Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

13 JULY 2018

REPORT OF FINANCE AND CORPORATE RESOURCES PORTFOLIO HOLDER

A.2 TREASURY MANAGEMENT PERFORMANCE 2017/18

(Report prepared by Richard Barrett and Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To report on the Council's treasury management activities and Prudential Indicators for 2017/18.

EXECUTIVE SUMMARY

- Borrowing and investments have been undertaken in accordance with the 2017/18 Annual Treasury Strategy that was approved by Council on 28 March 2017.
- No external borrowing was undertaken in 2017/18 for either the General Fund (GF) or Housing Revenue Account (HRA).
- The amount of interest earned from investments remained low because of the continuing unprecedented low interest rates existing throughout the year, although the bank base rate was increased to 0.50% on 2 November 2017. However due to maximising investment opportunities and cash flow advantages during the year interest returns were in line with the budget.
- During 2017/18 the Council purchased an investment property in the District for £3.244 million, including stamp duty of £0.144 million. The book value of the property within the Councils accounts at the end of the year was lower than the purchase price due to the Stamp Duty Land Tax element not forming part of the asset's 'carrying' value in the balance sheet. Rental income of £0.173 million was earned on the property in 2017/18, which is in accordance with the rate of return reported as part of the purchase decision made during the year.
- Revised Treasury Management Practices were approved as part of the Treasury Strategy for 2018/19 presented to full Council in March 2018.
- Treasury performance figures for the year are set out in **Appendix A** with Prudential Indicators attached as **Appendix B.**

RECOMMENDATION(S)

That Cabinet notes the Treasury Management performance position 2017/18 and approves the Prudential and Treasury Indicators for 2017/18.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES
Good and effective Treasury Management supports the Council in delivery against its corporate goals and objectives.

FINANCE, OTHER RESOURCES AND RISK
Finance and other resources Key treasury management performance data is set out in **Appendix A**. **Risk** Risk is inherent in all treasury management activities. Such risks are considered within the Treasury Strategy with management actions necessary to mitigate the risks set out in the Council's Treasury Management Practices.

LEGAL
This 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 2017/18. 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). The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance which this Council has adopted.

OTHER IMPLICATIONS
Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below. **Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.** There are no direct implications in respect of the above areas.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION
The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Services. The main reporting elements to comply with this code include: • An Annual Treasury Strategy approved by Cabinet after consultation with the Corporate Management Committee for recommending to the Full Council. • Regular monitoring reports that form part of the Council's Corporate Budget Monitoring arrangements during the year. (For 2017/18, a number of issues were brought to the attention of members as part of this reporting process with no further issues to raise as part of this outturn review) • An annual treasury performance or outturn report for the preceding year that is presented to Cabinet. This report sets out the necessary information in response to the third bullet point above and provides a summary of the treasury activities undertaken in 2017/18 **(Appendix A)** and final Prudential and Treasury Indicators at the end of 2017/18 **(Appendix B)**.

During 2017/18, the Council complied with its legislative and regulatory requirements and associated treasury management activity remained in accordance with the Treasury Strategy and Treasury Management Practices with further details in respect of specific borrowing and investment considerations set out in the next section of the report.

BORROWING AND INVESTMENTS 2017/18

Borrowing

The Base Rate was increased to 0.50% on 2 November 2017 and the latest forecast from the Council's treasury advisors indicates that this is unlikely to change until November 2018 when an increase is forecast to 0.75% with an increase to 1.00% forecast in September 2019. Public Works Loan Board (PWLB) rates have also risen a little during 2017/18 but remain very low.

No external borrowing was undertaken during the year. In respect of the General Fund, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent, as investment returns are low and counterparty risk is high. As set out in the Treasury Strategy, the current internal borrowing position is running just ahead of the £5m agreed. However given the continuing low return on investments and no significant increases in PWLB interest rates in the immediate future, it is felt prudent to maintain this position in the short term although this will be kept under review in consultation with the Council's external advisors and set against the background of potential increases in borrowing rates in the future.

No new borrowing or restructuring of existing debt was undertaken for GF or HRA purposes in 2017/18. Principal on HRA debt continues to be repaid each year in line with the 30 year business plan.

Debt rescheduling opportunities are limited in the current economic climate with no debt rescheduling taking place in 2017/18.

No temporary borrowing from the markets was required during the year.

One of the key prudential indicators relates to the Council's Authorised Borrowing Limit. It is therefore worth highlighting that borrowing has been maintained within the Council's Authorised limit as set out below:

Key Indicator	Limit 2017/18	Amount Borrowed (Internal and External)
Authorised Limit – borrowing	£81.038m	£51.257m

Investments

The year saw the continuation of the challenging investment environment of low investment returns and continuing high level of counterparty risk. The tight monetary conditions remain and short term deposit rates remain at low levels.

The Council manages its investments in-house and invests in accordance with the approved strategy. The Council invests for periods of time dependent on the Council's cash flows, the view as to future interest rate movements and the interest rates offered by counterparties whilst balancing various risks such as interest rate risk and counterparty risk.

The Council's investments continued across the following investment types:

- Deposits at fixed rates and for fixed terms with other local authorities and the Government's Debt Management Office (DMO)
- Deposits at fixed rates and for fixed terms with UK-based banks and building societies meeting the counterparty risk criteria
- Treasury bills, which are tradeable but if held to maturity are at fixed rates, although none were purchased during 2017/18 as the rates were much lower than could be achieved elsewhere
- Certificates of deposit, which are tradeable but if held to maturity are at fixed rates
- Use of deposit accounts with UK banks for liquidity

These remain the same instruments the Council has used in prior years so there has been no new investment types used during 2017/18. Further details on how the investment types changed over the year is set out below.

With poor investment returns available along with limited 'low' risk counterparties, a significant proportion of the Council's investments were still made with other local authorities. A number of banks have, however, seen their ratings rise over the past 36 months which brought them back onto the Council's lending list. The returns on Treasury Bills were so low that none were bought during the year. Certificates of deposit and fixed deposits with banks were pursued for much of the year instead of investing with local authorities as a better return was available from these instruments without adding significant additional risk. Local authority rates rose in late 2017 and early 2018 and the Council continued to invest with them again. Both government and local authority investments fit well with the Council's low appetite for risk with the security and liquidity of the investment the prime concern.

The total invested in local authorities at 31 March 2018 was **£46.000 million** out of a total investment of **£55.440 million**. Other investments were held with UK banks with no amounts held with Building Societies, non-UK institutions or in Treasury Bills.

The Council receives regular credit rating updates during the year following which the appropriate action is taken as soon as practical where the credit rating falls below the minimum ratings which form part of the Council's Treasury Management Practices.

The UK holds an AA rating with two rating agencies and Aa2 with the third, with the lower grades not having a specific adverse impact on the Council's treasury activities at the present time.

During 2017/18 the last account held with the Co-operative Bank was closed, so the Council now only holds current accounts with Lloyds Bank.

In accordance with the Council's Commercial Property Investment Policy, an annual update on the portfolio is set out below.

In August 2017 the Council purchased an investment property in the District. The purchase was financed partly from capital receipts and partly from revenue resources, so there was no increase in indebtedness arising from the purchase. The purchase price, including stamp duty, was £3.244 million. The stamp duty land tax element of the purchase price cost of £0.144 million has been treated as an impairment, which is charged to revenue within the Comprehensive Income and Expenditure Statement and then reversed out through the Movement in Reserves Statement so that it does not fall as a direct cost that needs to be financed. This remains as the only property in the portfolio.

The fair value of the asset assessed by the Council's Valuer at year end was £3.100 million in effect the purchase price less stamp duty land tax. During the year the rental income was £0.173 million. This represents an annual rate of return for the year of 6.3%. The property is therefore performing satisfactorily against the financial target with the budgeted investment income achieved for the year.

Since the end of 2017/18, the current leasehold occupier of the property purchased has informed the Council that they will no longer be trading from the property from November 2018. At the present time discussions remain on-going with the current leasehold occupier to explore options going forward, which could include them subletting the property for the unexpired period of the lease (approximately 8 years). It is worth highlighting that the Council's Commercial Property Investment Policy is underpinned by robust risk management actions which will respond to any changes to the situation.

Given the above, there are no current risks to the Council's long term forecast or significant changes to the risk of holding commercial property, but this will be reviewed on an on-going basis with any changes required to be made to the forecast set out as part of the financial strategy process over the reminder of the year.

Specific Issues Experienced in 2017/18

Already Reported to Members on 16 February 2018 as part of Corporate Budget Monitoring Report – Quarter 3 2017/18

The aggregate limit that can be placed with Lloyds Bank was increased temporarily from £1.000 million to £1.500 million for each day the Council offices were closed over the Christmas break. Unfortunately, on 29 December 2017 the actual amount held overnight until 2 January 2018 was £1.536 million, which exceeded the revised limit by £0.036 million. Although it is good to see that customers are increasingly shifting to electronic payment methods, the amount received over the Christmas period exceeded expectations. However the total across all accounts held with the Councils' bankers was **£3.283 million**, which was below the overall limit of **£4.000 million** allowable**.** This did not expose the Council to any significant additional risk and it is proposed to review the position again this year to identify how this situation can be prevented in future.

Compliance with Treasury and Prudential Limits

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy. The outturn for the Prudential Indicators is shown in **Appendix B.**

BACKGROUND PAPERS FOR THE DECISION
None

APPENDICES
Appendix A Treasury Performance figures 2017/18 **Appendix B** Prudential and Treasury Indicators 2017/18

Key treasury management performance data for 2017-18 **Appendix A**

1 Borrowing

1a Long Term Debt

Principal	Opening Balance 1 April 2017 £'000	New Borrowing £'000	Principal Repaid £'000	Balance at 31 March 2017 £'000	Average Debt for Year £'000
Long Term Borrowing					
PWLB - General Fund	771	0	307	464	692
PWLB - Housing Revenue Account	45,099	0	1,665	43,434	44,208
Total Long Term Borrowing	**45,870**	**0**	**1,972**	**43,898**	**44,900**

Average Interest Rates	Average Interest Rate 1 April %	New Borrowing %	Principal Repaid %	Average Interest Rate 31 March %	Average Interest Rate for Year %
Long Term Borrowing					
PWLB - General Fund	8.137	0.000	8.419	7.968	8.106
PWLB - Housing Revenue Account	3.331	0.000	2.371	3.368	3.348
Overall Long Term Borrowing	**3.397**	**0.000**	**3.313**	**3.417**	**3.430**

Interest paid relating to 2017-18

General Fund	56
Housing Revenue Account	1,484
	1,540

Long term debt is defined in legislation as loans repayable over more than one year.

1b *Total debt*

Average debt over the year	£44,900
Interest paid relating to 2017-18	£1,540
Average interest rate for year	3.430%

This includes interest paid on temporary debt

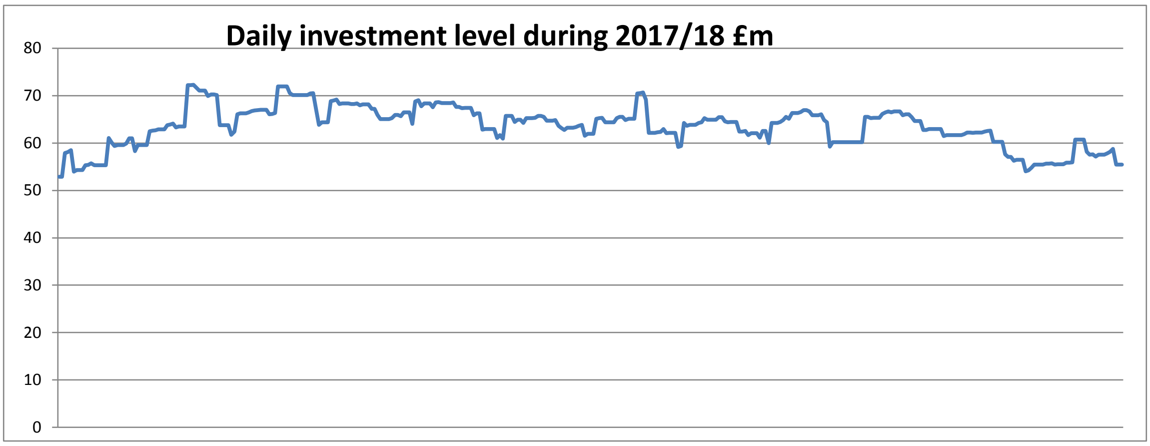
1c Budget for Total Interest Paid

	Original Estimate £'000	Revised Estimate £'000	Out-turn £'000	Variation from Revised Budget £'000
General Fund	56	56	56	0
Housing Revenue Account	1,492	1,492	1,484	(8)
Total Interest Paid	**1,548**	**1,548**	**1,540**	(8)

2 Investments

2a *Temporary Investments*

Principal	Opening Balance 1 April 2017 £'000	New Investments £'000	Investments Repaid £'000	Balance at 31 March 2018 £'000	Average Investments for Year £'000
Investments less than a year					
Investments with UK Government via Treasury Bills, DMO, Local Authorities and other public bodies	36,000	239,500	229,500	46,000	
Investments with UK Financial Institutions (including Money Market Funds)	16,865	44,125	51,550	9,440	
Investments with non-UK Financial Institutions	0	0	0	0	
Total Temporary Investments	**52,865**	**283,625**	**281,050**	**55,440**	**63,506**



Average Interest Rates	Average Interest Rate 1 April %	Average Interest Rate 31 March %	Average Interest Rate for Year %
Temporary Investments	0.388	0.484	0.401

2b Budget for Total Interest Earned

	Original Estimate £'000	Revised Estimate £'000	Out-turn £'000	Variation from Revised Budget £'000
Total Interest Earned	**(236)**	**(236)**	**(257)**	**(21)**

3 Base rates

	%
At 1 April 2017	0.250
At 31 March 2018	0.500

The rate was increased by the Bank of England on 2 November 2017

PRUDENTIAL INDICATORS

CAPITAL EXPENDITURE

This is an estimate of the amount of investment planned over the period. As can be seen, not all investment necessarily has an impact on the Council Tax, schemes funded by grants, capital receipts or external contributions mean that the effect on the Council Tax is greatly reduced.

Capital Expenditure - General Fund £000s	2016/17 Actual	2017/18 Revised	2017/18 Actual	Notes	2018/19 as agreed by Council March 2018	Amended 2018/19
Total Capital Expenditure	**2,295**	**18,523**	**5,811**		**857**	**13,107**
Financing - General Fund						
External contributions	(1)	(340)	(142)		-	(159)
Section 106	(64)	(87)	(80)		-	(7)
Coast protection grant	(74)	(4,888)	(270)		-	(4,618)
Other Government grants	(8)	(322)	-		-	(322)
Disabled Facilities Grant	(1,432)	(2,819)	(1,151)		(690)	(2,362)
Capital receipts	(62)	(1,730)	(850)		(67)	(948)
Direct revenue contributions	(104)	(3,773)	(2,917)		(100)	(100)
Earmarked reserves	(550)	(4,564)	(401)		-	(4,591)
Total Capital Financing	**(2,295)**	**(18,523)**	**(5,811)**	**-**	**(857)**	**(13,107)**
Net Financing need (External Borrowing)	**0**	**0**	**0**		**0**	**0**

Housing Revenue Account Capital Schemes £000	2016/17 Actual	2017/18 Revised	2017/18 Actual	Notes	2018/19 as agreed by Council March 2018	Amended 2018/19
Total Capital Expenditure	**3,413**	**7,283**	**3,233**		**3,657**	**7,409**
Financing - Housing Revenue Account						
Major repairs reserve	(3,262)	(4,111)	(2,801)		(3,176)	(4,096)
Direct revenue contributions	(32)	(2,837)	(85)		(481)	(3,233)
Section 106	(102)	-	(92)		-	-
Capital receipts	-	(156)	(156)		-	-
Government grant	(17)	(179)	(99)		-	(80)
Total Capital Financing	**(3,413)**	**(7,283)**	**(3,233)**		**(3,657)**	**(7,409)**
Net Financing need (External Borrowing)	**0**	**0**	**0**		**0**	**0**

CAPITAL FINANCING REQUIREMENT

Each year, the Council finances the capital programme by a number of means, one of which could be borrowing. The Capital Financing Requirement (CFR) represents the cumulative amount of borrowing that has been incurred to pay for the Council's capital assets, less amounts that have been set aside for the repayment of debt over the years. The Council is only allowed to borrow long term to support its capital programme. It is not allowed to borrow long term to support its revenue budget.

CAPITAL FINANCING REQUIREMENT	2016/17 Actual	2017/18 Revised	2017/18 Actual	Notes	2018/19 as agreed by Council March 2018
	£000	£000	£000		£000
General Fund	6,158	5,912	5,912		5,676
Housing Revenue Account	45,099	43,435	43,435		41,771
Total	**51,257**	**49,347**	**49,347**		**47,447**

HRA LIMIT ON INDEBTEDNESS

The Council is required to report the level of the limit imposed (or subsequently amended) at the time of the implementation of self-financing by the Department for Communities and Local Government. This is to be compared to the Housing Revenue Account capital financing requirement.

PRUDENTIAL INDICATOR	2016/17 Actual	2017/18 Revised	2017/18 Actual	Notes	2018/19 as agreed by Council March 2018
	£000	£000	£000		£000
Limit on indebtedness	60,285	60,285	60,285		60,285
Capital Financing Requirement	45,099	43,435	43,435		41,771
Headroom	15,186	16,850	16,850		18,514

GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT

This indicator compares the Capital Financing Requirement to the level of external debt and shows how much of the capital programme is financed from internal resources. The capital programme is partially funded in the short to medium term by internal resources when investment interest rates are significantly lower than long term borrowing rates. Net interest payments are, therefore, optimised.

PRUDENTIAL INDICATOR	2016/17 Actual	2017/18 Revised	2017/18 Actual	Notes	2018/19 as agreed by Council March 2018
	£000	£000	£000		£000
Capital Financing Requirement	51,257	49,347	49,347		47,447
External debt	45,870	43,898	43,898		42,076
Internal borrowing	5,387	5,449	5,449		5,371

OPERATIONAL BOUNDARY AND AUTHORISED LIMIT

The Council must set an operational boundary and authorised limit for external debt. The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. It also takes account of other long term liabilities, which comprise finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt. The Council has none of these at present.

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

PRUDENTIAL INDICATOR	2016/17 Actual	2017/18 Revised	2017/18 Actual	Notes	2018/19 as agreed by Council March 2018
	£000	£000	£000		£000
Operational boundary - borrowing	71,538	72,934	72,934		66,868
Authorised limit - borrowing	79,486	81,038	81,038		74,298

RATIO OF FINANCING COSTS TO NET REVENUE STREAM

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

ESTIMATE OF THE RATIO OF FINANCING COSTS TO NET REVENUE	2016/17 Actual	2017/18 Revised	2017/18 Actual	Notes	2018/19 as agreed by Council March 2018
	£000	£000	£000		£000
General Fund	0.51	0.53	0.33		0.23
Housing Revenue Account	47.52	71.98	45.16		48.65

INTEREST RATE EXPOSURE

Tendring District Council currently has all its borrowings at fixed rate and usually has a mixture of fixed and variable rate investments. This indicator is set to control the Council's exposure to interest rate risk.

PRUDENTIAL INDICATOR	2016/17 Actual	2017/18 Revised	2017/18 Actual	Notes	2018/19 as agreed by Council March 2018
	£000	£000	£000		£000
Upper limit for Fixed Interest Rates on debt	51,257	49,347	49,347		47,447
Upper limit for Variable Interest Rates on debt (based on 30% of the fixed rate limit)	15,377	14,804	14,804		14,234

TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS (excluding property)

Interest rate risk is also affected by the proportion of the investments invested at fixed rates for longer periods, especially in a period when rates are expected to rise.

PRUDENTIAL INDICATOR	2016/17 Actual	2017/18 Revised	2017/18 Actual	Notes	2018/19 as agreed by Council March 2018
	£000	£000	£000		£000
Limits on the total principal sum invested to final maturities longer than 364 days	3,500	3,500	0		3,500

MATURITY STRUCTURE OF FIXED RATE BORROWING

This indicator is set to control the Council's exposure to refinancing risk. The limits are set for each age range to ensure that the Council avoids too many fixed rate loans being matured at one time and spreads the maturity across several periods. The percentages for the upper and lower limits do not add up to 100% as they do not represent an actual allocation.

PRUDENTIAL INDICATOR	Upper limit	Lower limit	Actual outstanding debt maturity % at		2018/19 as agreed by Council March 2018
	%	%	31/03/2018		31/03/2019
Under 12 months	25	0	4.15%		4.19%
12 months and within 24 months	30	0	4.02%		4.09%
24 months and within 5 years	60	0	12.79%		12.63%
5 years and within 10 years	75	0	22.73%		22.92%
10 years and above	95	25			
10-20 years			18.81%		17.90%
20-30 years			3.33%		2.61%
>30 years			34.17%		35.65%

TREASURY INDICATOR - EXPOSURE TO CREDIT RISK

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) using the rating applicable when it is taken out and taking the arithmetic average, weighted by the size of each investment. Investments in government instruments such as DMO, treasury bills and in local authorities are scored as 1.

TREASURY INDICATOR	2016/17 Actual	2017/18 Actual	2018/19 Upper limit
Average credit score for investments	1.56	1.39	2.00