Executive **27 June 2019**

Report of the Deputy Chief Executive & Director of Customer and Corporate Services
Portfolio of the Executive Member for Finance & Performance

Treasury Management Annual Report and Review of Prudential Indicators 2018/19

Summary

1. The 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 2018/19. 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).

2. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

3. This report also confirms that the Council has complied with the requirement under the Code to give prior scrutiny to treasury management reports by Audit & Governance Committee.

Recommendations

4. Executive is asked to:

    Note the 2018/19 performance of treasury management activity and prudential indicators outlined in annex A.

    Reason: to ensure the continued performance of the treasury management function can be monitored and to comply with statutory requirements.

Background and analysis

The Economy and Interest Rates

5. After weak economic growth of only 0.2% in quarter 1 of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3 before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in quarter 4 came in at 1.4% year on year confirming that the UK was the third fastest growing country in the G7 in quarter 4.

6. After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

7. As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

Overall treasury position as at 31 March 2019

8. The Council's year end treasury debt and investment position for 2018/19 compared to 2017/18 is summarised in the table below:

Debt	31/03/2019 £m	Rate %	31/03/2018 £m	Rate %
General Fund debt	103.4	4.01	118.0	4.24
Housing Revenue Account (HRA) debt	139.0	3.31	139.0	3.34
PFI	47.4	n/a	61.2	n/a

Total debt	289.8	3.61	318.2	3.75
Investments				
Councils investment balance	44.3	0.69	75.7	0.41

Table 1 summary of year end treasury position as at 31 March 2010

The Strategy for 2018/19

9. Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.5% to 0.75%. 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 this increase was pushed back from May to August 2018. Investment rates were therefore on a gently rising trend in the first half of the year, in anticipation that the Monetary Policy Committee would raise bank rate in August. This duly happened at the meeting on 2ndAugust 2018.

10. Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1st 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 rates falling back again.

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

Borrowing requirement and debt

12. The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31 March 2019 Actual £m	31 March 2019 Budget £m	31 March 2018 Actual £m
CFR General Fund	214.4	241.6	201.1
CFR HRA	139.0	139.0	139.0
PFI	47.4	59.7	61.2
Total CFR	400.8	440.3	401.3

Table 2 capital financing requirement

Borrowing outturn for 2018/19

13. The Council continues to make efficient use of its strong cash balance position to support its current capital expenditure requirements. One new loan was taken during the year, a further instalment of £405,761 on a 10 year fixed rate loan from West Yorkshire Combined Authority at 0% interest and repayable on the 28th February 2027. No repayments are due during the term of the loan. The purpose of the loans is to help to fund York Central infrastructure projects. Members are reminded that this is an instalment of a total £2.55m loan agreed by Executive on the 14th July 2016.

14. One loan has been redeemed prematurely. The Council was approached by the provider of one of its LOBO loans who advised they would be willing to negotiate a reduced premium to redeem the loan early. The Council asked its treasury management advisers to review the proposal and they highlighted that, given our strong cash position, it would be financially advantageous to accept the offer. The £5m loan was redeemed on the 12th October and, based on the loan not being refinanced, the saving to the treasury budget is £51k in 2018/19 and £111k in 2019/20 although this gradually reduces over the remaining life of the loan. The average saving generated is £29k pa. The net benefit over the remaining 42 years of the original loan period would be £1.242m in cash terms, and £738k on a net present value basis, split between GF and HRA.

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

Investment outturn for 2018/19

16. The Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 22nd 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.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

17. The Council maintained an average investment balance of £93.531m in 2018/19 compared to £111.11m in 2017/18. The surplus funds earned an average rate of return of 0.69% in 2018/19 compared to 0.41% in 2017/18.

18. The comparable performance indicator for the Councils investment performance is the average London Inter Bank Bid Rate (LIBID) which represents the average interest rate at which major London banks borrow

from other banks. Table 3 shows the rates for financial year 2018/19 and shows that for all cash holdings the rate of return exceeds the levels of the usual 7 day and 3 month benchmarks.

Benchmark	Benchmark Return	Council Performance
7 day	0.51	0.69
3 month	0.68	0.69

Table 3 – LIBID vs. CYC comparison

19. This compares with a budget assumption of average investment balances between a low point of £32m and high point of £102.9m at an average 0.40% investment return.

Consultation

20. The report has been reviewed and scrutinised by Audit and Governance Committee on 19th June 2019.

Options

21. Not applicable.

Council Plan

22. Effective treasury management ensures the Council has sufficient liquidity to operate, safeguards investments, maximises return on those investments and minimises the cost of debt. This allows more resources to be allocated for delivering the Council's priorities as set out in the Council Plan.

Implications

23. This report has the following implications:

- **Financial** are contained throughout the main body of the report.
- **Human Resources (HR)** There are no HR implications.
- **One Planet Council / Equalities** There are no One Planet Council or equalities implications.
- **Legal** Treasury management activities have to conform to the Local Government Act 2003, which specifies that the Council is required to adopt the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice.
- **Crime and Disorder** There are no crime and disorder implications.

- **Information Technology (IT)** There are no IT implications.
- **Property** There are no property implications.
- **Other** There are no other implications.

Risk Management

24. The treasury function is a high-risk area due to the large value transactions that take place. As a result, there are strict procedures set out as part of the treasury management practices statement. The scrutiny of this and other monitoring reports is carried out by Audit and Governance Committee as part of the Council's system of internal control.

Contact Details

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<tr><td colspan="3">Wards Affected: List wards or tick box to indicate all</td><td>All</td><td>✓</td></tr>
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Background Papers:
None

Annexes:
Annex A: Prudential Indicators 2018/19

List of Abbreviations Used in this Report

CIPFA - Chartered Institute of Public Finance & Accountancy
MRP - Minimum Revenue Provision
CFR - Capital Financing Requirement
MPC - Monetary Policy Committee
PWLB - Public Works Loan Board
CLG – (Department for) Communities and Local Government
LIBID – The London Interbank Bid Rate