Wiltshire Council

Cabinet

11 June 2019

Subject:	**Treasury Management Outturn Report 2018/2019**
Cabinet member:	**Councillor Philip Whitehead – Finance, Procurement, ICT and Operational Assets**
Key Decision:	**Non Key**

Executive Summary

The Council has adopted a Treasury Management Strategy and an Annual Investment Strategy for 2018/2019 at its meeting on 6 February 2018.

The Treasury Management Strategy requires an Annual Outturn Report reviewing the Treasury Management activities for the year. This report covers the period from 1 April 2018 to 31 March 2019.

The Council has continued to finance capital expenditure through maximising the use of capital receipts, capital grants and internal borrowing. In order to take advantage of borrowing rates that are considered to be good value and to reduce the refinancing risk associated with existing external borrowing the Council has taken out £30.000 million of external borrowing (from the PWLB) in order to improve the ability to manage the level at which it is internally borrowed.

Overall, the Council is under borrowed by £136.104 million. This has avoided the Council having to pay out external interest costs in the order of £3.226 million. This under borrowed position is factored into the revenue budget. Against budget, there is a net underspend in respect of the net position on interest receivable/payable of £0.758 million. This has been accounted for in the overall revenue outturn position for 2018/2019.

The Council did not breach any of its performance indicators during 2018/2019.

Proposals

Cabinet is requested to:

a) Note that the contents of this report are in line with the Treasury Management Strategy 2018/2019.

Reasons for Proposals

To give members an opportunity to consider the performance of the Council against the parameters set out in the approved Treasury Management Strategy for 2018/2019.

Alistair Cunningham
Corporate Director - Growth, Investment and Place

Wiltshire Council

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PURPOSE OF REPORT

1. 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 2018/2019. 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).

2. During 2018/2019 the minimum reporting requirements were that the Council should receive the following reports,

   - an annual treasury strategy in advance of the year (06/02/2018)
   - a mid-year treasury update report (15/01/2019)
   - an annual review following the end of the year describing the activity compared to the strategy (this report)

3. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

4. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports before they were reported to full Council.

5. This report summarises the following,

   - Capital activity 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 the investment balances;
   - Summary of interest rate movements in the year;
   - Detailed debt activity;
   - Detailed investment activity.

Overall Treasury Position

6. During 2018/2019, 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,

Prudential and Treasury Indicators	2017/2018 Actual £ million	2018/2019 Original £ million	2018/2019 Actual £ million
Capital Expenditure			
General Fund	89.243	115.266	91.308
HRA	19.846	16.554	14.980
Total	**109.089**	**131.820**	**106.288**
Capital Financing Requirement			
General Fund	414.654	431.107	407.429
HRA	124.674	119.864	119.864
Total	**539.328**	**550.971**	**527.293**
Gross Borrowing	327.933	313.123	343.123
External Debt	328.133	313.323	343.323
PFI Liability	50.920	48.420	48.066
Over/(under) borrowing	**(160.475)**	**(189.428)**	**(136.104)**
Investments			
Longer than 1 year	0.000	0.000	0.000
Under 1 year	63.693	48.883	101.913
Total	**63.693**	**48.883**	**101.913**
Net Borrowing	**264.240**	**264.240**	**241.210**

7. Other prudential and treasury indicators are to be found in the main body of the report.

8. The Interim Director of Finance and Procurement confirms that borrowing was inly undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit) was not breached.

9. The financial year 2018/2019 continued the challenging investment environment of previous years, namely low investment returns.

The Council's Capital Expenditure and Financing

10. 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, revenue contributions) which has no resultant impact on the Council's borrowing need; or,
    - If insufficient funding is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

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

General Fund	**2017/2018 Actual £ million**	**2018/2019 Original Budget £ million**	**2018/2019 Actual £ million**
Capital expenditure	89.243	115.266	91.308
Financed in year	76.018	94.729	89.281
Unfinanced Capital Expenditure	**13.225**	**20.537**	**2.027**

HRA	**2017/2018 Actual £ million**	**2018/2019 Original Budget £ million**	**2018/2019 Actual £ million**
Capital expenditure	19.846	16.554	14.980
Financed in year	19.846	16.554	14.980
Unfinanced Capital Expenditure	**0.000**	**0.000**	**0.000**

The Council's Overall Borrowing Need

12. 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 2018/2019 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.

13. Part of the Councils treasury activities is to address the funding requirements for this borrowing need. Depending on the capital programme, the treasury team 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 Loans Board, or the money markets), or utilising temporary cash resources within the Council.

The Capital Financing Requirement (CFR)

14. The Council's (non 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-Housing Revenue Account (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.

15. 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)

16. The Council's 2018/2019 MRP Policy (as required by the MHCLG Guidance) was approved as part of the Treasury Management Strategy Statement on 6 February 2018.

17. The Councils CFR for the year is shown below and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet., which increases the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

	2018/2019 Estimate £ million	**2018/2019 Actual £ million**
CFR – General Fund	431.107	407.429
CFR – HRA	119.864	119.864
Total CFR	**550.971**	**527.293**
Movement in CFR (from 2017/2018)	**11.643**	**(12.035)**
Represented by		
Net Financing Need (General Fund)	29.780	2.027
Net Financing Need (HRA)	0.00	0.000
Total Net Financing Need	**29.780**	**2.027**
Less MRP/VRP	(10.989)	(10.989)
Less Other Long Term Liabilities (PFI)	(2.776)	(2.853)
Less Other Financing Movements	(4.372)	(0.220)
Movement in CFR	**11.643**	**(12.035)**

18. Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR and by the authorised limit.

Gross Borrowing and the CFR

19. 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 CFR in the preceding year (2017/2018) plus the estimates of any additional capital financing requirement for the current (2018/2019) and the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

20. This indicator would allow the Council some flexibility to borrow in advance of its immediate capital needs in 2018/2019.

21. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2017/2018 Actual £ million	**2018/2019 Budget £ million**	**2018/2019 Actual £ million**
Gross borrowing position	327.933	313.123	343.123
CFR	539.328	550.971	527.293
(Under)/over funding of CFR	**(211.395)**	**(237.848)**	**(184.170)**

22. The movement in the Council's under borrowing position is summarised in the following table:

Borrowing Position 2018/2019	£ million
Capital expenditure in year funded by borrowing	2.027
Contribution from revenue account (MRP)	(10.989)
Contribution from revenue account (MRP) - PFI	(2.853)
Loans repaid during the year	14.810
Adjustment relating to 2017/2018	(0.220)
New loans undertaken in the year	(30.000)
Sub-total: Change in borrowing position in year	**(27.225)**
Under borrowed position including PFI Liability 01/04/2018	211.395
Under borrowed position including PFI liability 31/03/2019	184.170
Under borrowed position including PFI Liability 01/04/2018	211.395
PFI Liability 2017/2018	(50.920)
Under borrowed position net of PFI 01/04/2018	**160.475**
Under borrowed position including PFI liability 31/03/2019	184.170
PFI Liability 2018/2019	(48.066)
Under borrowed position net of PFI 31/03/2019	**136.104**

23. To illustrate the benefit of having an under borrowed position: if the Council was to externally borrow £136.104 million (over 25 years at current PWLB rate of 2.37%), this would result in external annual interest costs in the order of £3.226 million. The interest foregone on the use of internal funds would be £1.034 million (based on current average interest rate of 0.76% as at 31/03/2019. This produces a benefit of £2.192 million

Authorised Limit

24. The authorised limit is the affordable borrowing limit required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2018/2019 the Council has maintained gross borrowing within its authorised limit.

Operational Boundary

25. The operational boundary is the expected borrowing position of the Council during the year. Periods when the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Actual Financing Costs as a Proportion of Net Revenue Stream

26. This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligations costs net of investment income), against the net revenue stream.

	2018/2019 £ million
Authorised Limit	570.600
Maximum Gross Borrowing Position during the year	357.933
Operational Boundary	559.693
Average Gross Borrowing Position	329.099
Financing Costs as a Proportion of Net Revenue Stream – GF	5.77%
Financing Costs as a Proportion of Net Revenue Stream - HRA	14.40%

Treasury Position as at 31 March 2019

27. The Council's treasury management debt and investment position is organised by the treasury management team (within the Accountancy Team), 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.

28. At the end of 2018/2019 the Council's treasury position is as follows,

	31 March 2018			31 March 2019		
Debt Portfolio	**Principal £ million**	**Rate/ Return %**	**Average Life Years**	**Principal £ million**	**Rate/ Return %**	**Average Life Years**
Fixed Rate Funding						
PWLB	266.933	3.63	16.32	282.123	3.62	19.28
Market	61.000	4.37	51.67	61.000	4.37	50.67
Variable Rate Funding						
PWLB	0.000	0.00	0.00	0.000	0.00	0.00
Market	0.000	0.00	0.00	0.000	0.00	0.00
Total Debt	**327.933**	**3.77**	**30.52**	**343.123**	**3.76**	
CFR	539.328			527.293		
PFI Liability	50.920			48.066		
Over/(Under) Borrowing	**(160.475)**			**(136.104)**		
Total Investments	63.693	0.54	0.39	101.913	0.97	0.53
Net Debt	**264.240**			**241.210**		

29. The maturity structure of the debt portfolio (in terms of percentages and absolute values) was as follows,

	31 March 2018 Actual £ million	**2018/2019 Original Limits £ million**	**31 March 2019 Actual £ million**
Under 12 months	44.810	78.281	42.000
12 months and within 2 years	12.000	78.281	10.000
2 years and within years	28.000	140.905	28.000
5 years and within 10 years	50.123	234.842	50.123
10 years and above	193.000	313.123	213.000
	327.933		**343.123**

	2018/2019 Authorised Limits %		**31 March 2019 Actual %**	
	Upper Limit	**Lower Limit**	**Next Call Date**	**Contractual Maturity**
Under 12 months	25.00	0.00	12.24	2.33
12 months and within 2 years	25.00	0.00	2.91	1.17
2 years and within 5 years	45.00	0.00	8.16	8.16
5 years and within 10 years	75.00	0.00	14.61	14.61
10 years and above	100.00	0.00	62.08	73.73

30. The structure of the investment portfolio was as follows,

Investment Portfolio	Actual 31 March 2018 £ million	Actual 31 March 2018 %	Actual 31 March 2019 £ million	Actual 31 March 2019 %
Treasury Investments				
Banks	29.000	45.53	48.000	47.10
Building Societies – Rated	8.000	12.56	0.000	0.00
Local Authorities	13.000	20.41	39.000	38.27
MMFs	13.693	21.50	14.902	14.62
Call Account	0.000	0.00	0.011	0.01
Total Treasury Investments	**63.693**	**100.0**	**101.913**	**100.0**

Non-Treasury Investments				
Third Party Loans	0.000	0.00	0.000	0.00
Subsidiaries	0.000	0.00	0.000	0.00
Companies	0.000	0.00	0.000	0.00
Total Non-Treasury Investments	**0.000**	**0.00**	**0.000**	**0.00**

Treasury Investments	63.693	100.00	101.913	100.00
Non-Treasury Investments	0.000	0.00	0.000	0.00
Total - All Investments	**63.693**	**100.00**	**101.913**	**100.00**

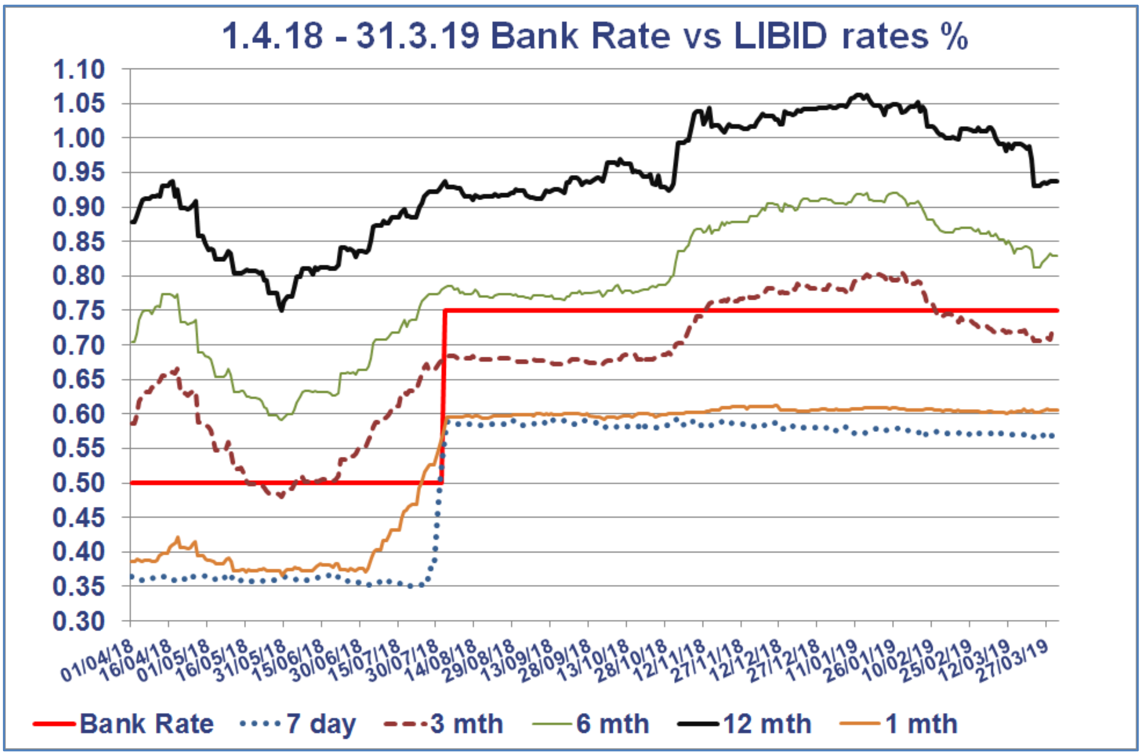
31. All treasury investments were for up to one year.

Treasury Management Strategy 2018/2019

Investment Strategy and Control of Interest Rate Risk

32. Investment returns remained low during 2018/2019. The expectation for interest rates within the treasury management strategy for 2018/2019 was that Bank Rate would rise from 0.50% to 0.75%.

	Bank Rate	7 Day	1 Month	3 Month	6 Month	12 Month
01/04/2018	0.50%	0.36%	0.39%	0.59%	0.70%	0.88%
31/03/2019	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%
High Date	02/08/18	01/11/18	10/12/18	29/01/19	15/01/19	11/01/19
Low	0.50%	0.35%	0.37%	0.48%	0.59%	0.75%
Low Date	01/04/18	19/07/18	30/05/18	30/05/18	30/05/18	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%



33. At the start of 2018/2019, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the Bank of England Monetary Policy Committee (MPC) would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were kept shorter term in anticipation that rates would be higher later in the year.

34. It was not expected that MPC would raise Bank Rate again during 2018/2019 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

35. Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

36. Continued uncertainty in the aftermath of the 2008 financial crisis had promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk consideration, resulting in relatively low returns compared to borrowing rates.

Borrowing Strategy and Control of Interest Rate Risk

37. During 2018/2019, the Council maintained an under-borrowed position. This meant that the capital borrowing need (the CFR) was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. The strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

38. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

39. Against this background and the risks within the economic forecast, caution was adopted within the treasury operations. The treasury team monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.

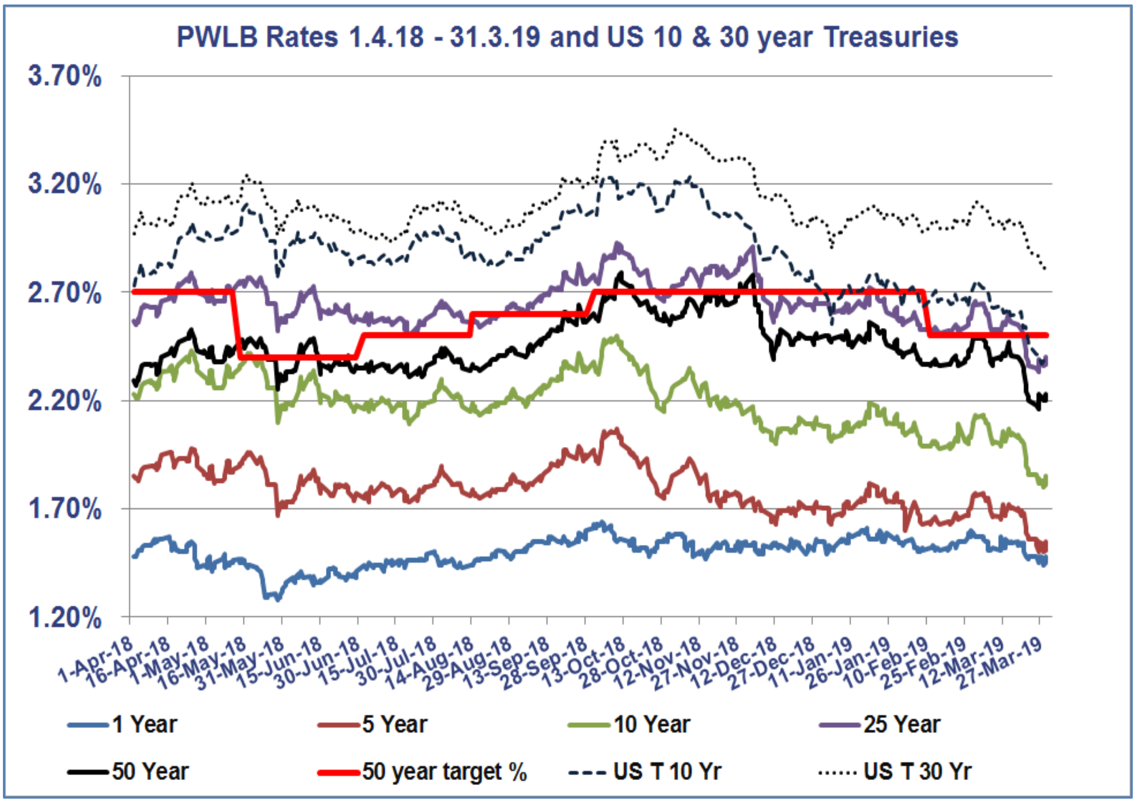
- if it had been felt that there was a significant risk of a sharp fall in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper rise in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

40. Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/2019 and the two subsequent financial years.

PWLB Rates	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Low Date	29/05/18	26/03/19	28/03/19	26/03/19	26/03/19
High	1.64%	2.07%	2.50%	2.93%	2.79%
High Date	04/10/18	10/10/18	10/10/18	10/10/18	12/10/18
Average	1.50%	1.80%	2.20%	2.66%	2.47%

41. The graph for PWLB rates shows 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.



42. Since PWLB rates peaked during October 2018, most PWLB rates have been on a downward trend, though longer term rates did spike upwards again during December and (apart from the 1 year rate), reached lows for the year at the end of March.

Borrowing Outturn

43. A summary of the Council's borrowing position is detailed at Appendix 1.

44. Three new loans were drawn during 2018/2019 to fund the net unfinanced capital expenditure and naturally maturing debt. The loans drawn were as follows,

Pool	Lender	Principal £ million	Type	Interest Rate %	Maturity
General Fund	PWLB	10.000	Fixed Rate Maturity	2.36	44 years
General Fund	PWLB	10.000	Fixed Rate Maturity	2.36	45 years
General Fund	PWLB	10.000	Fixed Rate Maturity	2.36	46 years

45. PWLB rates are constantly monitored by Link Asset Services, the results of which are regularly reported to the Council. In addition, they advise trigger point rates for different loan periods, which indicate where PWLB rates are good value, as compared to general market conditions. All three Wiltshire Council loans were taken when the trigger point rate was 2.50%, meaning that there was a perceived gain of 0.14% over general market conditions.

46. Two naturally maturing loans were repaid during 2018/2019 as follows,

Pool	Lender	Principal £ million	Type	Interest Rate %	Maturity
General Fund	PWLB	10.000	Fixed Rate Maturity	1.38	3 years
HRA	PWLB	4.810	Fixed Rate Maturity	1.76	7 years

Borrowing in Advance of Need

47. The Council has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed.

Debt Rescheduling

48. No debt rescheduling was undertaken during the year, as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Investment Outturn

49. The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 6 February 2018. 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.

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

51. 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 2018 £ million	31 March 2019 £ million
General Fund Balances	12.943	15.100
Housing Revenue Account Balances (inc MRR)	19.550	18.306
Collection Fund Adjustment Account	2.391	0.311
Earmarked Reserves	40.488	37.243
Capital Receipts Reserve	12.997	16.783
Provisions	4.017	3.596
Capital Grants Unapplied	53.997	63.746
Total	**146.383**	**155.085**

52. The Council maintained an average balance of £127.625 million of internally managed funds. The difference between the balances available for investment and the actual investments is due to the varying level of working capital (creditors, debtors and other long term liabilities) and internal borrowing.

53. The internally managed funds earned an average rate of 0.76%. The comparable performance indicator is the average 3 month LIBID rate, which was 0.67%.

54. The Council’s total interest received from investments for 2018/2019 was £0.881 million. The Council’s budgeted investment return for 2018/2019 was £0.440 million, therefore forecast investment income (interest) for the year to date is £0.441 million overachieved against budget. The interest received was higher than originally estimated due to a combination of an increase to the Bank of England base rate in August 2018 as well as over performance by the Council’s treasury management team in actively managing the council’s investments.

55. The position on interest income must be compared with external interest costs payable. The Council paid external interest costs of £12.482 million against a budget of £12.799 million. This is £0.317 million underspent against budget. The net underspend in respect of the net position on interest receivable/payable is £0.758 million. This has been accounted for in the overall revenue outturn position for 2018/2019.

56. A summary of the Council’s investment position as at 31 March 2019 is detailed at Appendix 2.

Economic Background and Interest Rate Forecast

57. 2018, the MPC gave forward guidance that they are likely to increase Bank Rate at a slightly faster rate than had previously been expected. Bank rate is likely to rise only twice more in the next three years to reach 1.00% by 2020.

58. 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 Brexit, 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 quarter 4 came in at 1.4% y/y, confirming that the UK was the third fastest growing country in the G7.

59. After the MPC raised 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 clear.

60. The MPC has been having increasing 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 only marginally to 3.4% in the three months to January 2019. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as initial Brexit date 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.

61. CPI inflation has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February 2019. However, in the February 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%.

62. 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 term 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.

63. The long delay in Brexit and subsequent negotiations increases the chances of a general election in 2019, which could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

Other Issues – IFRS 9

64. Risk management will need to take account of the 2018/2019 Accounting Code of Practice proposals for the valuation of investments. This will not be a significant issue for the Council, however key considerations are as follows,

- Expected credit loss model. Whilst this should not be material for vanilla treasury investments such as bank deposits, this is likely to be problematic for some funds e.g. property funds, (and also for non-treasury management investments dealt with in the capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries).

- The valuation of investments previously valued under the available for sale category e.g. equity related to the “commercialism” agenda, property funds, equity funds and similar, will be changed to Fair Value through the Profit and Loss (FVPL).

65. Following the consultation undertaken by the MHCLG on IFRS9, the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

Overview & Scrutiny Engagement

66. Regular reports are taken to Overview & Scrutiny relating to the Council’s financial position

Safeguarding Implications

67. None have been identified as arising directly from this report.

Public Health Implications

68. None have been identified as arising directly from this report.

Procurement Implications

69. None have been identified as arising directly from this report.

Equalities Impact of the Proposal

70. None have been identified as arising directly from this report.

Environmental and Climate Change Considerations

71. None have been identified as arising directly from this report.

Risks Assessment

72. All investments have been at fixed rates during the period. The Council's current average interest rate on long term debt is 3.76%, which compares favourably with similar rates of other UK local authorities.

73. The primary management risks to which the Council is exposed are adverse movements in interest rates and the credit risk of counterparties.

74. Investment counterparty risk is controlled by assessing and monitoring the credit risk of borrowers as authorised by the Annual Investment Strategy.

Financial Implications

75. These have been examined and are implicit throughout the report.

Legal Implications

76. None have been identified as arising directly from this report.

Proposals

77. Cabinet is requested to:

    a) Note that the contents of this report are in line with the Treasury Management Strategy 2018/2019.

Contact Name:

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30 April 2019

Appendices

Appendix 1 Borrowing Portfolio
Appendix 2 Investment Portfolio

Appendix 1

Borrowing Portfolio as at 31 March 2019

Lender	Start Date	Maturity Date	Amount £ million	Interest Rate %	Annual Interest £ million
Public Works Loan Board (PWLB)					
PWLB	28/03/2012	28/03/2020	8.000	1.99	0.159
PWLB	28/03/2012	28/03/2021	4.000	2.21	0.088
PWLB	15/02/2010	01/06/2021	2.000	4.33	0.087
PWLB	28/03/2012	28/03/2022	8.000	2.4	0.192
PWLB	28/03/2012	28/03/2023	8.000	2.56	0.205
PWLB	15/02/2010	01/06/2023	2.000	4.45	0.890
PWLB	28/03/2012	28/03/2024	8.000	2.7	0.216
PWLB	15/02/2010	01/06/2024	2.000	4.49	0.090
PWLB	28/03/2012	28/03/2025	8.000	2.82	0.226
PWLB	14/08/2001	01/12/2025	0.123	4.875	0.006
PWLB	28/03/2012	28/03/2026	10.000	2.92	0.292
PWLB	15/02/2010	01/06/2026	2.000	4.54	0.091
PWLB	28/03/2012	28/03/2027	8.000	3.01	0.241
PWLB	21/08/2002	01/06/2027	4.000	4.75	0.190
PWLB	28/03/2012	28/03/2028	6.000	3.08	0.185
PWLB	29/07/1999	01/06/2028	1.000	4.75	0.048
PWLB	15/02/2010	01/06/2028	2.000	4.56	0.091
PWLB	28/03/2012	28/03/2029	7.000	3.15	0.221
PWLB	29/07/1999	01/06/2029	1.000	4.75	0.048
PWLB	28/03/2012	28/03/2030	8.000	3.21	0.257
PWLB	29/07/1999	01/06/2030	1.000	4.75	0.046
PWLB	20/05/2005	01/06/2030	2.000	4.45	0.089
PWLB	05/12/2005	18/03/2031	5.000	4.25	0.213
PWLB	28/03/2012	28/03/2031	2.000	3.26	0.065
PWLB	29/07/1999	01/06/2031	1.000	4.75	0.048
PWLB	20/05/2005	01/06/2031	2.000	4.45	0.089
PWLB	21/11/2005	18/09/2031	2.000	4.25	0.085
PWLB	28/03/2012	28/03/2032	5.000	3.3	0.165
PWLB	20/05/2005	01/06/2032	2.000	4.45	0.089
PWLB	04/11/1999	01/12/2032	1.500	4.625	0.069
PWLB	28/03/2012	28/03/2033	6.000	3.34	0.200
PWLB	20/05/2005	01/06/2033	2.000	4.45	0.089
PWLB	15/11/1999	19/09/2033	1.000	4.25	0.042
PWLB	28/03/2012	28/03/2034	7.000	3.37	0.236
PWLB	20/05/2005	01/06/2034	2.000	4.45	0.089
PWLB	15/11/1999	18/09/2034	1.000	4.25	0.043
PWLB	21/11/2005	18/09/2034	5.000	4.25	0.213
PWLB	28/03/2012	28/03/2035	2.000	3.4	0.068
PWLB	14/06/2005	14/06/2035	5.000	4.35	0.218
PWLB	15/11/1999	18/09/2035	1.000	4.25	0.043

Lender	Start Date	Maturity Date	Amount £ million	Interest Rate %	Annual Interest £ million
Public Works Loan Board (PWLB) – Continued					
PWLB	21/11/2005	18/09/2035	5.000	4.25	0.213
PWLB	15/11/1999	18/09/2036	0.500	4.25	0.021
PWLB	15/11/1999	18/09/2036	0.500	4.25	0.021
PWLB	28/03/2012	28/03/2037	9.000	3.44	0.310
PWLB	11/01/2006	01/12/2037	4.000	4	0.160
PWLB	11/01/2006	01/12/2038	4.000	4	0.160
PWLB	15/02/2010	01/06/2041	2.000	4.57	0.091
PWLB	11/08/2006	01/12/2041	3.000	4.35	0.131
PWLB	15/02/2010	01/06/2042	2.000	4.57	0.091
PWLB	11/08/2006	01/12/2042	2.000	4.35	0.087
PWLB	11/08/2006	01/12/2043	2.000	4.35	0.087
PWLB	06/09/2006	01/12/2044	3.000	4.25	0.128
PWLB	06/09/2006	01/12/2045	3.000	4.25	0.128
PWLB	29/06/2006	18/09/2046	4.000	4.45	0.178
PWLB	30/08/2006	01/12/2046	2.000	4.25	0.085
PWLB	29/06/2006	18/09/2047	4.000	4.45	0.178
PWLB	30/08/2006	01/12/2047	2.000	4.25	0.085
PWLB	09/10/1998	18/09/2048	1.000	4.5	0.045
PWLB	29/06/2006	18/09/2048	3.500	4.45	0.156
PWLB	30/08/2006	01/12/2048	2.000	4.25	0.085
PWLB	09/10/1998	18/09/2049	1.000	4.5	0.045
PWLB	29/06/2006	18/09/2049	3.000	4.45	0.134
PWLB	30/08/2006	01/12/2049	2.000	4.25	0.085
PWLB	30/08/2006	01/06/2050	5.000	4.25	0.213
PWLB	17/09/1998	18/09/2050	1.000	5.125	0.051
PWLB	17/09/1998	18/09/2051	1.000	5.125	0.051
PWLB	07/03/2007	01/06/2052	2.000	4.25	0.085
PWLB	23/07/1998	03/06/2052	1.000	5.5	0.055
PWLB	07/03/2007	01/06/2053	2.000	4.25	0.085
PWLB	23/07/1998	02/06/2053	1.000	5.5	0.055
PWLB	19/06/1998	01/06/2054	1.000	5.375	0.054
PWLB	19/06/1998	01/06/2055	1.000	5.375	0.054
PWLB	21/06/2006	01/06/2055	2.000	4.3	0.086
PWLB	22/06/2006	18/09/2055	4.000	4.35	0.174
PWLB	19/06/1998	01/06/2056	1.500	5.375	0.081
PWLB	21/06/2006	01/06/2056	3.000	4.3	0.129
PWLB	22/06/2006	01/06/2056	6.000	4.35	0.261
PWLB	02/10/1997	25/09/2057	1.500	6.625	0.99
PWLB	12/03/2019	13/03/2063	10.000	2.36	0.236
PWLB	12/03/2019	13/03/2064	10.000	2.36	0.236
PWLB	12/03/2019	13/03/2065	10.000	2.36	0.236
TOTAL PWLB LOANS			**282.123**		**10.161**

Lender	Start Date	Maturity Date	Amount £ million	Interest Rate %	Annual Interest £ million
LOBO Loans					
Barclays Bank	03/12/2004	03/12/2054	10.000	4.45	0.445
FMS Wermanagement	07/12/2004	08/12/2053	10.000	4.45	0.445
Depfa Deutsche Pfandbriefbank	10/12/2004	10/12/2052	10.000	4.45	0.445
Dexia Credit Local	10/12/2004	11/12/2051	10.000	4.45	0.445
Barclays Bank	31/08/2005	31/08/2055	5.000	3.99	0.200
Dexia Credit Local	20/02/2006	18/02/2066	6.000	4.45	0.267
Beyern LB	05/03/2007	07/03/2067	4.000	4.2	0.168
Barclays Bank	31/07/2007	01/08/2067	6.000	4.21	0.253
TOTAL LOBO LOANS			**61.000**		**2.667**
TOTAL - ALL LOANS			**343.123**		**12.828**

* Annual interest = Total amount of annual interest payable per loan outstanding as at 31 March 2019. This won’t equal the amount of interest paid during 2018/2019 – as the total loan portfolio has changed during the year.

Appendix 2

Investment Portfolio as at 31 March 2019 (compared to the counterparty list)

Borrower	Amount £ million	Interest Rate %	Start Date	Maturity Date	LAS Credit Rating
Australia and New Zealand Banking Group	8.000	0.95	03/05/2018	02/05/2019	Orange - 12 months
National Bank of Abu Dhabi	8.000	1.04	13/09/2018	12/09/2019	Orange - 12 months
Lancashire County Council	5.000	1.10	26/10/2018	26/07/2019	Yellow – 5 years
North Lanarkshire Council	2.000	1.00	01/10/2018	03/05/2019	Yellow – 5 years
Kingston Upon Hull City Council	5.000	0.90	02/10/2018	02/04/2019	Yellow – 5 years
Kingston Upon Hull City Council	5.000	0.90	30/11/2018	31/05/2019	Yellow – 5 years
Salford City Council	5.000	0.90	14/11/2018	14/05/2019	Yellow – 5 years
Highland Council	7.000	0.92	29/11/2018	29/05/2019	Yellow – 5 years
Landesbank Hessen Thuringen	8.000	1.13	16/11/2018	15/11/2019	Orange - 12 months
Close Brothers	3.000	1.10	07/01/2019	05/07/2019	Red - 6 months
DBS Bank Ltd.	8.000	1.09	04/01/2019	31/07/2019	Orange - 12 months
Santander UK plc	8.000	1.03	07/01/2019	08/07/2019	Red - 6 months
Eastleigh Borough Council	5.000	0.93	25/03/2019	28/05/2019	Yellow – 5 years
Close Brothers	5.000	1.10	15/03/2019	16/09/2019	Red - 6 months
Wirral Metropolitan Borough Council	5.000	0.85	15/03/2019	15/04/2019	Yellow – 5 years
Handelsbanken plc (Call Account)	0.011	0.65	*	*	AAA
Black Rock Money Market Fund	0.001	0.74	*	*	AAA
JP Morgan Money Market Fund	0.000	0.74	*	*	AAA
Federated Money Market Fund	14.901	0.79	*	*	AAA
Goldman Sachs Money Market Fund	0.000	0.71	*	*	AAA
Aberdeen Investments Liquidity Fund	0.000	0.78	*	*	AAA
Total	**101.913**				

* Money Market Funds/Call Account – cash can be invested and withdrawn on a daily basis (subject to maximum investment limits) so there is no start date or maturity date for the purposes of this report.

Link Asset Services provide a creditworthiness service, which employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

a) credit watches and credit outlooks from credit rating agencies;
b) CDS spreads to give early warning of likely changes in credit ratings;
c) sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

a) Yellow – 5 years (this category is for AAA rated Government debt or its equivalent, including an investment instrument – collateralised deposits, where the investment is secured only against local authority debt, namely LOBOs, making them effectively government exposure);
b) Dark pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
c) Light pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
d) Purple – 2 years;
e) Blue – 1 year (only applies to nationalised or semi nationalised UK Banks and their subsidiaries):
f) Orange – 1 year;
g) Red – 6 months;
h) Green – 100 days; and
i) No Colour – not to be used.

The advisor's creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.