EXECUTIVE **29 MAY 2019**

SUBJECT:	**TREASURY MANAGEMENT STEWARDSHIP AND ACTUAL PRUDENTIAL INDICATORS REPORT 2018/19 (OUTTURN)**
REPORT BY:	**CHIEF EXECUTIVE AND TOWN CLERK**
LEAD OFFICER:	**SARAH HARDY – GROUP ACCOUNTANT (TECHNICAL & EXCHEQUER)**

1. Purpose of Report

1.1 The annual Treasury Management stewardship report is a requirement of the Council's reporting procedures under regulations issued under the Local Government Act 2003. It covers the treasury management 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. Executive Summary

2.1 During 2018/19 the Council complied with its legislative and regulatory requirements. The key prudential indicators for the year, with comparators, are as follows:

Actual Prudential Indicators	2018/19 £000	2017/18 £000
Actual Capital Expenditure	38,954	39,805
Capital Financing Requirement		
General Fund	61,803	50,977
HRA	58,328	58,503
Total	**120,131**	**109,480**
Net borrowing (borrowing less investments)	**86,154**	**65,504**
External debt (borrowing)	**115,354**	**81,104**
Investments		
• Longer than 1 year*	0	0
• Under 1 year	29,200	15,600
• Total	**29,200**	**15,600**

Other prudential and treasury indicators are to be found in section 4.

3. Background

3.1 The prudential system for capital expenditure is now well established. One of the requirements of the Prudential Code is to ensure adequate monitoring of the capital expenditure plans, prudential indicators (PIs) and treasury management response to these plans. This report fulfils that requirement and shows the status of the Prudential Indicators at 31st March 2019. For the 2018/19 financial year the minimum reporting requirements were that members should receive the following reports:

- an annual Treasury Management Strategy in advance of the year (Council 27th February 2018)
- a mid-year Treasury Update report (Executive 26th November 2018)
- an annual report following the year describing the activity compared to the strategy (this report)

3.2 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

3.3 In compliance with the Prudential Code treasury management reports are scrutinised by Performance Scrutiny Committee and reviewed by the Executive prior to reporting to full Council if required. Member training for the Performance Scrutiny Committee was undertaken on 22nd November 2018 to support their role in scrutinising the half yearly report. Member training for the Audit Committee on treasury management issues was undertaken during the year on 12th February 2019 in order to support their role in scrutinising the treasury management strategy and policies.

4. Summary of Performance against Treasury Management Strategy 2018/19

4.1 The full details of transactions in the year and performance against the Prudential Indicators are included at Appendices A and B.

4.2

Actual Prudential Indicators	2018/19	2017/18
Actual Capital Expenditure	38,954	39,805
Capital Financing Requirement		
General Fund	61,803	50,977
HRA	58,328	58,503
Total	**120,131**	**109,480**
Financing Costs as a proportion of Net Revenue Stream		
General Fund	11.9%	13.7%

HRA	30.1%	45.6%

4.3 The Chief Finance Officer confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, the Authorised Limit was not breached.

Additional borrowing of £34.25m was taken in 2018/19.

At 31st March 2019, the principal value of the Council's external debt was £115.354m (£81.104m at 31st March 2018) and that of its investments was £29.2m (£15.6m at 31st March 2018).

4.4 The small decrease in General Fund Financing costs as a % of net revenue stream in 2018/19, when compared with 2017/18, is due to changes in the revenue budget. The actual financing cost for the General Fund increased from the previous year due to additional borrowing. The decrease in HRA Financing costs results from a change to depreciation charge calculations in the HRA.

4.5 The financial year 2018/19 continued the challenging environment of previous years; low investment returns and continuing counterparty risk were the main features.

4.6 Key issues to note from activity during 2018/19:

- The Council's total debt (including leases and lease-type arrangements) at 31st March 2018 was £115.696m (Appendix A section 4.4) compared with the Capital Financing Requirement of £120.131m (Appendix A section 3.5). This represents an under-borrowing position of £4.435m, which is currently being supported by internal resources. Additional long-term borrowing will be taken in future years to bring levels up to the Capital Financing Requirement, subject to liquidity requirements, if preferential interest rates are available.
- The Council's Investments at the 31st March 2019 were £29.2m (Appendix A section 4.3), which is £13.6m higher than at 31st March 2018. Average investment balances for 2018/19 were £22.344m, which was higher than estimated balances of £14.97m in the Medium Term Financial Strategy 2018-23 due to the timing of borrowing taken. It should be noted that this refers to the principal amounts of investments held, whereas the investment values included in the balance sheet are based on fair value. In most cases, this will simply be equal to the principal invested, unless the investment has been impaired.
- Actual investment interest earned on balances was £143k compared to £77k estimated in the Medium Term Financial Strategy 2018-23 (Appendix A section 10.2).
- The interest rate achieved on investments was 0.77% which was 0.26% above the target average 7-day LIBID rate (for 2018/19 the average was 0.51%).

4.7 Risk Benchmarking

The following reports the outturn position against the security and liquidity benchmarks in the Treasury Management Strategy.

Security

- The Council's actual average security risk for the portfolio as at 31st March 2019 is 0.002%, which compares with the 0.008% for the budgeted portfolio. This gives the estimated default rate on the investment counterparties which comprise the portfolio at 31st March 2019. This equates to a potential financial loss of £584 on the investment portfolio of £29.2m.

- Specified Investments are high security sterling investments (i.e. high credit quality) with a maturity of no more than one year. Non-specified investments are all other investments representing a potentially greater risk; however the risk is still minimal due to the stringent controls over counterparty credit quality contained within the Investment Strategy. The 2018/19 strategy set a maximum limit of 75% of the portfolio to be held in non-specified investments. At 31st March 2018, 100% of the investment portfolio was held in specified investments. The Chief Finance Officer can report that the investment portfolio was maintained within this limit throughout the year.

Liquidity

In respect of this area the Council set liquidity benchmarks to maintain:

- Liquid short term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark was expected to be 0.45 years (164 days).

The actual liquidity indicators at 31st March 2018 were as follows:

- Liquid short term deposits of £19.2 million as at 31st March 2019.
- Weighted Average Life of the investment portfolio was 0.04 years (15 days). This reflects that larger amounts of investments were deposited in short term accounts to deal with cash flow requirements.

The Chief Finance Officer can report that liquidity arrangements were adequate throughout the year.

4.8 **Benchmarking**

The Council participates in the following benchmarking club:

- The Link Asset Services benchmarking club. Link Asset Services is the Council's treasury management advisors and they offer a benchmarking club for their clients. This is organised on a regional group basis. The group to which City of Lincoln belongs has 9 members within the East Midlands region. Unfortunately, at the date of writing this report, benchmarking comparatives are not yet available.

5. Strategic Priorities

5.1 Through its Treasury Management Strategy the Council seeks to reduce the amount of interest it pays on its external borrowing and maximise the interest it achieves on its investments in order to support the Medium Term Financial Strategy and the delivery of the Council's Vision 2020.

6. Organisational Impacts

6.1 Finance - The financial impacts are contained within the main body of the report and within appendices A and B.

6.2 Legal Implications including Procurement Rules - Section 15 of the Local Government Act 2003 requires local authorities 'to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify'. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 in Regulation 24 require local authorities to have regard to the TM Code of Practice. Investment guidance issued by the Ministry for Housing Communities and Local Government (MHCLG) which came into effect from 1st April 2010 requires investment policy to emphasise security and liquidity over income.

7. Risk Implications

7.1 The Council has the freedom to adopt its own treasury management policies. The CIPFA code of practice, which specifies the format and frequency of reporting, is part of the risk management procedures for treasury.

8. Recommendation

8.1 That Executive reviews the actual prudential indicators contained within appendices A and B and recommends to Council for Approval.

8.2 That Executive notes the annual treasury management report for 2018/19.

Key Decision	No
Do the Exempt Information Categories Apply?	No
Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
How many appendices does the report contain?	2
List of Background Papers:	Link Annual Stewardship Reports for 2018/19

	Medium Term Financial Strategy 2018-23 and 2019-24 Prudential Indicators 2018/19 – 2020/21 and Treasury Management Strategy 2018/19 and 2019/20
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Appendix A

Annual Report on the Treasury Management Service and Actual Prudential Indicators 2018/19

1. Introduction

1.1 The Council undertakes capital expenditure on long-term assets. These activities can be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

Capital expenditure activity is regulated by the CIPFA Prudential Code, which requires actual outturn to be reported in the following areas: -

- Capital expenditure;
- Capital Financing Requirement;
- Debt;
- Ratio of financing costs to net revenue stream.

The remaining prudential indicators are included to make the annual reporting comprehensive and to comply with the requirements of the Treasury Management Code.

1.2 Part of the Council's treasury activities is to address any borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance. This area of activity is regulated by the CIPFA Code of Practice on Treasury Management.

1.3 Wider information on the regulatory requirements is shown in section 11.

2. The Council's Capital Expenditure and Financing 2018/19

2.1 This forms one of the required prudential indicators and shows total capital expenditure for the year and how this was financed.

	2018/19 Actual £'000	2018/19 Revised Estimate £'000	2017/18 Actual £'000
General Fund capital expenditure	13,968	16,867	29,098
HRA capital expenditure	24,985	33,048	10,707
Total capital expenditure	**38,953**	**49,915**	**39,805**
Resourced by:			
Capital receipts	8,192	12,206	4,674
Capital grants & contributions	1,004	1,683	3,016
Direct Revenue Financing	4,956	309	486
Major repairs reserve	13,160	21,835	9,190
Un-financed capital expenditure (additional need to borrow)	**11,642**	**13,882**	**22,439**

2.2 Further details on 2018/19 Capital Expenditure and Financing can be found in the Financial Performance Detailed Outturn 2018/19 report elsewhere on the agenda.

3. The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position and represents 2018/19 and prior years' net capital expenditure that has not yet been charged to revenue or other resources.

3.2 Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

3.3 The General Fund element of the CFR is reduced each year by a statutory revenue charge (called the Minimum Revenue Provision - MRP). The total CFR can also be reduced by:

- the application of additional capital resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP) or depreciation.

3.4 The Council's MRP policy for 2018/19 was approved by Council on 27th February 2018 as part of the Prudential Indicators 2018/19 – 2021/22 and Treasury Management Strategy 2018/19.

3.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. The CFR includes leasing schemes which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract. During the year £175k of land appropriations resulted in an appropriation between the General Fund and HRA CFR.

Capital Financing Requirement General Fund	**31 March 2019 Actual £'000**	**31 March 2019 Revised Estimate £'000**	**31 March 2018 Actual £'000**
Opening balance 1 April	50,977	50,977	30,173
Plus un-financed capital expenditure	11,642	13,882	22,439
Finance leases	(342)	(342)	(559)
Less MRP/VRP*	(992)	(787)	(1,076)
CFR appropriation	175	0	0
Closing balance 31 March	**61,803**	**63,730**	**50,977**

Capital Financing Requirement HRA	**31 March 2019 Actual £'000**	**31 March 2019 Revised Estimate £'000**	**31 March 2018 Actual £'000**
Opening balance 1 April	58,503	58,503	58,503
Plus un-financed capital expenditure	0	0	0
Less MRP/VRP*	0	0	0
CFR appropriation	(175)	0	0
Closing balance 31 March	**58,328**	**58,503**	**58,503**

* includes finance lease repayments

4. Treasury Position at 31st March 2019

4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Chief Finance Officer and the treasury team manage the Council's actual borrowing position by either:

- borrowing to the CFR,
- choosing to temporarily utilise some flow funds instead of borrowing (under-borrowing)
- borrowing for future increases in the CFR (borrowing in advance of need).

4.2 It should be noted that the figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest (outstanding interest due to be paid and received as at 31st March), or where the carrying amount is based on fair values .

4.3 During 2018/19 the Chief Finance Officer managed the borrowing position to £115.354 million. The treasury position at the 31st March 2019 compared with the previous year was:

	31 March 2019		31 March 2018	
	Principal £'000	**Average Rate (full year)**	**Principal £'000**	**Average Rate (full year)**
Borrowing Position				
Fixed Interest Rate Debt	115,354	3.24%	81,104	4.09%
Variable Interest Rate Debt	0	N/A	0	N/A
Total Debt (borrowing) *	115,354	3.24%	81,104	4.09%
Capital Financing Requirement (borrowing only)	120,131	N/A	109,480	N/A
Over/(under) borrowing	(4,777)	N/A	(27,817)	N/A
Investment Position				
Fixed Interest Investments	10,000	0.88%	9,000	0.74%
Variable Interest Investments	19,200	0.76%	6,600	0.46%
Total Investments **	29,200	0.80%	15,600	0.68%
Net Borrowing Position	**86,154**		**65,504**	

* Excludes local Bonds & Mortgages and other long-term liabilities (e.g. finance leases)

** The interest rate given differs from the interest rate given in Paragraph 4.6 of the main report because the rates above are for investments held at 31 March whereas the average rate of investment is for investments held during 2018/19.

4.4 The total debt position also includes other long term liabilities such as finance leases and embedded leases within service contracts. The total debt position at 31st March 2019 was £115.913 million as shown below:

	31 March 2019 Actual £'000	**31 March 2019 Revised Estimate £'000**	**31 March 2018 Actual £'000**
Gross borrowing	115,354	95,354	81,104
Other long term liabilities	342	342	559

Total External debt	115,696	95,696	81,663

4.5 The maturity structure of the debt portfolio was as follows:

	31 March 2019 Actual £'000	31 March 2018 Actual £'000
Under 12 months	20,200	4,311
12 months and within 24 months	9,705	2,000
24 months and within 5 years	5,645	5,000
5 years and within 10 years	7,076	5,897
10 years and above	72,728	63,896
Total	**115,354**	**81,104**

4.6 The maturity structure of the investment portfolio was as follows:

	31 March 2019 Actual £'000	31 March 2018 Actual £'000
Longer than 1 year	0	0
Under 1 year	29,200	15,600
Total	**29,200**	**15,600**

5. The Strategy for 2018/19

5.1 The Council's overall core borrowing objectives are:

- To reduce the revenue costs of debt in line with the targets set for the Chief Finance Officer by Council (see local indicators).
- To manage the Council's debt maturity profile, leaving no one future year with a high level of repayments that might cause problems in re-borrowing.
- To effect funding at the cheapest cost commensurate with future risk.
- To forecast average future interest rates and borrow accordingly i.e. short term/variable when rates are 'high', long term/fixed when rates are 'low'.
- To monitor and review the level of variable rate loans in order to take greater advantage of interest rate movements.
- To proactively reschedule debt in order to take advantage of potential savings as interest rates change. Each rescheduling exercise will be considered in terms of the effect of premiums and discounts on the General Fund and the Housing Revenue Account.
- To manage the day-to-day cash flow of the Authority in order to, where possible, negate the need for short-term borrowing. However, short-term

borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates.

6. Actual Debt Management Activity during 2018/19

6.1 Borrowing

6.1.1 Long term borrowing, totalling £20m, was taken in 2018/19; short term borrowing of £18m was taken in 2018/19; short term borrowing of £3.75m was repaid in 2018/19.

6.1.2 The average rate achieved for borrowing (excluding finance and embedded leases) in 2018/19 was 3.24%, which compares favourably to the target of 4.25% (2018/19 4.09% actual compared to the target of 4.25%). The lower rate is due to more borrowing being taken on a short term basis through other local authorities and a low rate of PWLB borrowing being available during the year.

	31 March 2019 Actual £'000	31 March 2019 Revised Estimate £'000	31 March 2018 Actual £'000
Interest payable on borrowing	3,260	3,221	3,135
- General Fund	908	824	783
- HRA	2,352	2,352	2,352
Interest payable on finance leases	42	93	60
- General Fund	42	93	60
- HRA	0	0	0

6.2 Rescheduling

6.2.1 No rescheduling was undertaken during the year as the differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Prudential Indicators and Compliance Issues

7.1 Some of the required prudential indicators provide either an overview or specific limits on treasury activity. These are shown below:

7.2 Net Borrowing and the CFR

7.2.1 In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2018/19 plus the expected changes to the CFR over 2019/20 and 2020/21 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2018/19. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2019 Actual £'000	31 March 2019 Revised Estimate £'000	31 March 2018 Actual £'000
Net borrowing position	86,154	80,754	65,504
Capital Financing Requirement	120,131	122,233	109,480

7.3 The Authorised Limit and Operational Boundary

7.3.1 The Authorised Limit is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its Authorised Limit.

7.3.2 The Operational Boundary is the expected borrowing position of the Council during the year, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

7.3.3 The table below shows the highest borrowing position reached in the year (including temporary borrowing and other long term liabilities) compared to the Authorised Limit and Operational Boundary.

	2018/19 £'000
Authorised Limit (revised estimate)	135,800
Maximum gross borrowing position during 2018/19	115,913
Operational Boundary (revised estimate)	128,000
Average gross borrowing position during 2018/19	98,788
Minimum gross borrowing position during the year	81,663

7.4 Actual financing costs as a proportion of net revenue stream

7.4.1 This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

Financing costs as a proportion of net revenue stream -	**2018/19 Actual %**	**2018/19 Revised Estimate %**	**2017/18 Actual %**
General Fund	11.9%	14.1%	13.7%
HRA	30.1%	46.4%	45.8%

The small decrease in General Fund Financing costs as a % of net revenue stream in 2018/19, when compared with 2017/18, is due changes in the revenue budget. The actual financing cost for the General Fund increased from the previous year due to additional borrowing.

The decrease in HRA Financing costs results from a change to depreciation charge calculations in the HRA.

8. Economic Background for 2018/19

The following commentary on the economic conditions for 2018/19 is provided by Link Asset Services, the Council's treasury management advisers.

8.1 UK. After weak economic growth of only 0.1% in quarter one of 2018/19, 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 as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing individual country in the G7 in quarter 4.

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. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC does have 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 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.

As for CPI inflation itself, this has been on a falling trend, reaching 1.8% in January before rising marginally to 1.9% in February. However, in the February 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%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit. The Conservative minority government has so far, (1.4.19), been unable to muster a majority in the Commons over its Brexit deal. The EU has set a deadline of April 12 for the House of Commons to propose what form of Brexit it would support. If another form of Brexit, other than the current deal, does get a majority by April 12, then it is likely there will need to be a long delay to Brexit to allow time for negotiations with the EU. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were to happen, then it increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

EUROZONE. Growth has been weak at 0.4% in quarter 2, 0.2% in quarter 3, 0.2% in quarter 4 and likely to be 0.1- 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. However, with its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the bottom of cutting rates. At its March meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019", but that is of little help to boosting growth in the near term. Consequently, it announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overblown. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks.

9. Investment Position

9.1 The Council's investment policy is governed by MHCLG Guidance, which has been implemented in the Annual Investment Strategy approved by Council on 27th 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.

9.2 The Council's longer-term cash balances comprise primarily revenue and capital resources, although these are influenced by cash flow considerations. The Council's core cash resources comprised as follows, and meet the expectations of the budget.

Balance Sheet Resources - General Fund	31 March 2019 £'000	31 March 2018 £'000
Balances	1,857	1,609
Earmarked reserves	6,705	4,599
Provisions	4,210	3,910
Usable capital receipts	1,166	41
Total	**13,938**	**10,159**

Balance Sheet Resources - HRA	**31 March 2019 £'000**	**31 March 2018 £'000**
Balances	1,027	1,023
Earmarked reserves	1,604	1,732
Usable capital receipts	3,408	9,204
Total	**6,039**	**11,959**
Total General Fund & HRA	**19,977**	**22,118**

10. Investments Held by the Council

10.1 The Council does not have the expertise or resources to actively use a wide range of investment products and therefore performance tends to be more stable but lower over the longer term than for professionally managed funds (whose performance may fluctuate more). The Council maintained an average balance of £22.344m and received an average return of 0.77%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.51%. Based on the average investment balance this performance margin of 0.26% in the Council's favour.

10.2 In 2018/19, £143k interest was earned on balances (£110k in 2017/18). This is £66k more than the £77k estimated in the Medium Term Financial Strategy 2018-23. The analysis of this result is shown in the table below.

	MTFS 2018-23 Budget £'000	**Outturn 2018/19 £'000**
Interest earned - General fund & other commitments	46	68
- HRA	31	75
Total interest earned	**77**	**143**
Average balance invested in year	14,967	22,344
Average interest rate achieved	0.51%	0.77%*

* The interest rate given differs from that given in Paragraph 4.3 of the main report because this is an average interest for the year whereas the interest rate given in paragraph 4.3 is a rate for balances at 31 March 2019.

The Economic Background for 2018/19 (see Section 8) sets out the economic conditions during this period, resulting in still falling deposit rates, which impacted adversely on investment returns. Counterparty security remains an issue, shown by little improvement in the credit ratings for the majority of financial institutions. There remained few counterparties available to the Council for investment, however, and there has been virtually no change in yield. Lending to local authorities for longer periods has again given an enhanced return at very low risk.

11. Risk Benchmarking

The regulatory framework also requires the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance (i.e. rate achieved compared with the 7-day LIBID). Security and liquidity benchmarks are used to assess the level of risk in the investment portfolio and whether sufficient liquidity is being maintained.

11.1 The following reports the current position against the benchmarks originally approved in the 2018/19 Treasury Management Strategy.

Security

- The Council's security risk for the portfolio as at 31st March 2019 is 0.002%, which compares with the 0.008% for the budgeted portfolio. This gives the estimated default rate on the investment counterparties which comprise the portfolio at 31st March 2019. This equates to a potential financial loss of £584 on the investment portfolio of £29.2m.

- Specified Investments are high security sterling investments (i.e. high credit quality) with a maturity of no more than one year. Non-specified investments are all other investments representing a potentially greater risk however the risk is still minimal due to the stringent controls over counterparty credit quality contained within the Investment Strategy. The 2018/19 strategy set a maximum limit of 75% of the portfolio to be held in non-specified investments. At 31st March 2019, 100% of the investment portfolio was held in specified investments. The Chief Finance Officer can report that the investment portfolio was maintained within this limit throughout the year.

Liquidity

In respect of this area the Council set liquidity benchmarks to maintain:

- Liquid short term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark was expected to be 0.45 years (164 days).

The actual liquidity indicators at 31st March 2019 were as follows:

- Liquid short term deposits of £19.2 million as at 31st March 2019.
- Weighted Average Life of the investment portfolio was 0.04 years (15 days).

11.2 **Performance Indicators set for 2018/19**

11.3 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury management function over the year. The Chief Finance Officer set 8 local indicators for 2018/19, which aim to add value and assist the understanding of the main prudential indicators. These indicators, detailed in Appendix B, are:

- Debt – Borrowing rate achieved against average 7 day LIBOR.
- Investments – Investment rate achieved against average 7 day LIBID.

- Average rate of interest paid on the Councils Debt during the year – this will evaluate performance in managing the debt portfolio to release revenue savings.
- The amount of interest on debt as a percentage of gross revenue expenditure.
- Limit on fixed interest rate investments
- Limit on fixed interest rate debt
- Limit on variable rate investments
- Limit on variable rate debt

12. Regulatory Framework, Risk and Performance

12.1 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2014/15);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM has issued Investment Guidance to structure and regulate the Council's investment activities;

Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices.

12.1 The Council has complied with all of the above relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

13. The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Capita Asset Services, the Council's advisers, has proactively managed its treasury position over the year. The Council has continued to utilise historically low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, utilising long-term loans.

13.1 Shorter-term variable rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

Prudential and Treasury Indicators 2018/19

1. PRUDENTIAL INDICATORS	2018/19 Actual	2018/19 Revised	2017/18 Actual
Capital Expenditure	**£'000**	**£'000**	**£'000**
General Fund	13,968	16,867	29,098
HRA	24,985	33,048	10,707
TOTAL	38,953	49,915	39,805
Ratio of financing costs to net revenue stream	**%**	**%**	**%**
General Fund	11.9%	14.1%	13.7%
HRA	30.1%	46.4%	45.6%
Borrowing requirement General Fund	**£'000**	**£'000**	**£'000**
Borrowing requirement at 1 April	50,977	50,977	30,173
Borrowing requirement at 31 March	61,803	63,730	50,977
In-year borrowing requirement	10,826	12,753	20,804
Borrowing requirement HRA	**£'000**	**£'000**	**£'000**
Borrowing requirement at 1 April	58,503	58,503	58,503
Borrowing requirement at 31 March	58,328	58,503	58,503
In-year borrowing requirement	(175)	0	0
Net Debt	**£'000**	**£'000**	**£'000**
General Fund	40,968	29,794	16,316
HRA	45,186	50,960	49,188
Total	86,154	80,754	65,504
CFR	**£'000**	**£'000**	**£'000**
General Fund	61,803	63,730	50,977
HRA	58,328	58,503	58,503
TOTAL	120,131	122,233	109,480
Annual change in Capital Financing Requirement	**£'000**	**£'000**	**£'000**
General Fund	10,826	12,753	20,804
HRA	(175)	0	0
TOTAL	10,651	12,753	20,804

2. TREASURY MANAGEMENT INDICATORS	**2018/19 Actual**	**2018/19 Revised**	**2017/18 Actual**
Authorised Limit for external debt –	**£'000**	**£'000**	**£'000**
Borrowing Other long term liabilities TOTAL	115,354 342 115,696	134,000 1,800 135,800	81,104 559 81,663
Operational Boundary for external debt -	**£'000**	**£'000**	**£'000**
Borrowing Other long term liabilities TOTAL	115,354 342 115,696	126,400 1,600 128,000	81,104 559 81,663
Actual external debt	**£'000**	**£'000**	**£'000**
General Fund HRA TOTAL	57,583 58,113 115,696	37,241 58,113 95,354	22,991 58,113 81,104
Upper limit for fixed interest rate exposure	**£m**	**Target £m**	**£m**
Net principal re fixed rate borrowing / investments	108.1	96.5	77.2
Upper limit for variable rate exposure	**£m**	**Target £m**	**£m**
Net principal re variable rate borrowing / investments	24.2	30	20.7
Upper limit for total principal sums invested for over 1 year	**£'000**	**£'000**	**£'000**
(per maturity date)	Nil	5,000	Nil

Maturity structure of fixed rate borrowing during 2018/19	**Actual %**	**Upper limit %**	**Lower limit %**
Under 12 months	18.14	40	0
12 months and within 24 months	8.41	40	0
24 months and within 5 years	4.89	60	0
5 years and within 10 years	6.13	80	0
10 years and above	63.05	100	10

Local Indicators Treasury Management Indicators

	2018/19 Actual %	2018/19 Revised %	2017/18 Actual %
Debt - Borrowing rate achieved **i.e. temporary borrowing (loans of less than 1 year)**	Achieved 0.98% Average 0.63% +0.35%	Less than 7 day LIBOR	Achieved 0.71% Average 0.34% +0.37%

The indicator above uses the average of the 7 day LIBOR rate for temporary borrowing however the temporary borrowing taken during the year was for periods on average of 280 days – the average rates for PWLB loans for a up to 1 year were around 1.7%.

	2018/19 Actual %	2018/19 Revised %	2017/18 Actual %
Investment rate achieved	Achieved 0.77% LIBID 0.51% +0.26%	Greater than 7 day LIBID	Achieved 0.67% LIBID 0.22% +0.45%

	2018/19 Actual %	2018/19 Revised %	2017/18 Actual %
Average rate of Interest Paid on Council Debt (%)	3.24%	Less than 4.25%	4.09%

	2018/19 Actual %	2018/19 Revised %	2017/18 Actual %
Interest on Debt as a % of Gross Revenue Expenditure	**3.4%**	**3.1%**	**3.3%**
General Fund	1.34%	1.1%	1.23%
HRA	8.36%	8.0%	8.26%

	2018/19 Actual %	2018/19 Revised %	2017/18 Actual %
Upper limits on fixed interest rate investments	34%	100%	58%

	2018/19 Actual %	2018/19 Revised %	2017/18 Actual %
Upper limits on fixed interest rate debt	100%	100%	100%

	2018/19 Actual %	2018/19 Revised %	2017/18 Actual %
Upper limits on variable interest rate investments	66%	75%	42%

	2018/19 Actual %	2018/19 Revised %	2017/18 Actual %
Upper limits on variable interest rate debt	0%	40%	0%