Appendix A

Treasury Management Annual Report 2017/18 Supporting Information

1. Introduction

1.1. The CIPFA Code of Practice for Treasury Management in the Public Services, revised in December 2017, requires the Section 151 Officer to report to the Executive before the start of the financial year on the treasury strategy for the coming year and, after the end of the financial year on Treasury Management activity and performance for the previous year.

1.2. The regulatory environment places onus on Members for the review and scrutiny of treasury management policy and activities (which are defined by CIPFA as "the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.3. The Treasury Management Group met three times during the course of 2017/18 to review performance and detailed implementation of policy. This group includes the Portfolio Member and Shadow Portfolio Member for Finance, together with the Head of Finance, the Chief Accountant, the Finance Manager for Capital, VAT and Treasury, the Treasury Accountant. However this annual report is also important, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies for the benefit of all Executive Members.

1.4. This report includes:

- A summary of changes to the regulatory framework during 2017/18
- A summary of the economic factors affecting treasury policy and performance
- A summary of the approved strategy for 2017/18 and 2018/19
- A review of treasury management performance in line with the strategy in 2017/18.

2. Changes to the Regulatory Framework in 2017/18

2.1 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and a revised Prudential Code. A particular focus of these revised codes is how to deal with local authority investment in property in order to generate a higher level of income than can earned through cash investments.

2.2 The Council's Property Investment Strategy (which is closely aligned to its Investment and Borrowing Strategy) is being reviewed to ensure that it complies with the latest guidance, in particular to ensure that the Council is making prudent provision for the future repayment of debt to finance the purchase of investment

property. The detailed effects of these changes on the Property Investment Strategy will be reported as part of the quarterly Financial Performance reporting.

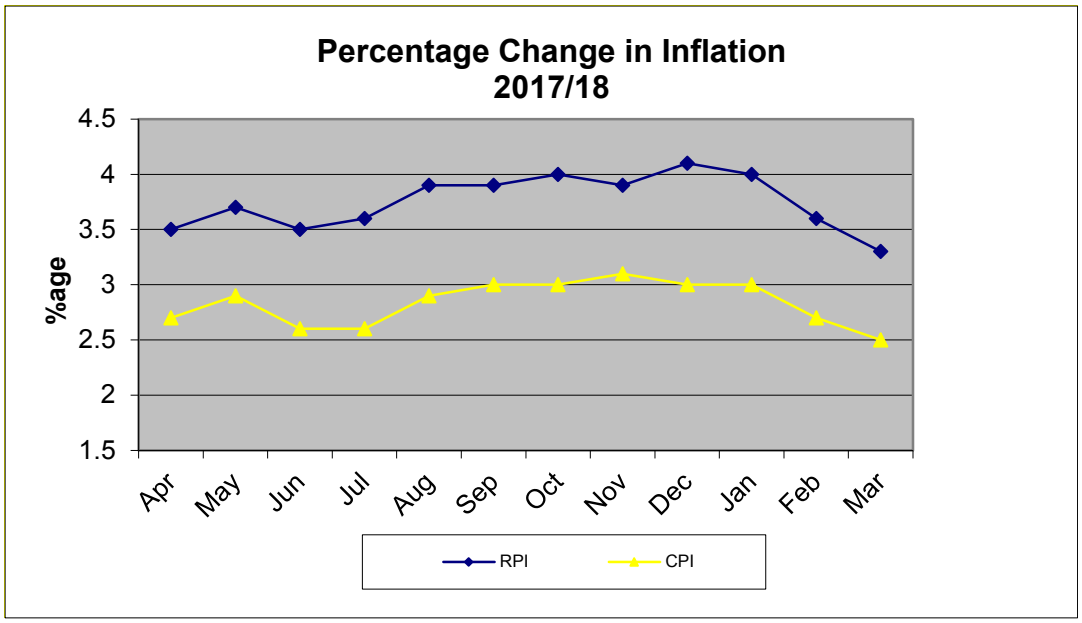
2.3 The EU Markets in Financial Instruments Directive (MiFID II) also took effect in January 2018. This directive requires all investors to be classified as either retail or professional investors, depending on the scale of their investment activities and the level of experience and expertise of the people involved in investment decisions. Local authorities were, by default, classified as retail investors which would limit the range of investments available. However we have reviewed the scale of our investment activities and the level of expertise of the members of the Treasury Management Group and as a result we have been able to demonstrate to the brokers who arrange most of our investments for us that we meet the criteria to opt up to professional status.

3. Economic conditions

3.1 During the calendar year of 2017, there was a shift in the expectations in financial markets in terms of when the Bank of England Base Rate would start to rise from its historically low level of 0.25% at the start of the year. Growth in 2017 was weak in the first half of the year. The primary 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. This caused a reduction in consumer disposable income and spending power. However growth in the second half of 2017 was stronger than expected and there was evidence that wage increases had started to rise.

3.2 The government's main measure of inflation, which the Bank of England Monetary Policy Committee (MPC) uses to inform its interest rate decisions, is the Consumer Price Index (CPI). In order to maintain price stability, the Government has set a target for CPI of 2%. The CPI inflation actually rose to a high of 3.1% in November. However the Bank of England expects inflation to fall back over the next year and to approach the 2% target over the next two to three years.

Chart 1

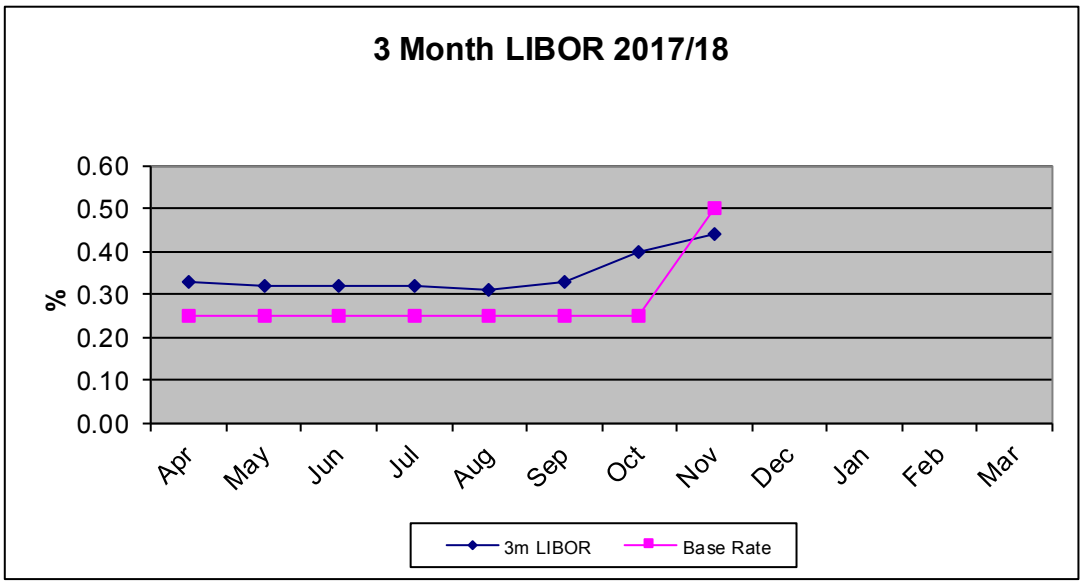


3.3 The latest Bank of England inflation report (May 2018) states that GDP growth was weaker than expected in Q1 of 2018. However the Bank is projecting growth in GDP 1.75% for the whole of 2018.

3.4 The MPC regularly reviews interest rates and other aspects of monetary policy in order to meet the 2% inflation target. In November 2017, the MPC voted by a majority of 7-2 to increase the Bank Rate by 0.25 percentage points, to 0.5%. There have been no further rate rises since then, but the committee has given forward guidance that they expect to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%.

3.5 The interest rates which the Council can earn on its investments reflect the three month sterling London Inter-Bank Offer Rate or LIBOR (this is the rate at which the banks are prepared to lend to each other). LIBOR (see Chart 2) remained around 0.32% from April to Sept 17, and then increased to 0.44% in November reflecting the change in the Bank of England base rate.

Chart2



3.6 No data is available from December 2017 onwards because the Bank of England has been unable to source sufficient representative data to allow it to calculate an average rate.

3.7 The effect of this has been that interest rates available to the Council from banks and building societies have increased slightly during 2017/18. For example, a 1 year investment with a top 20 building society in April 2017 would have been at around 0.70% and in March 2018 would have been at a rate of around 0.90%.

4. Overview of Cash Flow and Treasury Management Strategy

4.1 The aim of the latest investment strategy (approved by the Council in March 2018) is to manage cash flow to ensure sufficient funds are available on a day to day basis for the Council's operations. Surplus funds are invested to generate the most beneficial interest receipts, while minimising the exposure of investments to risk.

4.2 The amount of cash held by the Council fluctuates throughout the year and within each month. In general terms, funds are high on the first working day of the month when a large proportion of Council tax and government grant is received and low on the last working day of the month when the majority of staff salaries are paid. Funds also to be lower towards the end of the financial year as some of the smaller government grants are paid in full at the start of the financial year and the majority of Council tax payments are made in ten equal instalments between April and January, so Council tax receipts are much lower in February and March.

5. Treasury management activity in 2017/18

5.1 The treasury position as at 31st March 2018, compared to the previous year is:

Table 1

	31st March 2018 £	Average Rate	31st March 2017 £	Average Rate
Fixed Rate Debt				
PWLB Loans Balance	159,693	3.30%	132,552	3.04%
PFI Debt	14,293	6.1%	14,897	6.1%
Short Term Borrowing	-		13,000	0.42%
Total Debt	**173,986**		**160,449**	
Cash and cash equivalents	6,194	0.18%	3,475	0.26%
Cash investments > 3 months	18,000	0.8%	6,500	0.78%
Total Cash & Investments	**24,194**		**9,975**	

5.2 In order to meet the Council's day to day cash flow requirements, a sum of between approximately £1 million and £20 million is held in instant access accounts. In line with the Council's Treasury Management Strategy, accounts are held with banks rated by Moody's Credit Ratings Agency at P1 (maximum deposit £5 million) or P2 (maximum deposit £4 million) while the money market fund is rated AAA. These ratings indicate a very low risk of default on short term investments.

5.3 The interest rates and credit ratings for these accounts are as follows:

Table 2

Institution:	Interest Rate:	Changes:	Moody's Rating:
Bank of Scotland	0.20%	A reduction from 0.40% in October 2016	P1
NatWest	0.01%	A reduction from 0.25% in December 2016	P2
Santander UK	0.15%	A reduction from 0.40% in November 2016	P1
Goldman Sachs Money Market Fund	Variable averaging 0.33%	At it's highest in May 2016 (0.47%) falling to 0.21% in March 2017	AAA

5.4 At various points in the year the Council had surplus funds which it placed in fixed term, fixed rate investments until they were needed to cover outgoings. The longer

the term of the investment, the higher the rate of interest earned. During the year, 10 fixed term investments of between £1 million and £4 million were made for periods of between 180 and 364 days. All of these investments were placed with the top 20 British Building Societies. The average length of investment was 268 days and the average interest earned was 0.78%. A £500k loan to Thatcham Town Council, which originally made in February 2016 at 1.35% and extended for a further year from February 2017 at 1.1%, was repaid in February 2018.

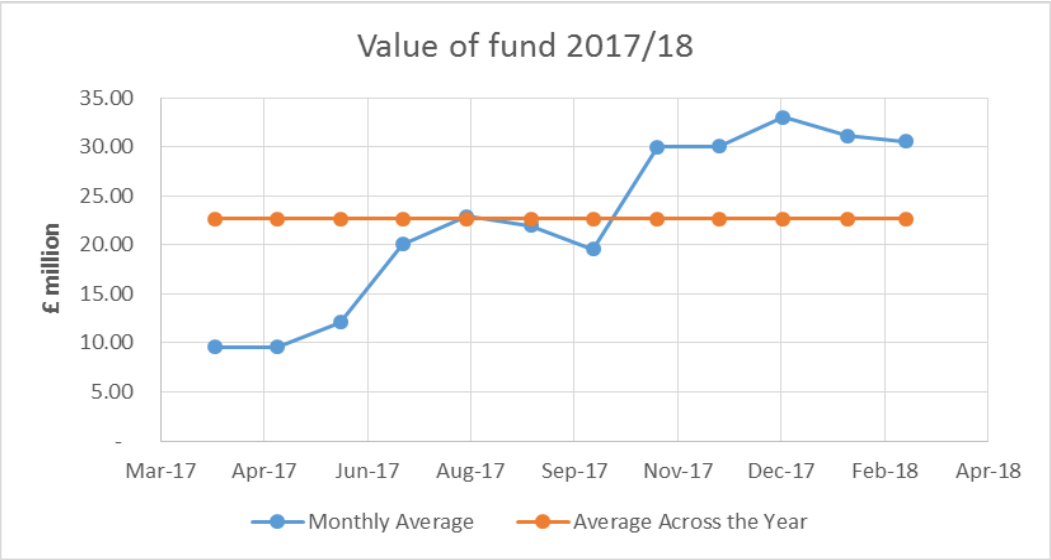
5.5 It was also necessary from time to time for the Council to take out short term loans to cover its cash flow requirements. 9 short term loans were taken out during the financial year. These were all from other local authorities, for periods of between 3 days and 21 days, at rates of interest between 0.15% and 0.40%. Eight of these loans were for 14 days or less. The average length of loan was 12 days and the average interest paid on these loans was 0.25%.

5.6 The majority of the Council's investments are arranged through one of five firms of financial brokers, which have ready access to the most competitive interest rates on the market each day.

6. Overall Performance of the Treasury Fund

6.1 The average value of the fund during the year (i.e. the total of temporary investments less temporary borrowing) was £22.6 million (see Chart 3). This was significantly higher than the average value of the fund in 2016/17 of £7.8 million. This increase was partly because of delays to major capital schemes (mainly new schools), which meant that government grants received to finance these schemes were held by the Council for most of the year. The level of the fund in 2017/18 was also affected by borrowing to fund the purchase of investment property, some of which was carried out a few months advance of completion of the purchases in order to take advantage of low interest rates. This included £6.8 million which was borrowed in March 2018 to fund purchases which were completed in April and July 2018. The net value of the fund at 31st March 2018 was £25.4 million.

Chart 3



6.2 The net amount of interest earned from the Council's investment and short term borrowing activities in 2017/18 was £129k compared with £41k in 2016/17. This represents a net rate of return of 0.57% as compared with the average bank base rate for the year of 0.35%.

6.3 In addition, the Royal Borough of Windsor and Maidenhead, who manage the Berkshire pension fund, offered West Berkshire a discount of 1.9% on its total pension contributions due for the year in exchange for paying the contributions in advance in April 2017, instead of in monthly instalments. In this way, the Council achieved a saving of £230k, by, in effect, making a temporary investment of £12.2 million with the Berkshire Pension Fund at a rate of return of 1.9%. This was achieved because the Pension Fund is much bigger than the West Berkshire treasury fund and is able to invest over longer periods and therefore to earn a higher rate of return. Taking into account this saving, therefore, the total net investment income earned was £360k.

6.4 If the average fund balance is adjusted to include the average level of prepaid pension contributions (approximately £6.1 million on average across the year), and if the saving achieved through this arrangement is included in our return on investments, the overall rate of return would equate to 1.25%.

6.5 Table 3 (below) shows that investment and borrowing activities in 2017/18 were largely in line with the Treasury Management Strategy approved by Council in March and with the more detailed Treasury Management Policies, which underpin the Strategy. There were a few exceptional circumstances when unexpected payments were received into or paid out of the Council's main bank account. In these cases the account was returned to its approved limit on the next working day.

Table 3

Policy	**Target**	**Actual**	**Explanation**
Credit limit with counterparties not exceeded	100%	98.8%	Late clearing of receipts into the Council's main bank account meant that on 3 out of 251 working days the £4 million counterparty limit with Natwest was exceeded. This was corrected the next working day.
All counterparties on approved lending list	100%	100%	
All investments are approved investments	100%	100%	
Segregation of duties complied with	100%	100%	
Current account daily balance within +/- £100k of estimate	100%	100%	
Target for short term debt of £15m not exceeded	100%	100%	

7. Long Term Borrowing in 2017/18

7.1 With the exception of debt embedded in the PFI contract, all the Council's long term debt is with the Public Works Loans Board (PWLB). The level of long term borrowing in 2017/18 was in line with the prudential borrowing limits set out in the annual Investment and Borrowing Strategy 2017/18 and the Capital Strategy 2017 to 2021, which were both approved by the Council in March 2017. The operational borrowing limit agreed for 2017/18, as part of the Investment and Borrowing Strategy, was £216 million, which includes temporary borrowing and debt embedded in the PFI contract. Borrowing needs were also reviewed during the year by the Treasury Management Group.

7.2 At 1 April 2017 the Council had long term PWLB loans of £132.6 million (including £20.5 million remaining from the loans inherited from the former Berkshire County Council). During 2017/18 new PWLB loans of £31.9 million were taken out as follows:

Table 4

New PWLB Loans 2017/18	Amount	Type	Rate	Start Date	Finish Date	Total Amount to be repaid
To fund capital expenditure on property investment	£2,985,000	Maturity	2.43%	Oct-17	Oct-67	£6,111,775
To fund capital expenditure on property investment	£6,248,000	Maturity	2.50%	Oct-17	Oct-67	£14,058,000
To fund capital expenditure on property investment	£13,000,000	Maturity	2.38%	Mar-18	Mar-68	£28,470,000
To fund capital expenditure in 2016/17 on assets with a useful life of 5 years	£932,000	Annuity	1.64%	Feb-18	Feb-23	£974,548
To fund capital expenditure in 2016/17 on assets with a useful life of 10 years	£1,457,000	Annuity	1.99%	Feb-18	Feb-28	£1,613,989
To fund capital expenditure in 2016/17 on assets with a useful life of 15 years	£110,000	Annuity	2.28%	Feb-18	Feb-33	£130,500
To fund capital expenditure in 2015/16 on assets with a useful life of 30 years	£4,320,000	Annuity	2.76%	Feb-18	Feb-48	£6,380,624
To fund capital expenditure in 2015/16 on assets with a useful life of 50 years	£2,893,000	Annuity	2.81%	Feb-18	Feb-68	£5,403,546

7.3 £4.8 million loan repayments were made in 2017/18, leaving the balance of long term debt with the PWLB at 31st March 2018 at £159.7 million.

7.4 In the current financial year (2018/19) we anticipate that the Council's total long term PWLB debt will increase by approximately £59 million, to £219 million to allow for the financing of planned capital expenditure in 2018/19, including a further £50m borrowing to fund planned investment in property. The level of the Council's long term debt is expected to reach a peak of approximately £255 million by 2021. This debt level is in line with the capital strategy and MTFS approved by Council in March 2018 and the Property Investment Strategy which was amended by the Council in July 2018. From 2024/25 onwards, the Council's long term debt is expected to start to decrease by about £1.2 million per year.

7.5 These figures do not include the debt embedded in the Waste PFI contract to finance the cost of building the Padworth Waste Management facility. This debt, which is included in the total borrowing shown on the Council's balance sheet, stood at £14.3 million at end of March 2018. (Repayments of this debt are included in the monthly waste contract charges, which are paid from the revenue budget for waste management).

7.6 As explained in paragraph 3.3 (above), the Council has avoided borrowing more than is necessary in the past, by offsetting some capital expenditure against its useable reserves. This means that, if the Council wishes to spend any significant amount from its reserves, it is likely to be necessary to undertake more borrowing to refinance previous years' capital expenditure, so increasing the revenue cost of financing capital spend. However, the forecast future level of borrowing and the cost of debt repayments included in the MTFS both allow for the amount expected to be borrowed to refinance previous year's capital expenditure.

8. Consultation and Engagement

Internal Consultation:

Andy Walker	–	Head of Finance
Anthony Chadley	–	Portfolio Holder for Finance

Subject to Call-In:
Yes: ☐ No: ☒

The item is due to be referred to Council for final approval	☐
Delays in implementation could have serious financial implications for the Council	☐
Delays in implementation could compromise the Council's position	☐
Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months	☐
Item is Urgent Key Decision	☐
Report is to note only	☒

Wards affected:

Strategic Aims and Priorities Supported:

The proposals will help achieve the following Council Strategy aim(s):

☐ **BEC – Better educated communities**
☐ **SLE – A stronger local economy**
☐ **P&S – Protect and support those who need it**
☐ **HQL – Maintain a high quality of life within our communities**
☒ **MEC – Become an even more effective Council**

The proposals contained in this report will help to achieve the following Council Strategy priority(ies):

☐ **BEC1 – Improve educational attainment**
☐ **BEC2 – Close the educational attainment gap**
☐ **SLE1 – Enable the completion of more affordable housing**

☐ **SLE2 – Deliver or enable key infrastructure improvements in relation to roads, rail, flood prevention, regeneration and the digital economy**
☐ **P&S1 – Good at safeguarding children and vulnerable adults**
☐ **HQL1 – Support communities to do more to help themselves**
☒ **MEC1 – Become an even more effective Council**

The proposals contained in this report will help to achieve the above Council Strategy aims and priorities by improving the efficiency with which the Council's property is managed.

Officer details:

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Appendix B

Equality Impact Assessment - Stage One

We need to ensure that our strategies, polices, functions and services, current and proposed have given due regard to equality and diversity.

Please complete the following questions to determine whether a Stage Two, Equality Impact Assessment is required.

Name of policy, strategy or function:	Treasury Management Annual Report
Version and release date of item (if applicable):	Version 1 24th July 2018
Owner of item being assessed:	Gabrielle Esplin
Name of assessor:	Gabrielle Esplin
Date of assessment:	24th July 2018

Is this a:		**Is this:**	
Policy	**No**	**New or proposed**	**No**
Strategy	**No**	**Already exists and is being reviewed**	**Yes**
Function	**Yes**	**Is changing**	**No**
Service	**No**		

1. What are the main aims, objectives and intended outcomes of the policy, strategy function or service and who is likely to benefit from it?	
Aims:	To manage the Council's cash flow, investments and borrowing.
Objectives:	To ensure sufficient funds are available on a day to day basis for the Council's operations and generate income from investment of surplus funds, while minimising the exposure of investments to risk.
Outcomes:	Income is earned from the Council's short term investments and a strategy is in place to fund long term borrowing for capital investment.
Benefits:	To contribute towards the Council's revenue budget.

2. Note which groups may be affected by the policy, strategy, function or service. Consider how they may be affected, whether it is positively or negatively and what sources of information have been used to determine

this. (Please demonstrate consideration of all strands – Age, Disability, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Race, Religion or Belief, Sex and Sexual Orientation.)		
Group Affected	**What might be the effect?**	**Information to support this**
No groups of service users are directly affected by this report		
Further Comments relating to the item:		

3. Result	
Are there any aspects of the policy, strategy, function or service, including how it is delivered or accessed, that could contribute to inequality?	**No**
Please provide an explanation for your answer: No groups of service users or employees are directly affected by this report	
Will the policy, strategy, function or service have an adverse impact upon the lives of people, including employees and service users?	**No**
Please provide an explanation for your answer: No groups of service users or employees are directly affected by this report	

If your answers to question 2 have identified potential adverse impacts and you have answered 'yes' to either of the sections at question 3, or you are unsure about the impact, then you should carry out a Stage 2 Equality Impact Assessment.

If a Stage Two Equality Impact Assessment is required, before proceeding you should discuss the scope of the Assessment with service managers in your area. You will also need to refer to the Equality Impact Assessment guidance and Stage Two template.

4. Identify next steps as appropriate:	
Stage Two not required:	

Name: Gabrielle Esplin **Date: 24th July 2018**

Please now forward this completed form to Rachel Craggs, the Principal Policy Officer (Equality and Diversity) for publication on the WBC website.