

For Publication

TREASURY MANAGEMENT ANNUAL REPORT 2017/18 AND MONITORING REPORT 2018/19

Meeting:	Council
Date:	10 October 2018
Cabinet portfolio:	Deputy Leader
Report by:	Director of Finance and Resources

For publication

1.0 Purpose of report

- 1.1 To consider the Annual Treasury Management Report for 2017/18.
- 1.2 To consider the Treasury Management activities for the first five months of 2018/19.

2.0 Recommendations

- 2.1 That the **Council** is recommended to:
 - (i) Approve the outturn Prudential Indicators for 2017/18;
 - (ii) Approve the treasury management stewardship report for 2017/18;

- (iii) Note the treasury management position for the first five months of 2018/19.

3.0 **Background**

- 3.1 The Council's Treasury Management Strategy requires the full Council to receive three treasury reports each financial year; the Strategy report before the start of each financial year, an annual report for the previous financial year and a mid-year review for the current year.
- 3.2 The Annual Report for 2017/18 is attached at Annexe 1. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 3.3 Following the Icelandic banks collapse in 2008 the regulatory framework places a much greater emphasis on the review and scrutiny by Members of treasury management activities. The attached report provides details of the treasury management activities in 2017/18 and confirms compliance with the Council's approved policies.
- 3.4 This report was considered by the Standards and Audit Committee at its meeting on 26 September, 2018, where it resolved that the report and its recommendations be supported.

4.0 **Summary of the Annual Report**

- 4.1 During 2017/18, the Council complied with its legislative and regulatory requirements. The key actual prudential and

treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2016/17 Actual £'000	2017/18 Revised £'000	2017/18 Actual £'000
Actual capital expenditure	18,855	23,858	19,631
Capital Financing Requirement:			
- General Fund	13,983	15,141	15,143
- HRA	134,359	132,343	132,343
- Total	148,342	147,484	147,486
External debt	133,245	131,303	131,303
Investments – under 1 year	31,762	42,929	46,360
1 year and above	3,256	-	-
Net borrowing	98,227	88,374	84,943

The increase in investments from 2016/17 is largely due to slippage in both the General Fund and HRA capital programmes, and the receipt of the Sheffield City Region grant of £5.4m towards the Northern Gateway project that was received in March 2018.

- 4.2 Other prudential and treasury indicators are to be found in Annexe 1. The Director of Finance and Resources also confirms that borrowing over the medium term is only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached in 2017/18.
- 4.3 The financial year 2017/18 continued the challenging environment of low investment return, however November 2017 saw the first interest rate rise in more than 10 years with the official bank rate rising to 0.50%. There was a large differential between borrowing and investments rates during the year.

Investments – Interest income received for the year was on budget at £225,000. Following a review of investments during the 2017/18 financial year the Council further diversified its

investment portfolio in order to achieve greater security of investments, particularly with deposits with other local authorities. Further information can be found in Annexe 1.

The in-house team managed average balances of £45.2m earning an average rate of return of 0.56%.

Borrowing – in terms of activity during the year on the Council's debt portfolio:

- No new external long term borrowing was undertaken; &
- Long term loan repayments of £1m were made.

Treasury Management Advisors – Arlingclose continued to provide treasury management advice to the Council throughout 2017/18. Treasury recommendations were incorporated into the 2017/18 Treasury Management Strategy Statement that was approved by Council in February 2017.

5.0 **Mid- Year Review 2018/19**

5.1 Annual Investment Strategy

In accordance with the Cipfa Code and the Council's Investment Strategy, the investment priority is to ensure security and liquidity of capital, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. The Bank Rate was increased by a further 0.25% in August 2018 to 0.75%; however the continuing uncertainty of economic recovery and the geo-political uncertainties prompt a low risk and short term strategy. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the five months ended 31st August 2018.

5.2 Internally Managed Cash Balance

In the first quarter of the year the interest rates achieved were slightly higher than those assumed when setting the budget (0.66% against 0.58%). The net average internal investment balance has also been higher than the assumptions made in the original budget, which has resulted in net internal investment returns being £4,500 better than forecast for the first quarter of the year.

5.3 Investment rates were increased in August 2018, however the continuing uncertainty on the impact of the UK leaving the European Union means that volatility remains around investment rates. The budget forecast for investment income will be reviewed as part of the revised budget process in the Autumn.

5.4 Borrowing activities in the period:

- No new long term borrowing has been undertaken;
- No repayments of principal have yet been made; &
- No debt rescheduling was undertaken.

5.5 Compliance with Treasury & Prudential Limits

All treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices have been maintained.

The main Prudential Indicators relating to borrowing are:

- Authorised Borrowing Limit – the limit for the year was set at £148m, the limit has not been breached.
- Operational Boundary – this was set at £138.3m for the year, again the limit has not been breached.

6.0 **Treasury Management Indicators 2018/19**

Amendments to the 2018/19 General Fund capital programme will be considered by Council in October. Further borrowing may be necessary and this additional borrowing would require an adjustment to the Prudential Indicators (PI's) approved as part of the Treasury Management Strategy Statement in February. The PI's detailed below would need to be amended:-

- General fund Capital Expenditure & Financing
- General Fund Capital Financing Requirement
- Operational Boundary
- Authorised Limit

These amended PI's will be reported to Cabinet as part of the budget monitoring report in the autumn.

7.0 **Recommendations**

7.1 That the **Council** is recommended to:

- (i) Approve the outturn Prudential Indicators for 2017/18;
- (ii) Approve the treasury management stewardship report for 2017/18;
- (iii) Note the treasury management position for the first five months of 2018/19.

8.0 **Reasons for recommendations**

8.1 To comply with the Council's Treasury Management Policy and Practices, the CIPFA Code of Practice on Treasury Management (2017) and the CIPFA Prudential Code for Capital Finance in Local Authorities (2017).

Decision information

Key decision number	100
Wards affected	All
Links to Council Plan priorities	All

Document information

Report author	Contact number/email
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Background documents Local Government Act 2003, CIPFA Prudential Code & Guidance, Accountancy Services' final accounts working papers.	
Annexes to the report	
Annexe 1	Annual Treasury Outturn Report 2017/18