
Treasury Management Annual Report 2018/19

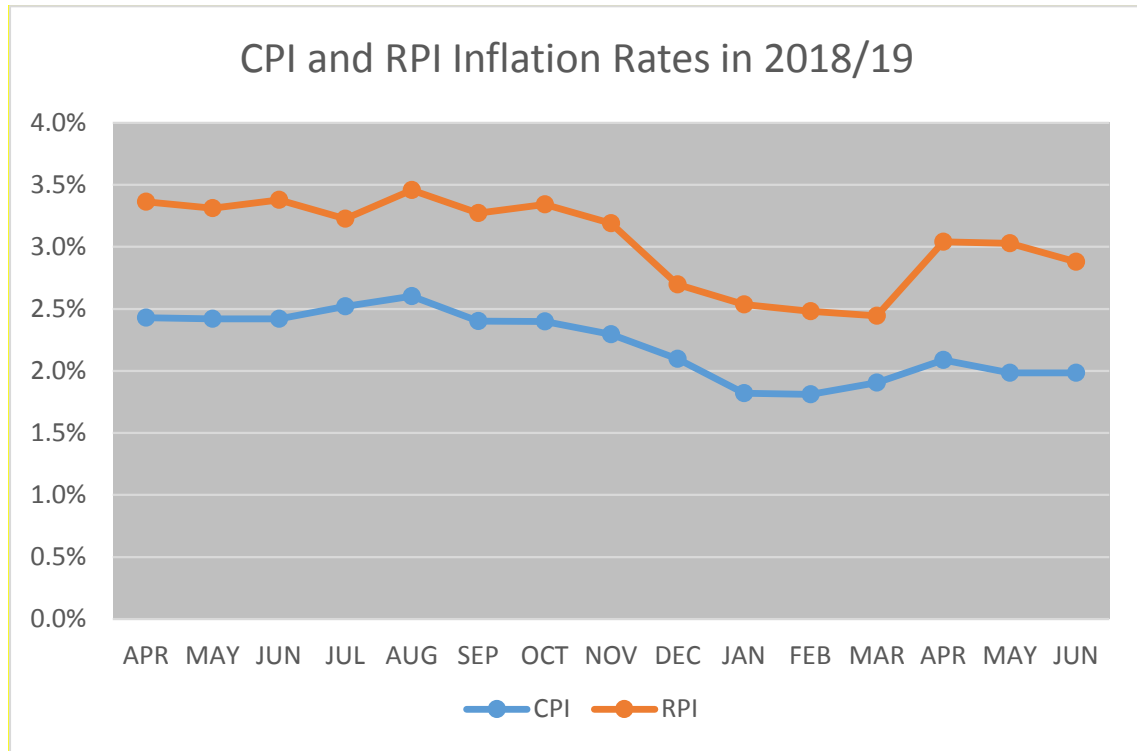
Supporting Information

1. Introduction

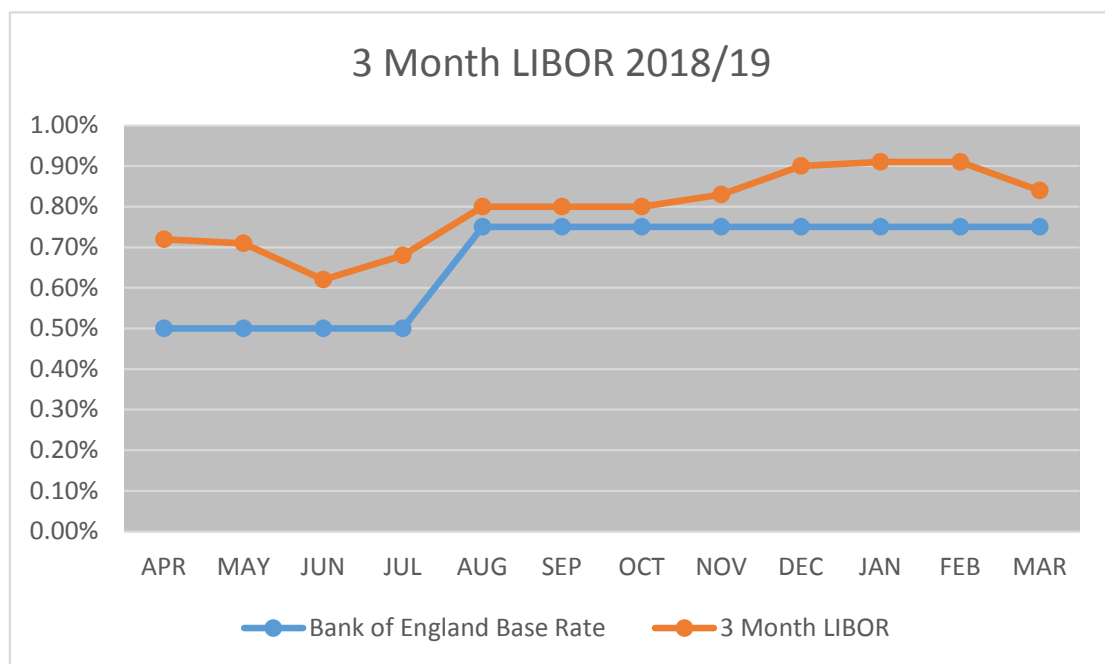
- 1.1. The CIPFA Code of Practice for Treasury Management in the Public Services, revised in December 2017, requires the Section 151 Officer to report to the Executive before the start of the financial year on the treasury strategy for the coming year and, after the end of the financial year on Treasury 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 2018/19 to review performance and detailed implementation of policy. This group includes the Portfolio Member for Finance, together with the Head of Finance and Property, the Chief Financial Accountant, the Finance Manager for Capital, VAT and Treasury, the Treasury Accountant.
- 1.4. This annual report, which provides details of the treasury activities and compliance with the Council’s policies throughout 2018/19 for the benefit of all Executive Members, includes:
 - A summary of the economic factors affecting treasury policy and performance
 - A summary of the approved strategy for 2018/19 and 2019/20
 - A review of treasury management performance in line with the strategy in 2018/19.

2. Economic conditions

- 2.1 The UK economy was influenced during 2018 by slow growth in the global economy and uncertainty over the outcome of the Brexit process. Despite these effects, CPI inflation remained above the Bank of England target of 2% in the first quarter of the financial year. A rise in the Bank of England base rate from 0.5% to 0.75% in August 2018 was followed by a reduction in the CPI rate to 1.9% by March 2019.

Chart 1

- 2.2 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) rose from 0.62% from in June 2018 to a peak of 0.92% in February 2019, which was broadly in line with the change in the Bank of England base rate.

Chart2

- 2.3 The effect of this has been that interest rates available to the Council from banks and building societies have increased during 2018/19. For example, a 1 year investment with a top 20 building society in June 2018 earned 0.80% but equivalent rates peaked at 1.25% by December 2018.
- 2.4 The Bank of England forecast in May 2019 that inflation is likely to remain steady for the next 12 to 18 months and then to increase somewhat above the 2% target. The base rate is not now expected to show any further rises during 2019 and only to rise to 1% by the end of 2021 (about a year later than was forecast this time last year).

3. Overview of Cash Flow and Treasury Management Strategy

- 3.1 The aim of the Council's investment strategy (last approved by the Council in March 2019) 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.
- 3.2 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 tend 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.

4. Treasury management activity in 2018/19

- 4.1 The treasury position as at 31st March 2019, compared to the previous year was as follows:

Table 1

	31st March 2019 £000	Average Rate	31st March 2018 £000	Average Rate
Fixed Rate Debt				
PWLB Loans Balance	200,438	3.16%	159,693	3.30%
PFI Debt	13,651	6.1%	14,293	6.1%
Short Term Borrowing	8,500	0.90%	-	
Total Debt	222,589		173,986	
Instant access cash deposits	10,020	0.59%	7,401	0.25%
Fixed term fixed rate investments	26,000	1.1%	18,000	0.8%
Total Cash & Investments	36,020		25,401	

- 4.2 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.

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

Table 2

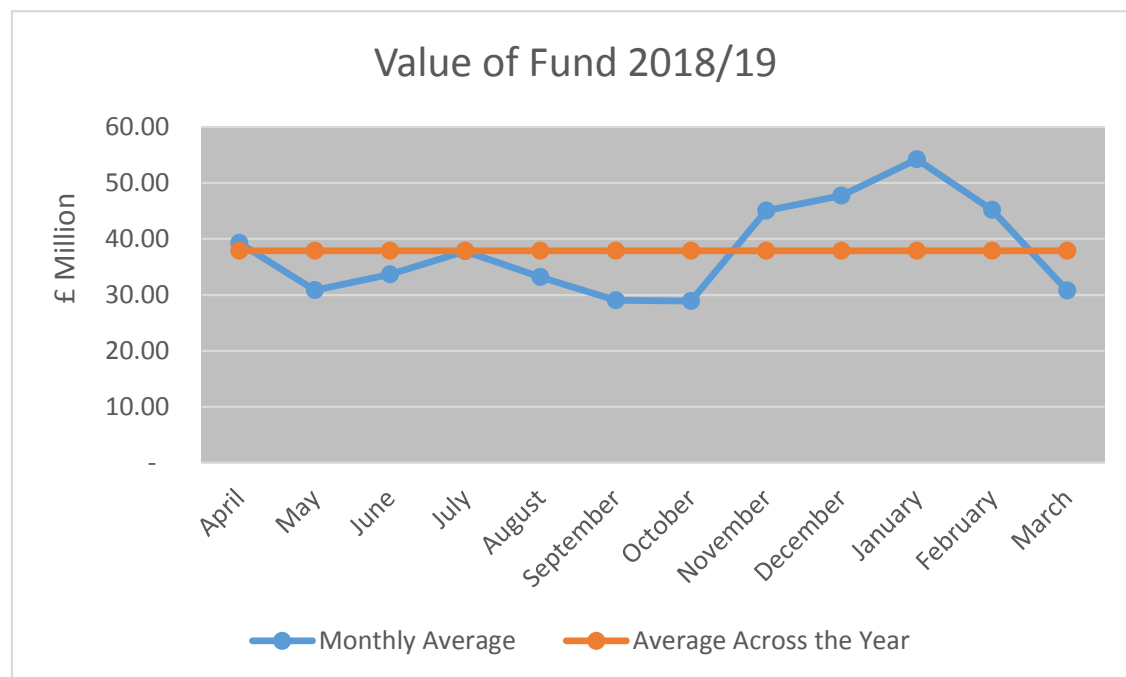
Institution:	Interest Rate:	Changes:	Moody's Rating:
Bank of Scotland	0.60%	Increased from 0.35% in August 2018	P1
NatWest	0.2% < £1m 0.3% > £1m	Increased from 0.1 in October 2018	P2
Santander UK	0.15%	No change in 2018/19 but increased to 0.5% in April 2019	P1
Goldman Sachs Money Market Fund	Variable averaging 0.59%	0.33% average in 2017/18; peaked at 0.74% in January 2019; currently 0.69%	AAA

- 4.4 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, 18 fixed term investments of between £1 million and £5 million were made for periods of between 14 and 364 days. All of these investments were placed with the top 20 British Building Societies. The average length of investment was 282 days and the average interest earned was 1.05%.
- 4.5 It was also necessary from time to time for the Council to take out short term loans to cover its cash flow requirements. 14 short term loans of between £1 million and £6 million were taken out during the financial year. These were all from other local authorities, for periods of between 4 days and 59 days, at rates of interest between 0.40% and 0.92%. Eight of these loans were for 14 days or less. The average length of loan was 13 days and the average interest paid on these loans was 0.79%.
- 4.6 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.

5. Overall Performance of the Treasury Fund

- 5.1 The average value of the fund during the year (i.e. the total of temporary investments less temporary borrowing) was £37.9 million (see Chart 3). This was higher than the average value of the fund in 2017/18 of £22.6 million. This increase was partly because of delays to major capital schemes (mainly new schools) and the receipt in advance of capital grants for highways maintenance and new school places. The net value of the fund at 31st March 2018 was £27.5 million.

Chart 3



- 5.2 The net amount of interest earned from the Council's investment and short term borrowing activities in 2018/19 was £314k compared with £129k in 2017/18. This represents a net rate of return of 0.83% as compared with the average bank base rate for the year of 0.67%. The higher level of interest earned in 2018/19 was as a result of a combination of the higher fund balance and interest rates which increased during the course of the year.
- 5.3 In addition, the Royal Borough of Windsor and Maidenhead, who manage the Berkshire pension fund, offered West Berkshire a discount of 2.7% on its total pension contributions due for the year, in exchange for paying the contributions in advance, in April 2018, instead of in monthly instalments. In this way, the Council achieved a saving of £373k, by, in effect, making a temporary investment of £14 million with the Berkshire Pension Fund at a rate of return of 2.7%. 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 £687k.
- 5.4 If the average fund balance is adjusted to include the average level of prepaid pension contributions (approximately £7 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 1.53%. (1.27% in 2017/18)
- 5.5 Table 3 (below) shows that investment and borrowing activities in 2018/19 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%	98.0%	Late clearing of receipts into the Council's main bank account meant that on 5 out of 252 working days the £5 million counterparty limit with Natwest was exceeded. On all occasions 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%	
Target for short term debt of £15m not exceeded	100%	100%	

6. Long Term Borrowing in 2018/19

- 6.1 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 2018/19 was in line with the prudential borrowing limits set out in the annual Investment and Borrowing Strategy 2018/19 and the Capital Strategy 2018 to 2022, which were both approved by the Council in March 2018. The operational borrowing limit agreed for 2018/19, as part of the Investment and Borrowing Strategy, was £223 million, which includes temporary borrowing and debt embedded in the PFI contract. This limit was increased to £273 million in July 2018 to accommodate the revised Property Investment Strategy. Borrowing needs were also reviewed during the year by the Treasury Management Group.
- 6.2 At 1 April 2018 the Council had long term PWLB loans of £159.7 million (including £20.5 million remaining from the loans inherited from the former Berkshire County Council). During 2018/19 new PWLB loans of £46.1 million were taken out as follows:

Table 4

New PWLB Loans 2018/19	Amount	Type	Rate	Start Date	Finish Date	Total Amount to be repaid
To fund capital expenditure on property investment	£15,855,000	Maturity	2.43%	Apr 18	Apr 68	£35,118,825
To fund capital expenditure on property investment	£9,740,000	Maturity	2.58%	Oct 18	Oct 68	£22,304,600
To fund capital expenditure on property investment	£6,937,700	Maturity	2.53%	Dec 18	Dec 68	£15,713,891
To fund capital expenditure on property investment	£7,487,000	Maturity	2.49%	Mar 19	Mar 69	£16,808,315
To fund capital expenditure in 2016/17 on assets with a useful life of 10 years	£1,348,400	Annuity	1.66%	Dec 18	Dec 28	£1,472,715
To fund capital expenditure in 2015/16 on assets with a useful life of 30 years	£3,813,400	Annuity	2.49%	Dec 18	Dec 48	£5,436,027
To fund capital expenditure in 2015/16 on assets with a useful life of 50 years	£948,400	Annuity	2.66%	Dec 18	Dec 68	£1,720,380

- 6.3 £5.4 million loan repayments were made in 2018/19, leaving the balance of long term debt with the PWLB at 31st March 2019 at £200.4 million.
- 6.4 The Capital Strategy for 2019/20 assumes that the Council's total long term PWLB debt will increase by approximately £45.3 million, to £245.7 million, to allow for the financing of planned capital expenditure in 2019/20. This includes a further £37 million borrowing to fund planned investment in property in 2019/20. However, if the Council's Property Investment Strategy is amended during the course of the current year, this may affect the total level of borrowing by the end of March 2020.
- 6.5 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 £13.7 million at end of March 2019. (Repayments of this debt are included in the monthly waste contract charges, which are paid from the revenue budget for waste management).
- 6.6 The level of the Council's long term debt is expected to reach a peak of approximately £268 million by 2025. This debt level is in line with the capital strategy and MTFS approved by Council in March 2019. From 2025 onwards, the Council's long term debt is expected to start to decrease by about £1.3 million per year.

7. Consultation and Engagement

Internal Consultation:

Andy Walker – Head of Finance and Property
 Jeffery Cant – 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 ☒

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