2018-19 Outturn and Annual Treasury Management Review

Cabinet	**19 September 2019**
Report Author	**Tim Willis, Deputy Chief Executive and s151 Officer**
Portfolio Holder	**Cllr David Saunders, Cabinet Member for Financial Services and Estates**
Status	**For information**
Classification:	**Unrestricted**
Key Decision	**No**
Ward:	**All Wards**

1.1 This report deals with the 2018-19 outturn for:
- General Fund – Section 1.
- Housing Revenue Account – Section 2.

1.2 The council is also required to produce an Annual Treasury Management review of activities with actual prudential/treasury indicators for 2018-19. This is set out in section 4 of this report. The treasury management review was also considered by the Governance and Audit Committee at its meeting on 24 July.

Recommendation(s):

1. That the outturn for 2018-19 contained within this report is noted.
2. That the earmarked reserves as outlined in sections 1.4 and 2.7 be noted.
3. That the capital programme carry forwards shown in Annex 1 are agreed.
4. That the Annual Treasury Management Review of Activities for 2018-19 set out in section 4 is noted.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications have been reflected within the body of the report.
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the council's finances. For this council, it is the Deputy Chief Executive, and this report is helping to carry out that function.
Corporate	Corporate priorities can only be delivered with robust finances and this report gives Members the opportunity to review the Council's current position.
Equalities Act 2010 & Public	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to

Sector Equality Duty	the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it. Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership. Please indicate which aim is relevant to the report. Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, Advance equality of opportunity between people who share a protected characteristic and people who do not share it Foster good relations between people who share a protected characteristic and people who do not share it. There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these. It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council.

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	✓
Promoting inward investment and job creation	✓
Supporting neighbourhoods	✓

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	

1.0 General Fund – Provisional Outturn 2018-19

General Fund Revenue

1.1 The General Fund covers all income and expenditure included in the day-to-day running of the council and key services the council provide. This includes: refuse collection; recycling; street cleansing; maritime facilities; housing advice; planning & building control; licensing; and community development.

1.2 During the year, within budget monitoring reports it was reported that the council was heading for an overspend of approximately £1m - but an anticipated windfall from being part of the Kent Business Rates (BR) pilot would go towards funding the overspend.

1.3 This is indeed what happened, with a service overspend of approximately £1.54m being offset by a BR income windfall.

1.4 From participation in the Kent 100% Pilot the authority benefited from a one-off windfall of £2.4m, in addition to the Pool surplus compared to the base budget for business rates income. Included in this windfall was a £1.7m allocation relating to a separate Growth Pot, which has specific conditions attached to its use.

1.5 Therefore, after utilising a proportion of the BR windfall to offset the in-year overspend and considering the specific allocation for the Growth Pot a further £0.5m has been added to earmarked reserves to manage future Business Rate volatility.

1.6 The 2018-19 outturn shows that the council's budget strategy to maintain the General Reserve balance at its existing level has been bettered, this has resulted in additional reserve contributions of £3.7m. Table 1a provides a summary of the outturn position against the latest approved budget.

1.7 **Table 1a – 2018-19 General Fund Provisional Outturn v Budget Summary**

Directorate	Variance to Budget £'000s
Chief Executive	45
Deputy Chief Executive & S151 Officer	1,194
Director of Corporate Governance	731
Director of Operational & Commercial Services	(132)
Corporate - including asset and pension accounting	(314)
Directorate Sub-Total	**1,524**
Contributions to/from reserves (excluding planned)	2,181
Total Net Expenditure	**3,705**
Financing of net expenditure	(3,705)
Balance to General Reserve	-

1.8 The key reasons for the budget variances are:

Deputy Chief Executive & S151 Officer

- **Housing Benefit and Homelessnes -** Increased demand resulting in higher costs attached to Homelessness and Housing Benefit payments £975k
- **Investment Income -** Due to the council holding higher cash balances than anticipated throughout the year, income on investment activity generated a (£70k) surplus compared to budget.
- **Financial Services -** Various minor underspends across the service of (£30k) including underspends on bank charges and equipment purchase.
- **Council Tax** - Additional court costs recovered on Council Tax generated an extra £40k
- Other minor variances £80k.

Corporate Governance

- **Land Searches -** Lower demand for public use of Land Searches leading to significant reduction in income £110k

- **Property Rentals -** There was a shortfall in external rents on TDC owned premises of £280k.

  Partially due to one of the largest income streat tenants leaving in 2018 and the unit remaining vacant, despite marketing for many months. In the current climate rental increases are market are increasing sensitive and do not automatically result in uplift even if landlord invests in the properties. Energy targets also affecting lettings. The long-term resolution is (as part of the investment strategy) to dispose of aging stock and invest in modern portfolio construction to produce sustainable income with higher net yield.

- **Building Control -** Shortfall in Building Control Regs income £187k.

  A review of Building Control has been completed by the Head of Service with support from national building control body. Changes to the service delivery model are being undertaken to address the budget variance, but will take 12 to 18 months to implement.

- **Leisure Service -** Unrealised savings target relating to leisure services £197k, but delivered elsewhere.

- Offset by underspends within services including vacant posts and surveyors fees (£139k)

Operational Services

- **Car Parking -** Increased car-parking income income (£675k) due to improved enforcement performance.

  £350k surplus for on-street car parking moved to an earmarked reserve, for future investment in car parking and transport infrastructure, this is shown as a variance within the 'Contributions to/from reserves (excluding planned)' line of table 1b.

- **Waste and Recycling -** Increased fuel inflation and vehicle repair costs for waste & recycling £160k

- **Port and Harbour -** Overspend against budget for the Port and Harbour £377k, due to non-realisation of income target. Savings plans are in place for 2019-20 to improve financial performance of the service.

Financing of net expenditure

- Variance mainly relates to the one-off additional income received from participation in the 2018-19 100% business rates retention pilot.

General Reserve

1.9 The General Reserve balance stands at £2.011m at 31 March 2019, which is in line with the council's agreed Budget. The General Reserve is managed so that it provides flexibility to meet unexpected demands and pressures without de-stabilising the council's overall financial position. The level of the General Reserve should be set to give a reasonable allowance for unquantifiable risks or one off exceptional items of expenditure not covered within existing budgets.

General Fund Earmarked Reserves

1.10 All reserves are reviewed by the section 151 Officer at year end. Overall, General Fund reserves increased by £3.7m in 2018-19, with contributions made for additional business rates income, slippage and other planned items, resulting in earmarked reserves now sitting at £11.5m. This is a significant improvement on previous years, but reserves are still relatively low compared to historical levels, other district councils and the risks the council faces.

Most of this balance has been added to the Local Taxation Funding reserve, to deal with operational risks including loss of Housing Benefit subsidy, Business Rates appeals and other service movements. Table 1b overleaf outlines the consolidated General Fund reserves.

Table 1b – General Fund Earmarked Reserves

General Fund – Earmarked Reserve	Balance at 31 March 2018	Balance at 31 March 2019	Movement
	£'000s	£'000s	£'000
Local Taxation Funding	3,069	5,713	2,644
Investment and Growth Fund	2,035	2,563	528
Risk and Insurance Reserve	1,618	1,779	161
Repairs and Renewals Reserve	1,051	1,399	348
Lottery Reserve	4	17	13
Total	**7,777**	**11,471**	**3,694**

1.11 The council's total General Fund reserves at 31 March 2019 therefore stand at £13.5m, incorporating £2.0m in the General Fund balance and £11.5m in earmarked reserves.

General Fund Capital

1.12 Actual capital expenditure was £9.59m compared to the revised budget of £14.03m, under-achieving the programmed spend by £4.4m.

1.13 Table 1c shows details of actual spend compared to the budgeted capital programme.

Table 1c – 2018-19 Capital Outturn

General Fund Capital Programme	Revised 2018-19 Budget	Actual 2018/19	Variance to Revised 2018-19 Budget
	£'000	£'000	£'000
Corporate Services (incl. East Kent Services)	5,179	2,725	(2,454)
Corporate Governance	4,659	4,144	(515)
Operational Services	4,169	2,719	(1,450)
Capital Salaries	21	0	21
Total	**14,028**	**9,588**	**(4,440)**

1.14 The variance is mainly due to various capital works slipping from 2018-19 into future years.

1.15 Spend on the General Fund Capital Programme for 2018-19 required prudential borrowing of £4.04m.

1.16 Annex 1 sets out the final General Fund capital programme position for 2018-19.

2.0 Housing Revenue Account (HRA) – Provisional Outturn 2018/19

Housing Revenue Account Revenue

2.1 The Housing Revenue Account (HRA) outturn shows a surplus of £1,555k. The budget for the HRA (as reported to Cabinet in March 2019) was a projected deficit of £285k.

2.2 Table 2 provides a summary of the key variances compared to budget.

Table 2 - HRA Main Variances

Budget	(Under)/ Over Spend £,000	Explanation
Rent Income	31	Increase in the number of right to buy sales.
Contributions to Expenditure	40	Communal heating costs are higher than anticipated. Recovery costs in relation to tenant service charges are not sufficient to cover the costs. Offset by additional leaseholder contributions towards expenditure.
Day to Day Repairs Expenditure	(325)	Underspend due to an overall reduction in day to day expenditure and delays to external decorations.
Management & Landlord Costs	(162)	Reduced landlord costs
Bad & Doubtful Debt Allowance	135	Increase in allowance due to universal credits and former tenant arrears
Other under or overspends	(1,559)	Various budgets / technical adjustments
TOTAL VARIANCES	**(1,840)**	

HRA Working Balance

2.3 The accumulated HRA balance at 31 March 2019 is £9.308m, the in-year surplus saw the balance grow from £7.8m at 31 March 2018.

2.4 The HRA working balance is being managed so that it provides the flexibility to meet unexpected demands and pressures without destabilising the council's overall financial position. The level of the working balance is examined in the context of risk and also the need to replace lost rent following the increased right to buy sales of dwellings.

Major Repairs Reserve

2.5 The balance on the reserve is £12.765m and this increased in 2018/19 by £2.75m. The reserve is increased by the calculated annual depreciation charge on HRA stock and this is offset by expenditure of a capital nature on housing stock, including repayment of borrowing.

HRA Earmarked Reserves

2.6 In addition to the Working Balance, the HRA maintains an earmarked reserve specifically for acquisition of property. The balance in the reserve is currently £2.526m (HRA New Property Reserve). This decreased by £2.374m during the year as a result of the progression of the council's new build programme, offset by the annual income from affordable rented housing stock.

Housing Revenue Account Capital

2.8 The outturn of the HRA capital programme for 2018-19 is £5.436 million, compared to the revised budget of £6.914 million a variance of £1.478 million.

Table 3 below shows details of the actual spend by project.

Table 3 HRA Capital Project Spend

HRA Capital Programme	Revised 2018-19 Budget	Actual 2018-19 Actual	Variance to Revised 2018-19 Budget
	£000	£000	£000
Major Works	1,710	1,536	(174)
Margate Housing Intervention	729	504	(225)
New Build Programme	2,904	1,818	(1,086)
EKH Loan	92	92	-
Coastguard Cottages Major Works	(15)	-	15
141 Acquisitions Programme	1,365	1,452	87
St Johns Crescent	129	34	(95)
Total Expenditure	**6,914**	**5,436**	**(1,478)**

2.9 Table 4 below shows how the actual spend was financed:

Table 4 Financing of HRA Capital Programme

HRA Capital Programme	Revised 2018-19 Budget	Actual 2018-19 Actual	Variance to Revised 2018-19 Budget
	£000	£000	£000
Total HRA Capital Programme Expenditure	**6,914**	**5,436**	**(1,478)**
HRA Capital Resources Used:			
HRA Major Repairs Reserve	1,470	1,304	(166)
HRA Revenue Contributions/Reserves	2,932	3,121	189
Capital Grant	1,665	562	(1,103)
Capital Receipts	847	449	(398)
Prudential Borrowing			
Total Resources	**6,914**	**5,436**	**(1,478)**

The main variance is due to delays in the new build programme.

2.10 Annex 2 sets out the details of the capital programme for 2018-19 and includes carry forwards.

3. Flexible Use of Capital Receipts (General Fund)

3.1 Table 5 reflects the original values agreed and included in the Flexible Use of Capital Receipts Strategy.

Table 5 - Flexible Use of Capital Receipts

Project Name	Project Description	Estimated Qualifying Expenditure £'000	Estimated Annual Savings £'000
Corporate Restructure	To review and update the organisational structure to deliver efficiencies	800	814
Digitally Enabled Services	To adopt digital technology to enable new ways of working	200	50

3.2 In 2017-18 the above projects were included as part of the Capital programme, additional spend during 2018-19 on the Corporate Restructure and Digitally Enabled Services projects reduced the amounts available to carry forward to

£490k and £73k respectively. It is intended that the remaining budgets be carried forward into 2019-20.

4.0 ANNUAL TREASURY MANAGEMENT REPORT 2018-19

Introduction and Background

4.1 This council is required by regulations issued under the Local Government Finance Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018-19. This report meets the requirements of both the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

4.2 During 2018-19 the minimum reporting requirements were that the full council should receive the following reports:

- an annual treasury strategy in advance of the year (council 08-02-2018)
- a mid-year treasury update report (council 07-02-2019)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

4.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the council's policies previously approved by members.

4.4 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 by the Governance and Audit Committee before they were reported to the full council. Member training on treasury management issues was last undertaken on 21-09-2015 in order to support members' scrutiny role, and further training will be arranged following the local elections in May 2019. The council's external treasury management advisor is Link Asset Services (Link).

4.5 The council's 2018-19 accounts have not yet been audited and hence the figures in this report are subject to change.

The Council's Capital Expenditure and Financing

5.0 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 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 resources, the 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.

£000	2017-18 Actual	2018-19 Budget	2018-19 Actual
Capital expenditure - GF	6,234	13,512	9,945
Capital expenditure - HRA	4,492	7,408	5,435
Capital expenditure - Total	**10,726**	**20,920**	**15,380**
Financed by:			
Capital receipts	2,250	4,816	3,182
Capital grants	3,582	6,368	3,517
Revenue and reserves	3,484	5,104	4,639
Borrowing	1,410	4,632	4,042
Total	**10,726**	**20,920**	**15,380**

5.1 Full details of capital expenditure and explanations of variances from budget will be reported within the Financial and Performance Monitoring Outturn Report to Cabinet in September.

6.0 The council's Overall Borrowing Need

6.1 The council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge for the council's debt position and represents the 2018-19 and historic net capital expenditure which has not yet been charged to revenue. The process for charging the capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP)*. The council has the option to charge more than the statutory MRP each year through Voluntary Revenue Provision (VRP). The council's CFR for the year is shown below, and represents a key prudential indicator. The total CFR can also be reduced by the application of additional capital resources (such as unapplied capital receipts).

*In effect this is the amount required to be set aside for the eventual loan repayment

6.2 **Gross borrowing and the CFR** - 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 (2017-18) plus the estimates of any additional capital financing requirement for the current (2018-19) and next two financial years. This essentially means that the council is not borrowing to support revenue expenditure. This indicator allowed the council some flexibility to borrow in advance of its immediate capital needs in 2018-19. The table below highlights the Council's gross borrowing position against the CFR. The council has complied with this prudential indicator.

£000	31 March 2018 Actual	31 March 2019 Budget	31 March 2019 Actual
CFR GF	23,812	27,086	26,497
CFR HRA	20,787	20,786	20,786
Total CFR	44,599	47,872	47,283
Gross borrowing position	31,086	35,133	30,456
Underfunding of CFR	13,513	12,739	16,827

6.3 **The authorised limit** - 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 2018-19 the Council has maintained gross borrowing within its authorised limit.

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

6.5 **Actual financing costs as a proportion of net revenue stream** - 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.

£000	2018-19
Authorised limit	£87,000
Maximum gross borrowing position during the year	£31,086
Operational boundary	£77,000
Average gross borrowing position	£30,711
Financing costs as a proportion of net revenue stream - GF	6.1%
Financing costs as a proportion of net revenue stream -HRA	5.2%

7.0 Treasury Position as at 31 March 2019

7.1 At the beginning and the end of 2018-19 the council's treasury (excluding borrowing by private finance initiatives (PFI) and finance leases) position was as follows:

Table 1 - Overall Treasury Position as at 31 March 2019

	31 March 2018 Principal	Rate/ Return	Average Life	31 March 2019 Principal	Rate/ Return	Average Life
	£'000		Years	£'000		Years
GF debt	11,046	3.15%	13.9	10,416	3.22%	13.8
HRA debt	20,040	4.03%	8.1	20,040	4.03%	7.3
Total debt (all fixed rate)	**31,086**	**3.71%**	**10.2**	**30,456**	**3.75%**	**9.5**
GF CFR	23,812			26,497		
HRA CFR	20,787			20,786		
Total CFR	**44,599**			**47,283**		
Under-borrowing	**(13,513)**			**(16,827)**		
Total investments	**40,882**	**0.36%**		**41,673**	**0.69%**	
Net debt / (investment)	**(9,796)**			**(11,217)**		

7.2 All of the debt is from PWLB apart from the following GF loans (as at 31 March 2019):

Market: £4,500k principal at 4.19% with an average life of 0.5 years.
Salix: £30k principal at 0.00% with an average life of 1.5 years.

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

£000	31 March 2018 actual	2018-19 upper limits	31 March 2019 actual
Under 1 year	5,131	15,228	9,932
1 year to under 2 years	5,432	15,228	631
2 years to under 5 years	5,144	15,228	4,772
5 years to under 10 years	3,006	16,751	2,835
10 years to under 20 years	6,453	15,228	8,366
20 years to under 30 years	3,000	15,228	1,000
30 years to under 40 years	1,920	15,228	1,920
40 years to under 50 years	1,000	15,228	1,000
50 years and above	0	15,228	0
Total debt	31,086		30,456

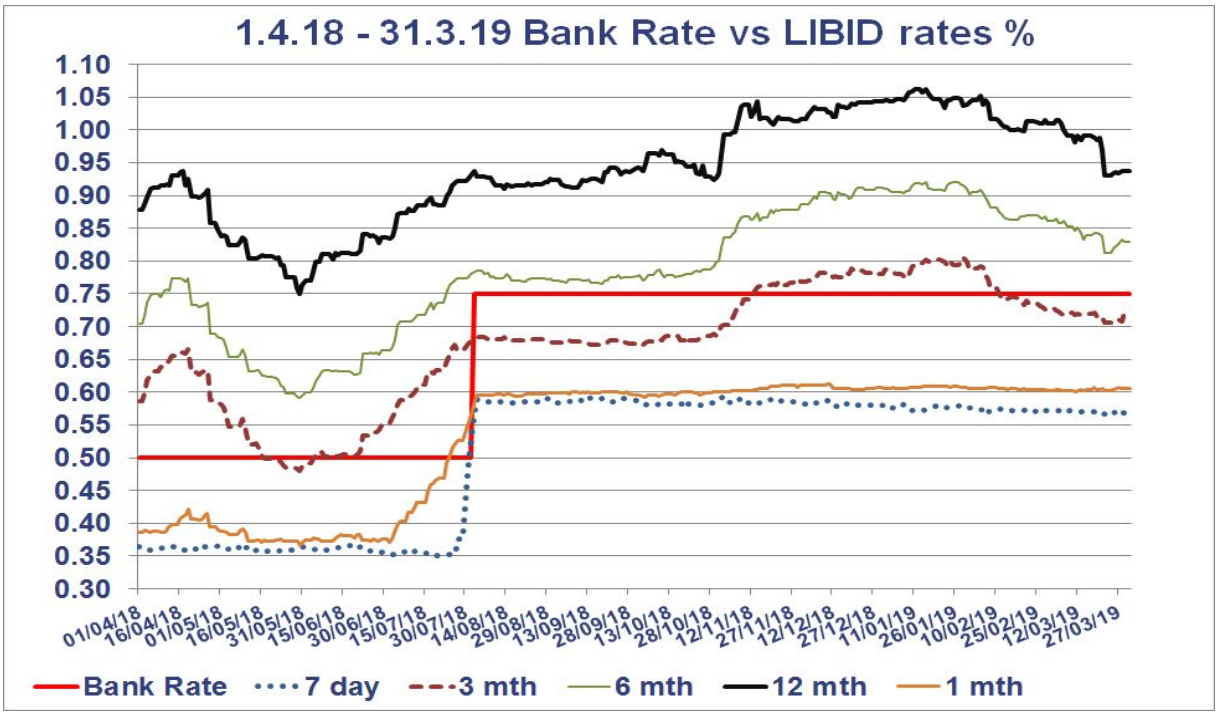
7.4 The composition of the investment portfolio was as follows:

	31 March 2018 actual £000	31 March 2018 actual %	31 March 2019 actual £000	31 March 2019 actual %
Banks - Instant Access	3	0.01	3	0.01
Banks - Notice Accounts	0	0.00	4,453	10.68
Banks - Fixed Term Deposits	17,811	43.56	13,414	32.19
Money Market Funds	23,068	56.43	23,803	57.12
Total Treasury Investments	**40,882**	**100.00**	**41,673**	**100.00**

7.5 All investments at both the 2017-18 and 2018-19 year-ends were for under one year.

8.0 The Strategy for 2018-19

8.1 Investment strategy and control of interest rate risk



8.1.1 Investment returns remained low during 2018-19. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of the increase in Bank Rate from 0.50% to 0.75% 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 MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018.

8.1.2 It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019.

8.1.3 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.

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

8.2 Borrowing strategy and control of interest rate risk

8.2.1 During 2018-19, the council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

8.2.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

8.2.3 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 this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

8.2.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

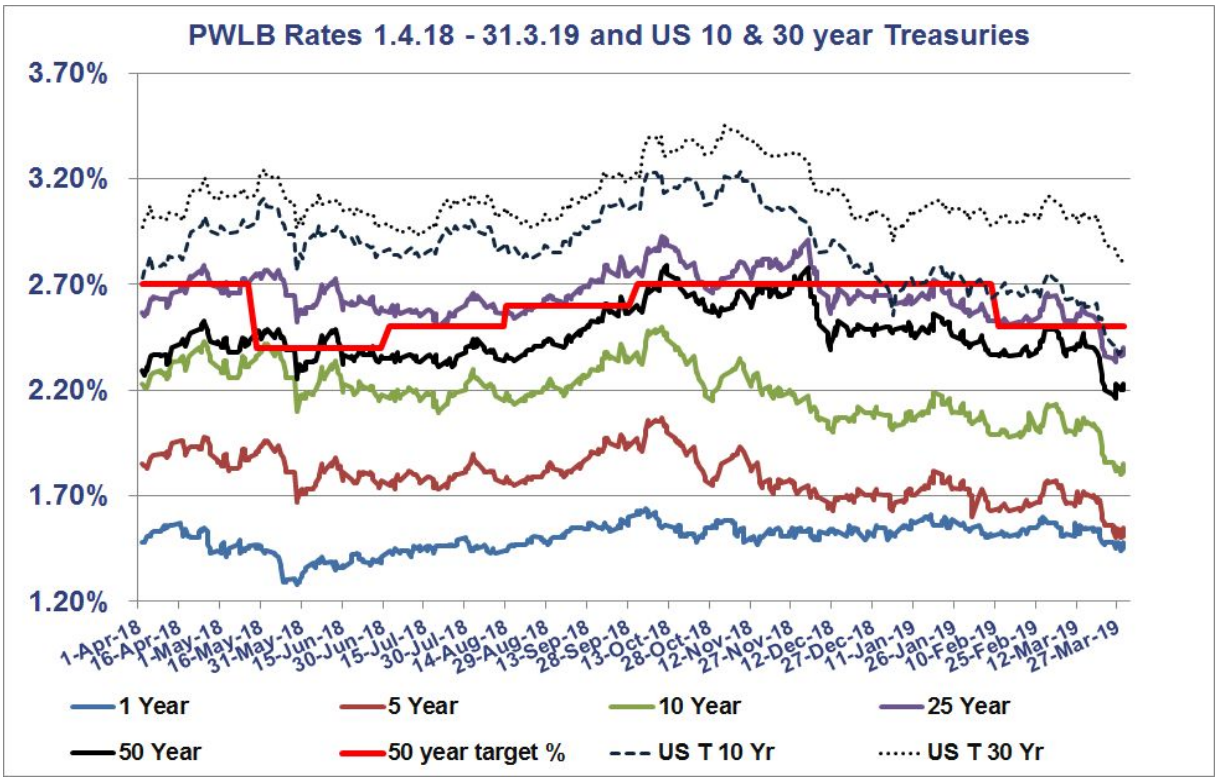
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding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

8.2.5 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018-19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View 12.2.18													
	Mar-18	Jun-18	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%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%



8.2.6 Since PWLB rates peaked during October 2018, most PWLB rates have been on a general 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. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields - which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018 that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed came round to the view that there are probably going to be no more increases in this cycle and the issue became how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US.

But weak growth now also looked to be the outlook for China and the EU which meant that world growth as a whole would be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

8.3 **Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2018-19 approved by the council on 08-02-18 was not revised during 2018-19.

9.0 Borrowing Outturn for 2018-19

9.1 **Borrowing** – Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

9.2 **Borrowing in advance of need -** The council has not borrowed more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.

9.3 **Rescheduling** – No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

9.4 **Repayments** – The council repaid £630k of maturing debt using investment balances, as below:

Lender	Principal £'000	Interest Rate	Repayment Date
Salix	4	0.00%	01-04-18
PWLB	43	3.08%	23-04-18
PWLB	50	2.48%	27-05-18
PWLB	146	1.97%	27-05-18
PWLB	72	1.28%	20-06-18
Salix	4	0.00%	01-10-18
PWLB	43	3.08%	23-10-18
PWLB	50	2.48%	27-11-18
PWLB	146	1.97%	27-11-18
PWLB	72	1.28%	20-12-18
Total	630		

9.5 **Summary of debt transactions** – The average interest rate on the debt portfolio increased from 3.71% to 3.75% during the year. This was due to the repayment of maturing debt as shown above.

10.0 Investment Outturn for 2018-19

10.1 **Investment Policy** – the council's investment policy is governed by the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the council on 8 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 (such as rating outlooks, credit default swaps, bank share prices etc.).

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

10.3 **Resources** - 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 £000	31 March 2018	31 March 2019
GF Balance	2,011	2,011
Earmarked Reserves	13,021	13,998
HRA Balance	7,753	9,307
Capital Receipts Reserve	9,221	9,437
Major Repairs Reserve	10,019	12,765
Capital Grants Unapplied	43	43
Total Usable Reserves	42,068	47,561

10.4 **Investments held by the council**

- The council maintained an average balance of £47.289m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.69%.
- The comparable performance indicator is the average 7-day London Interbank Bid Rate (LIBID) rate, which was 0.51%.
- This compares with an original budget assumption of £25m investment balances earning an average rate of 0.25%.
- Total investment income was £328k compared to a budget of £63k.

10.5 **Investments held by fund managers** – the council does not use external fund managers.

11.0 Investment risk benchmarking

11.1 The following investment benchmarks were set in the council's 2018-19 annual treasury strategy:

11.2 **Security** - The council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio.

11.3 **Liquidity** – in respect of this area the council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be 0.5 years, with a maximum of 1.0 year.

11.4 **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

11.5 The council kept to the above benchmarks during 2018-19.

12.0 Options

12.1 Cabinet is asked to note the outturn for the General Fund, HRA and capital programme for 2018-19. Cabinet is also asked to note the Annual Treasury Management Report 2018-19 set out in section 4 (including associated annexes).

Cabinet is being asked to approve the updating of the 2019-20 Capital Programme for carry forwards.

12.2 Cabinet has the option to not approve the capital recommendations (which would then impact on the delivery of the programme).

13.0 Next Steps

13.1 The Annual Treasury Management Report 2019-20 will be presented to the October Council for approval.

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Reporting to:	Tim Willis, Deputy Chief Executive and Section 151 Officer

Annex List

Annex 1	GF Capital Programme 2018-19
Annex 2	HRA Capital Programme 2018-19
Annex 3	Treasury management performance indicators
Annex 4	Treasury management report guidance, abbreviations and definitions

Background Papers

Title	Details of where to access copy
None	N/A

Corporate Consultation

Finance	Chris Blundell, Head of Finance & Procurement Services
Legal	Sophia Nartey, Interim Head of Legal Services