital Expenditure and Financing 2017/18

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves etc.), which has no resultant impact on the Council's borrowing need; or;
- If insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2016/17 £'000 Actual	2017/18 £'000 Current Budget *	2017/18 £'000 Actual
General Fund capital expenditure	19,965	40,698	29,337
HRA capital expenditure	22,618	23,226	18,154
Total capital expenditure	42,583	63,924	47,491
Resourced by:			
• Capital receipts	-12,353	-4,130	-7,651
• Other contributions	-25,510	-40,714	-21,501
Total available resources for financing capital expenditure	-37,863	-44,844	-29,152
Un-financed capital expenditure	4,720	19,080	18,339

* Per Budget Setting Report (BSR) agreed by Council on 22nd February 2018

3.3 The Council's overall borrowing need

During 2017/18, there was no requirement for external borrowing. Un-financed capital expenditure of £18,339k shown in the above table was met from internal cash borrowing. This movement is comprised of £17,573k Commercial Property Investments, £620k expenditure on the construction of Clay Farm community centre and £146k capital expenditure on Clay Farm Land .

3.4 Current Debt as at 31st March 2018

The table below shows the Council's current outstanding debt and headroom (the amount of additional borrowing that is possible without breaching the Authorised Borrowing Limit):-

	Principal (£'000)
Authorised Borrowing Limit (A) – Agreed by Council on 20 th October 2011	250,000
HRA Debt Limit (B)	230,839
PWLB Borrowing (for HRA Self-Financing, C)	213,572
General Fund Headroom (A minus B)	19,161
HRA Headroom (B minus C)	17,267
2012/13, 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 External Borrowing	NIL
Total Current Headroom (A minus C)	36,428

At present the only debt held by the authority relates to the twenty loans from the PWLB for self-financing the HRA.

3.5 Treasury Position as at 31 March 2018

The Council's debt and deposit position is managed in order to ensure adequate liquidity for revenue and capital activities, security for deposits and to manage risk in relation to all treasury management activities. Procedures and controls to achieve these objectives are well established both through the application of approved Treasury Management Practices and regular reporting to Members.

All funds are internally managed.

The tables below provide a comparison of deposit activity and outturn for 2017/18 against 2016/17.

<u>Actual Returns</u>	2016/2017		2017/2018	
	Average Deposits (£m)	Average Rate of Return	Average Deposits (£m)	Average Rate of Return
Fixed Short-Term (<365 days)	50.18	0.64%	52.15	0.48%
Call/Overnight Accounts	8.74	0.57%	4.72	0.33%
Enhanced Cash Funds	7.47	0.73%	10.00	0.56%
Fixed Long-Term (>365 days)	24.67	0.93%	27.33	0.84%
Money Market Funds	15.56	0.39%	11.64	0.28%
CCLA Local Authorities' Property Fund	11.68	4.84%	15.00	4.60%
<u>Overall Deposit Return</u>	118.30	1.09%	120.84	1.06%
<u>Benchmark Returns</u>	2016/2017		2017/2018	
	Offer (LIBOR)	Bid (LIBID)	Offer (LIBOR)	Bid (LIBID)
Average	0.47%	0.35%	0.45%	0.32%

Notes:

The 'Benchmark Return' figures are based upon Global Rates (national interest rate reporting web-site) average money market LIBOR and LIBID rates for periods between 1 night and 1 year as at 31st March 2018.

- 3.6 Total interest and dividends of £1,284,806 have been earned on the Council's deposits during 2017/18 at an average rate of 1.06%. This exceeded the budget of £1,244,000. The rate of return compares favourably with the average benchmark rates.
- 3.7 The interest earned for CCLA Local Authorities' Property Fund for 2017/18 amounted to £702,000 (included in paragraph 3.4) which equated to an annual yield of 4.60%.

3.8 A summary of deposits is shown at Appendix A.

4. Interest Rate Update

- 4.1 Link Asset Services is the Council's independent treasury advisor. In support of effective forecasting the Council needs to be aware of the potential influence of market interest and investment rates. Link's opinion is presented at Appendix B, and provides an overview as at 31st March 2018.
- 4.2 The Bank of England's May 2018 Inflation Report gives additional information on growth, inflation and interest rates. The Bank of England's Monetary Policy Committee (MPC) noted that the future outlook for growth remains reasonably solid. No changes to interest rates (0.50%, with 7 to 2 majority) or quantitative easing (£435bn) were made. Noticeable increases in employment were observed.
- 4.3 Growth did moderate, though, to around 1% during Qtr. 1 of 2018. The MPC sets monetary policy to meet the 2% inflation target, which helps to sustain growth and employment. However, CPI Inflation has risen above this target as the depreciation of sterling has begun to feed through to consumer prices.

5. Prudential and Treasury Indicators

- 5.1 During the financial year the Council operated within the 'authorised' and 'operational' borrowing limits contained within the Prudential Indicators set out in the Council's Treasury Management Strategy Statement. The outturn for Prudential and Treasury Indicators is shown in Appendix C.

6. Revisions to the Counterparty List

- 6.1 Following a review of rating agency methodology changes, Link continues to revise its recommendations on counterparties and appropriate durations. The Council follows Link's recommendations as reflected in the Current Counterparty List at Appendix D.

7. Markets in Financial Instruments Directive II (MiFID II)

- 7.1 This is to update Members since the last report (BSR on 22/02/2018), that registrations have now been completed, including Officers that deal with all our Financial Institutions (FIs).

7.2 Consequently, the Council has been successfully upgraded to Professional status, meaning our skills base is comprehensive enough to undertake investments in line with our current Investment Strategy.

8. Implications

(a) Financial Implications

Interest payable and receivable are reflected in the Council's existing budgets and reviewed appropriately.

(b) Staffing Implications

None.

(c) Equality and Poverty Implications

No negative impacts identified.

(d) Environmental Implications

None.

(e) Procurement Implications

None.

(f) Community Safety Implications

No community safety Implications.

9. Consultation and communication considerations

None required.

10. Background papers

No background papers were used in the preparation of this report.

11. Appendices

- 11.1 Appendix A – The Council's deposits as at 31st March 2018
- Appendix B – Link's opinion on UK interest rates
- Appendix C – Prudential Indicators – Outturn for 2017/18
- Appendix D – Current Counterparty List

Appendix E – Glossary of Terms and Abbreviations

12. Inspection of papers

12.1 To inspect the background papers or if you have a query on the report please contact:

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TREASURY MANAGEMENT POSITION AS AT 31st March 2018

CURRENT DEPOSITS

The Council's deposits as at 31st March 2018 are shown in the table below:-

Counterparty	% Rate	Duration	Principal (£'000)
Fixed Term Deposits			
Blackpool Borough Council	0.75	6 months	5,000
Bank of Scotland Plc	0.60	6 months	2,000
Bank of Scotland Plc	0.60	6 months	2,000
Bank of Scotland Plc	0.60	6 months	3,000
Bank of Scotland Plc	0.36	6 months	3,000
Bank of Scotland Plc	0.65	6 months	3,000
Cambridgeshire County Council	1.30	2 years	5,000
Doncaster MBC	0.90	2 years	5,000
Liverpool City Council	0.70	2 years	5,000
Lloyds Bank Plc	0.36	6 months	2,500
Lloyds Bank Plc	0.60	6 months	7,500
Lloyds Bank Plc	0.65	6 months	5,000
Lloyds Bank Plc	0.60	6 months	5,000
Nationwide BS	0.48	6 months	2,000
North Lanarkshire Council	0.55	6 months	5,000
Rugby Borough Council	0.60	2 years	5,000
Salford City Council	0.42	3 months	3,000
West Dunbartonshire Council	0.90	6 months	5,000
Total Fixed Term Deposits			73,000
Variable Rate Notice Accounts			
Barclays Bank Plc	0.40	Same Day Notice	7,429
CCLA Local Authorities' Property Fund	4.53	5 years	15,000
SLI Sterling Liquidity Fund (Class 2)	0.46242	Same Day Notice	500
BNP Paribas Insticash Sterling (Institutional)	0.45596	Same Day Notice	1,000
Payden Sterling Reserve Fund	0.64272	4 Day	5,000
Royal London Cash Plus Fund Y (Gross Inc)	0.41697	3 Day	5,000
Total Variable Rate Notice Accounts			33,929
TOTAL	-	-	106,929

The above deposits include any forward-deals or forward-renewals that have been agreed (i.e. where the deposit/renewal will take place at a future date).

LINK'S OPINION ON UK INTEREST & INVESTMENT RATES AS AT 31ST MARCH 2018

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 which meant that growth was the slowest for the first half of any year since 2012. 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 modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.

Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in **investment rates** from 3 – 12 months increasing sharply during the spring quarter.

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 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 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.

The major UK landmark event of the year was the inconclusive result of the **general election** on 8 June. However, this had relatively little impact on financial markets.

Link's Prediction for Interest Rates

The following table shows when Link predict interest rates will rise, together with an estimate of other interest rates. Link estimate that the Bank Rate will rise from 0.50% to 0.75% in November 2018.

	NOW	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
BANK RATE	0.50%	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 month LIBID	0.60%	0.70%	0.90%	0.90%	0.90%	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.60%
6 month LIBID	0.70%	0.80%	1.00%	1.00%	1.00%	1.20%	1.20%	1.30%	1.00%	1.60%	1.70%	1.70%
12 month LIBID	0.80%	0.90%	1.10%	1.10%	1.20%	1.30%	1.40%	1.40%	1.60%	1.70%	1.80%	1.80%
5 yr PWLB	1.90%	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%
10 yr PWLB	2.40%	2.40%	2.00%	2.60%	2.60%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%
25 yr PWLB	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%
50 yr PWLB	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10	3.10	3.20%	3.20%

Link's Issue Date:- 11th May 2018

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Actual 2016/17 £'000	Current Budget* 2017/18 £'000	Actual 2017/18 £'000
PRUDENTIAL INDICATORS			
Capital expenditure			
- General Fund	19,965	40,698	29,337
- HRA	22,618	23,226	18,154
Total	42,583	63,924	47,491
Capital Financing Requirement (CFR) as at 31 March			
- General Fund	10,697	29,483	26,273
- HRA	214,321	214,321	214,321
Total	225,018	243,804	240,594
Change in the CFR (Note 2)	4,585	18,786	15,576
Deposits at 31 March (Note 3)	110,635	100,713	106,929
External Gross Debt	213,572	213,572	213,572
Ratio of financing costs to net revenue stream			
-General Fund	-1.82%	-2.25%	-2.41%
-HRA	16.96%	15.41%	14.99%
Total	15.14%	13.16%	12.58%

*Note1: Refers to the Council's Budget Setting Report 2018/19 as agreed by Council on 22nd February 2018.

Note 2: Includes unfinanced capital expenditure of £15,870k & MRP of (-) £294k.

Note 3: As per the Council's Balance Sheet.

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Actual 2016/17 £'000	Current Budget* 2017/18 £'000	Actual 2017/18 £'000
TREASURY INDICATORS			
Authorised limit			
for borrowing	250,000	250,000	250,000
for other long term liabilities	0	0	0
Total	250,000	250,000	250,000
HRA Debt Limit	230,839	230,839	230,839
Operational boundary			
for external borrowing	213,572	213,572	213,572
for other long term liabilities	0	0	0
For internal borrowing	11,446	29,938	27,022
Total	225,018	243,510	240,594
Upper limit for total principal sums deposited for over 364 days & up to 5 years	50,000	50,000	50,000
Upper limit for fixed & variable interest rate exposure			
Net interest on fixed rate borrowing/deposits	7,062	6,910	6,798
Net interest on variable rate borrowing/deposits	-27	-18	-18
Maturity structure of new fixed rate borrowing		Upper Limit	Lower Limit
10 years and above (PWLB borrowing for HRA Reform)		100%	100%

*Note1: Refers to the Council's Budget Setting Report 2017/18 as agreed by Council on 22nd February 2018.

Annual Treasury Management (Outturn) Report 2017/18

Current Counterparty List

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits. These counterparties have also been shown under Specified and Non-Specified Investments (in line with DCLG Guidance).

Name	Council's Current Deposit Period	Category	Limit (£)
Specified Investments:-			
All UK Local Authorities	N/A	Local Authority	20m
All UK Passenger Transport Authorities	N/A	Passenger Transport Authority	20m
All UK Police Authorities	N/A	Police Authority	20m
All UK Fire Authorities	N/A	Fire Authority	20m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Barclays Bank Plc	Using Link's Credit Criteria	UK Bank	25m
HSBC Bank Plc	Using Link's Credit Criteria	UK Bank	20m
Standard Chartered Bank	Using Link's Credit Criteria	UK Bank	20m
Bank of Scotland Plc (BoS)	Using Link's Credit Criteria	UK Bank	20m
Lloyds Bank Plc	Using Link's Credit Criteria	UK Bank	20m
National Westminster Bank Plc (NWB)	Using Link's Credit Criteria	UK Nationalised Bank	20m
Santander UK Plc	Using Link's Credit Criteria	UK Bank	5m
The Royal Bank of Scotland Plc (RBS)	Using Link's Credit Criteria	UK Nationalised Bank	20m

Name	Council's Current Deposit Period	Category	Limit (£)
Other UK Banks	Using Link's Credit Criteria	UK Banks	20m
Members of a Banking Group (BoS Group includes Lloyds, RBS Group includes NWB)	Using Link's Credit Criteria	UK Banks and UK Nationalised Banks	30m
Svenska Handelsbanken	Using Link's Credit Criteria	Non-UK Bank	5m
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/V1)	Over 3 months and up to 1 year	Financial Instrument	10m (per single counterparty)
Money Market Funds	Liquid Rolling Balance	Financial Instrument	15m (per fund)
Custodian of Funds	Requirement for Undertaking Financial Instruments	Fund Managers	Up to 15m (per single counterparty)
UK Government Treasury Bills	Up to 6 months	Financial Instrument	15m
Other Specified Investments - UK Building Societies:-			
Name	Council's Current Deposit Period	Society Asset Value (£'m) – as at 1st May 2018	Limit (£)
Nationwide Building Society	1 month or in line with Link's Credit Criteria, if longer	221,670	Assets greater than £100,000m - £20m
Yorkshire Building Society		42,047	
Coventry Building Society		42,573	Assets between £50,000m and £99,999m - £5m
Skipton Building Society		21,024	
Leeds Building Society		18,484	
Principality Building Society		9,263	Assets between £5,000m and £49,999m - £2m
West Bromwich Building Society		5,831	
Non-Specified Investments:-			

Name	Council's Current Deposit Period	Category	Limit (£)
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	Up to 35m (in total)
Cambridge City council Housing Working Capital Loan Facility	Up to 1 year	Loan	200,000
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 15m
Certificates of Deposit (with UK Banking Institutions)	Liquid Rolling Balance	Financial Instrument	15m (per single counterparty)
Certificates of Deposit (with UK Building Societies)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Certificates of Deposit (with Foreign Banking Institutions)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Commercial Property Investments funded from cash balances	Over 1 year	Commercial Property	20m (in total)
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/V1)	Over 1 year and up to 5 years	Financial Instrument	10m (per single counterparty)
Municipal Bonds Agency	N/A	Pooled Financial Instrument Facility	50,000
Supranational Bonds – AAA	Using Link's Credit Criteria	Multi-lateral Development Bank Bond	15m
UK Government Gilts	Over 1 year & up to 30 Years	Financial Instrument	15m

Note: In addition to the limits above, the total non-specified items over 1 year will not exceed £50m.

Treasury Management – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counter-parties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
DCLG	Department for Communities & Local Government
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases

Term	Definition
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
London Interbank Offered rate (LIBOR)	A benchmark rate that some of the leading banks charge each other for short-term loans
London Interbank Bid Rate (LIBID)	The average interest rate which major banks London banks borrow Eurocurrency deposits from other banks
Liquidity	A measure of how readily available a deposit is
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Minimum Revenue Provision (MRP)	Revenue charge to finance the repayment of debt
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
Quantitative Easing (QE)	A financial mechanism whereby the Central Bank creates money to buy bonds from financial institutions, which reduces interest rates, leaving businesses and individuals to borrow more. This is intended to lead to an increase in spending, creating more jobs and boosting the economy
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates
Security	A measure of the creditworthiness of a counter-party

Term	Definition
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury
Yield	Interest, or rate of return, on an investment