

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

26 JULY 2018

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Report Title	ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2017/2018
Purpose of Report	To advise on the treasury management activities in 2017/2018, in accordance with the Council's Treasury Policy Statement. To report on actual 2017/2018 Prudential Indicators in accordance with the requirements of the Prudential Code.
Decision(s)	The Audit & Standards Committee approves the treasury management activity annual report for 2017/2018 and the actual Prudential Indicators.
Consultation and Feedback	Link Asset Services Limited (LAS).
Financial Implications and Risk Assessment	<p>This report sets out the outturn position on the Council's Treasury Management activities for the 2017/18 financial year.</p> <p>Paragraph 12 of the report highlights the return achieved on the Council's investments during the year of £195k (0.51%) which reflects the challenging investment environment given low interest rates. The level of investment income gained is a positive outcome and the Council performs well against benchmarked authorities given the level of risk the undertaken.</p> <p>As at 31 March 2018, the Council had external debt of £105.7m (£1m reduction on the previous year). The majority of this debt relates to HRA self-financing (£97.7m) and is serviced through annual revenue payments from the Housing Revenue Account.</p> <p>Internal borrowing of £6.647m was undertaken to finance the capital programme, rather than taking-on further external debt.</p> <p>David Stanley, Accountancy Manager Tel: 01453 754100 E-mail: david.stanley@stroud.gov.uk</p>

Legal Implications	<p>This report is provided for the Committee's information as part of its treasury management procedures. There are no significant legal implications.</p> <p>Craig Hallett, Solicitor & Deputy Monitoring Officer Tel: 01453 754364 Email: craig.hallett@stroud.gov.uk RC22.06D10.07</p>
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Chair of Committee	<p>Nigel Studdert-Kennedy Chair of Audit and Standards Committee Tel: 01453 821491 Email: cllr.nigel.studdert-kennedy@stroud.gov.uk</p>
Options	None
Performance Management Follow Up	The Committee will receive regular reports on treasury activity throughout the 2018/2019 financial year.
Appendices	<p>A – Temporary investments 2017/2018 B – Actual Prudential Indicators 2017/2018 C – Explanation of Prudential Indicators D – The economy and interest rates 2017/2018 E – Borrowing and investment rates in 2017/2018</p>

Introduction

1. This Council fully complies with the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code for Capital Finance in Local Authorities.
2. For the financial year 2017/18 the minimum reporting requirements were that the full Council should receive the following reports:
 - Annual treasury strategy (Council 23/02/2017)
 - Mid-year treasury update (Council 25/01/2018)
 - Annual treasury review (this report)
3. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Audit & Standards Committee.

Treasury Activity

4. A summary of treasury management activity for 2017/2018 is shown below:

Treasury Activity 2017-18				
	April 2017	Increase	Decrease	March 2018
	£000	£000	£000	£000
Debt				
Borrowing:				
Long-term	-106,717	-	1,000	-105,717
Short-term	-	-	-	-
Total debt	-106,717	-	1,000	-105,717
Investments				
Externally managed	-	-	-	-
Internally managed - Long term	-	-	-	-
Internally managed - Short term	28,931	2,483	-	31,414
Total investments	28,931	2,483	-	31,414
Net debt	-77,786	2,483	1,000	-74,303

Investment Strategy

5. Investment strategy for 2017/2018 was to give primary importance to security of capital and liquidity. This was achieved through having regard to government 'Guidance on Local Government Investment' issued in March 2004, and our own investment policy which set out permitted specified and non-specified investments. In addition, the Council received and followed weekly investment advice from Link Asset Services detailing counterparty credit ratings, which were also subjected to a credit default swap overlay. This was supplemented by daily update emails from Link Asset Services, economic briefings and monitoring the financial press.
6. Investment strategy, set out in the report to Council in February 2017, stated that in 2017-18 the Council would continue to invest for the longest permitted duration with quality counterparties to maximise return without compromising security. In particular instances the Accountancy Manager would authorise UK investments in excess of a year for example to take advantage of enhanced interest rates on Lloyds 366-day notice deposit. Otherwise, the length of investments permitted will vary if necessary in line with LAS advice and subject to the Council's 3-year upper limit.
7. The expectation for interest rates within the strategy for 2017/18 was for Bank Rate to remain unchanged for the duration of the financial year. In fact the rate did increase from 0.25% to 0.50% in November 2017.

8. **Appendix A** has a summary of investments during the year.

Borrowing Outturn for 2017/18

9. The Council had total borrowing of £105.717m as at 31 March 2018. On 28 March 2018 a £1m PWLB loan at 2.42% matured and was repaid. With a closing Capital Financing Requirement of £112.364m, the Council has continued and extended an element of internal borrowing during the year to help offset low investment returns. As at 31 March 2018 there is internal borrowing of £6.647m.

Lender	Principal	Type	Interest Rate	Years to Maturity	Maturity Date	New 17-18
Hampshire CC	£2m	Fixed Interest Rate	2.40%	1 years	05/02/2019	
PWLB	£1m	Fixed Interest Rate	1.63%	3 years	11/02/2021	
PWLB	£2m	Fixed Interest Rate	1.93%	5 years	11/02/2023	
PWLB	£6m	Fixed Interest Rate	3.32%	14 years	31/03/2032	
PWLB	£10m	Fixed Interest Rate	3.45%	19 years	31/03/2037	
PWLB	£7m	Fixed Interest Rate	3.51%	24 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.51%	24 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.53%	29 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.53%	29 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.52%	34 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.52%	34 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.51%	39 years	31/03/2057	
PWLB	£7m	Fixed Interest Rate	3.51%	39 years	31/03/2057	
PWLB	£10m	Fixed Interest Rate	3.48%	43 years	31/03/2061	
PWLB	£9.717m	Fixed Interest Rate	3.48%	43 years	31/03/2061	
PWLB	£1m	Fixed Interest Rate	2.51%	45 years	21/06/2063	
PWLB	£2m	Fixed Interest Rate	3.16%	45 years	20/08/2063	
PWLB	£1m	Fixed Interest Rate	3.55%	47 years	28/11/2064	
PWLB	£2m	Fixed Interest Rate	3.20%	47 years	18/08/2065	
PWLB	£2m	Fixed Interest Rate	2.96%	48 years	11/02/2066	
PWLB	£1m	Fixed Interest Rate	2.65%	48 years	14/06/2066	
Total Loans	£105.717m					

The Economy and Interest Rates

10. An analysis of UK economic performance and interest rates and the world economic context during 2017/2018 is in **Appendix D**.

Performance Measurement

11. **Appendix A** has details of the investments made during the year. All of these were 'approved investments' with counterparties included on the Council's lending list, and within permitted limits as regards time and amount.
12. The average level of investments held was £37.658 million and the average return on these investments was 0.51%, compared with the average un compounded 7-day LIBID rate of 0.36% which is a generally accepted benchmark rate (the 3 month un compounded LIBID rate is given as well for comparative purposes). The interest earned was £195k.

	Average Investment	Rate of Return	Benchmark Return 7 day LIBID un compounded	For comparison 3 month LIBID un compounded
Internally Managed	£37,657,799	0.51%	0.360%	0.500%
Externally Managed	N/A	N/A	N/A	N/A

13. Stroud is a member of a Link Asset Services Benchmarking group. The group is comprised of North Warwickshire Borough Council, Nuneaton and Bedworth Borough Council, Oxford City Council, Rugby Borough Council, Stratford-on-Avon District Council, Warwick District Council, Warwickshire County Council, Worcester City Council, Worcestershire County Council and Wyre Forest District Council. A primary aim of the group is to evaluate and compare return on investment taking into account the level of risk for the investment portfolio. During 2017/18 Stroud has again compared very favourably with the benchmark group in terms of return achieved, whilst maintaining a low risk portfolio.

Prudential Indicators and Compliance with Borrowing Limits

14. The Council is required by the Prudential Code to report actual prudential indicators after the yearend. These are shown in **Appendix B**.
15. The Council had a maximum of loans totalling £106.717m during 2017/2018. This amount of borrowing was well within both the authorised and operational borrowing limits of £120m and £128m respectively.

Borrowing limits 2017/2018	Approved Limit	Actual
Authorised limit for external debt (£'million) (Includes deferred liabilities)	£128m	£106,717
Operational boundary for external debt (£'million)	£120m	£106,717

Member Training

16. Member training provided by Link Asset Services on treasury management issues took place on 1 November 2017. Further training for Members will be scheduled for 2018/19.

Treasury advice contract

17. The treasury advice service contract was re-tendered through the Eastern Shires Purchasing Organisation (ESPO) Framework Agreement in 2016. It was awarded to Link Asset Services (formerly Capita Asset Services). It is a contract for two years with an option to extend for a further two years. The contract commenced 1 October 2016. The option to extend the contract will be exercised later in 2018.

Local Authority Mortgage Scheme update

Through introducing a Local Authority Mortgage Scheme the Council offered a financial guarantee to enable first time buyers to obtain a mortgage. The maximum value of the guarantee is £1.2m. The Council invested £1m and the county council £200k with Lloyds bank for 5 years at a market rate of 3.8%. Premium interest of 0.7% was payable in return for the financial guarantee. Premium interest was been set aside to pay for any liability realised as a result of the financial guarantee. This scheme commenced in April 2012 and closed to new loan applications in 2015. A total of £4.7m of loans to 37 first time buyers were issued which utilised £0.9m of the available £1.2m guarantee. As at March 2018 there are no arrears cases, and there have been no repossessions under the scheme since inception. The financial guarantee continues for 5 years from the start date of each mortgage and so should gradually reduce and end in July 2020, provided that a mortgage is not in arrears during the last six months of its 5 year period. In any such cases the financial guarantee for those mortgages will extend for a further 2 years.

At March 2018 a financial guarantee liability of £0.49m was outstanding (£0.91m March 2017).