Report to:	Audit and Governance Committee	**Date of Meeting:**	Wednesday 27 June 2018
Subject:	Treasury Management Outturn 2017/18		
Report of:	Head of Corporate Resources	**Wards Affected:**	All Wards
Portfolio:	Corporate Resources		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	N		

Summary:

This is the outturn report for 2017/18 provided to Audit & Governance Committee, whose role it is to carry out scrutiny of treasury management policies and practices. The report also includes an update on the Treasury Management position to 31st May 2018.

Recommendation(s):

Members are requested to note the Treasury Management position for the full year to 31st March 2018 and the update to 31st May 2018, to review the effects of decisions taken in pursuit of the Treasury Management Strategy and to consider the implications of changes resulting from regulatory, economic and market factors affecting the Council's treasury management activities.

Reasons for the Recommendation(s):

To ensure that Members are fully appraised of the treasury activity in order to meet the reporting requirements set out in Sefton's Treasury Management Practices and those recommended by the CIPFA code.

Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

What will it cost and how will it be financed?

(A) Revenue Costs
All financial implications arising from Treasury Management Activity can be contained within the councils budget framework. The financial position on the external investment budget both for 2017/18 and for the first part of the new financial year shows no significant variation compared to the proportion of the budget to date.

(B) Capital Costs
None.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): Debt Repayment/Net Interest Budget - forecast outturn is within budget.
Legal Implications: The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and Treasury Management Activities.
Equality Implications: There are no equality implications.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned and cash is available when needed by the Council for improvements to the borough through its service provision and the Capital Programme.
Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities and minimising the cost of borrowing and the effective management of the associated risk continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Head of Corporate Resources (FD5176/18) and Head of Regulation and Compliance (LD4400/18.) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

The Council's external Treasury Management Advisors: Link Asset Services have provided advice with regards to Treasury Management activities undertaken during the financial year.

Implementation Date for the Decision

Immediately following the Committee / Council meeting.

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Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

BACKGROUND:

1. Introduction

1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. The Prudential Code details a number of measures / limits / parameters (Prudential Indicators) that, to comply with legislation, must be set in respect of each financial year to ensure that the Council is acting prudently and that its capital expenditure proposals are affordable.

1.2. A requirement of the Prudential Code is the reporting to Cabinet and Full Council of the outturn position of Indicators following the end of the financial year. In accordance with this requirement, this report outlines the 2017/18 outturn for the following Prudential Indicators:-

i. Capital Expenditure (Section 2);
ii. Capital Financing Requirement (Section 3.1);
iii. Gross Borrowing and the CFR (Section 3.2);
iv. Borrowing Limits (Section 3.3);
v. Financing Costs as a proportion of Net Revenue Stream (Section 3.4);
vi. Treasury Management Indicators (Section 6).

1.3. The Treasury Management Policy and Strategy Statements are agreed annually by the Council as part of the budget process. A requirement of the Policy Statement is the reporting to Cabinet and Full Council of the results of the Council's treasury management activities in the previous year. Treasury management in this context is defined as:

'The management of the authority's 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.'

1.4. In accordance with the above this report outlines the results of treasury management activities undertaken in 2017/18 covering the following issues:

- borrowing strategy and practice
- compliance with Treasury Limits
- compliance with Prudential Indicators
- investment strategy and practice.

1.5. The results of treasury management activities in 2017/18 are reflected in the net expenditure on Capital Financing Costs included within the Council's Revenue Budget.

1.6. The Capital Programme is also agreed annually as part of the budget process. It sets out the anticipated capital expenditure to be incurred within the year. This outturn report is also provided to Audit and Governance Committee

2. Capital Expenditure

2.1. The original estimate for 2017/18 expenditure together with the actual capital expenditure calculated on an accruals basis for the financial year is as follows:

2017/18	Budget £m	Actual £m
Capital Expenditure	**62.935**	**54.014**

2.2. The Capital Programme for 2017/18 shows a decrease in expenditure of £8.921m when compared to the original estimate. This movement has been caused by underspending on the following schemes, which will be carried forward into 2018/19: Local Transport Plan / Integrated Transport Block, Schools Funding, Better Care Funding, and Vehicle Replacement.

3. The Council's Overall Borrowing Need

3.1. Capital Financing Requirement

2017/18	Estimate £m	Actual £m
Capital Financing Requirement	**241.000**	**234.234**

3.1.1. The Capital Financing Requirement reflects the Authority's underlying need to borrow for capital purposes and is based on historic capital financing decisions and the borrowing requirement arising from the financing of actual capital expenditure incurred in 2017/18.

3.1.2. The Council is currently internally borrowed which is a temporary position. This reflects the current national low interest rates for investment of cash balances and the need to find savings for the revenue budget. The decision as to when external borrowing (to finance previous years' capital expenditure) will be undertaken will be kept under review.

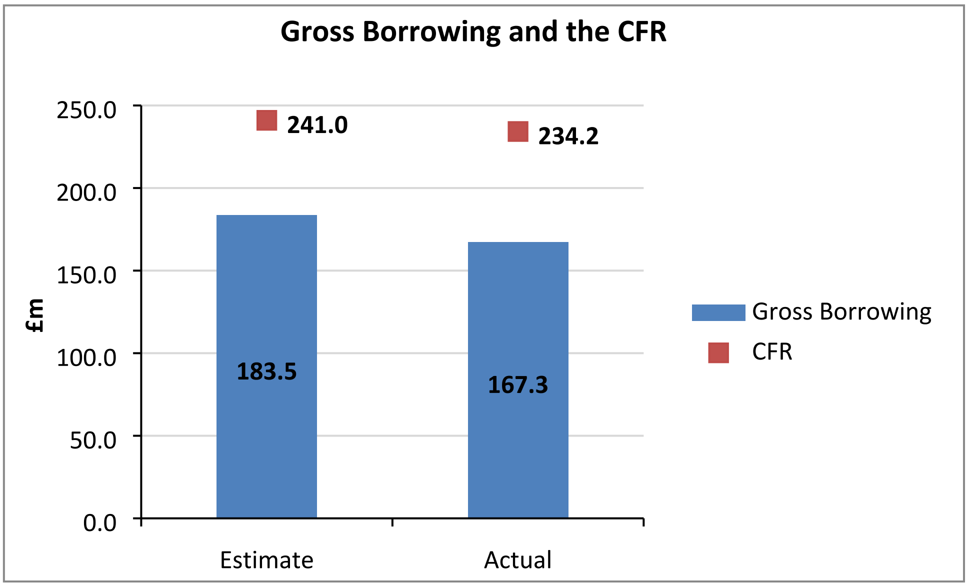
3.1.3. The actual level of Total Capital Financing Requirement as at 31st March 2018 is lower than the estimate. This is due to Capital Expenditure being lower than the initial estimate as mentioned in paragraph 2.2 (above).

3.2. Gross Borrowing and the CFR

3.2.1. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key factor of prudence:

"In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

3.2.2. In the report to Cabinet in March 2017, it was stated that the Authority would comply with this requirement in 2017/18. During the financial year, gross external borrowing did not exceed the total of the Capital Financing Requirement:



3.3. Borrowing Limits

	2017/18 £m
Authorised limit	**198.500**
Operational boundary	**183.500**
Maximum Gross Borrowing Position	**167.272**

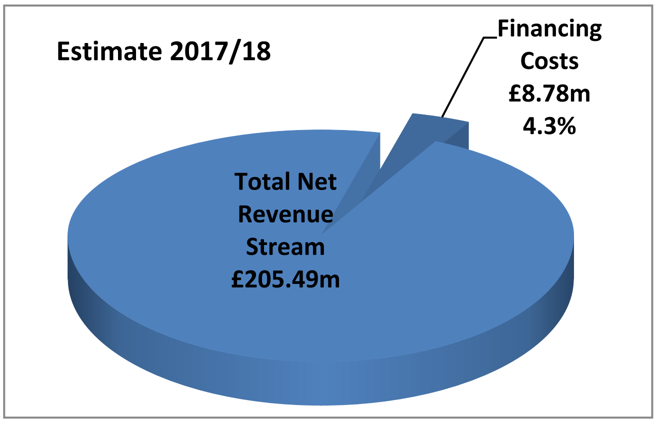
3.3.1. The Operational Boundary sets a limit on the total amount of long term borrowing that the Council can enter into. It reflects the Authority's current commitments, existing capital expenditure plans, and is consistent with its approved Treasury Management Policy Statement and practices.

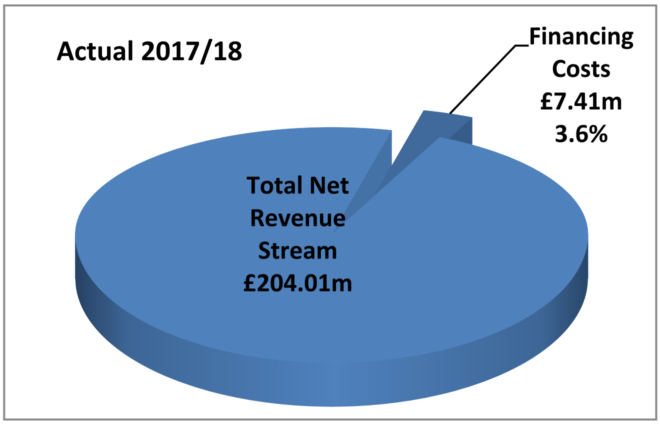
3.3.2. The Authorised Limit sets a limit on the amount of external borrowing (both short and long term) that the Council enters into. It uses the Operational Boundary as its base but also includes additional headroom to allow for exceptional cash movements.

3.3.3. The Maximum Gross Borrowing Position shows the highest level of actual borrowing during 2017/18 financial year. This level did not exceed the prescribed borrowing limits.

3.4. Financing Costs as a Proportion of Net Revenue Stream

3.4.1. This indicator measures the financing costs of capital expenditure as a proportion of the net resource expenditure of the General Fund.





3.4.2. The actual proportion of financing costs to net revenue stream was lower than the estimate due to actual PWLB rates on new borrowing being lower than in the previous year (reflected in the lower average, table 4.1 below), hence the financing cost for new borrowing undertaken during 2017/18 were lower than anticipated. It should be noted that a proportion of finance costs are met from income due from capital investment or invest to save schemes.

4. Borrowing Strategy and Practice

4.1. The Council's current debt portfolio can be summarised as follows:

Actual Debt Outstanding	31st March 2017 £m	31st March 2018 £m
PWLB	**100.177**	**154.687**
Finance Leases	**12.275**	**9.083**
Merseyside Residuary Body	**3.938**	**3.502**
TOTAL	**116.930**	**167.272**
Average PWLB Interest Rate in Year	4.75%	3.71%

The level of the Council's actual external debt has also been monitored throughout the financial year and for information had remained within both of the Prudential Indicators set.

4.2. The Council's external debt activity in during 2017/18 is summarised in the following table:

Movement in Year	Actual £m
PWLB opening debt 1st April 2017	**100.177**
Less principal repayments	(2.990)
Add new borrowing	57.500
Closing PWLB debt 31st March 2018	**154.687**

4.3. New borrowing was undertaken for a Strategic Investment, an advance payment into the Merseyside Pension Fund and new borrowing for the Capital Programme.

4.4. It should be noted however, that the policy of internally borrowing, running down the Authority's cash balances rather than taking out new borrowing, continued with regards to the Capital Programme in 2017/18 as not all new expenditure was financed from borrowing.

5. Debt Maturity Profile

5.1. This is a profile measuring the amount of borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate:

Fixed Rate Debt Maturity	Upper Limit	Lower Limit	Actual 31st March 2018
Under 12 months	35%	0%	**4%**
12 months and within 24 months	40%	0%	**4%**
24 months and within 5 years	40%	0%	**12%**
5 years and within 10 years	40%	0%	**24%**
10 years and above	90%	25%	**56%**

5.2. As can be seen, the Councils debt profile highlights that most debt is due to mature in 10 years and above, reflecting the internal borrowing position of the Council.

6. Compliance with Treasury Limits

6.1. The following Treasury Limits were approved by Council during the 2017/18 Budget Setting process:

Treasury Limits	Limit £m	31st March 2018 Actual £m
Authorised Borrowing Limit	198.500	**167.272**

Short Term Borrowing Limit	15.0	**0**
Proportion of external borrowing subject to variable interest rates	20%	**0%**

6.1.1 During the financial year the Council operated within the agreed limits.

6.2. Interest Rate Exposure

Upper Limit	Limit	31st March 2018 Actual
Fixed Rate	340%	**111%**
Variable Rate	-5%	**-11%**

6.2.1. The upper limits for fixed rate and variable rate debt and investments are calculated as a proportion of the Council's total net debt.

6.2.2. The limits have not been breached during the year and the actual proportion of fixed rate debt and investments are significantly below the limit representing a reduction in investments as the Council's overall cash balances available for investment have decreased during 2017/18 when compared to the previous year (see 7.2 below).

6.3. Non Specified Investment Indicator

Upper Limit	Limit	31st March 2018 Actual
Non-specified Investments	40%	**32%**

6.3.1. An investment of £5m was made in 2014 with the Church, Charities and Local Authorities (CCLA) Property Fund. This sum remains within the limit for investments greater than 1 year as a proportion of total investments.

7. Investment Strategy and Practice

7.1. The Council invests all available cash balances, which includes school balances and the insurance fund, following a policy of obtaining maximum returns whilst minimising risks.

i. **Externally Managed Investments**
No externally managed funds are held.

ii. **Internally Managed Investments**
The Council's available funds during the year averaged £34.5m and were managed internally with advice from our Treasury Consultants.

7.2. The level of the Council's investments during 2017/18 and comparable figures from the previous year are summarised in the following table:

Investments	2016/17	2017/18
Total Investment of Cash Balances at year end	**£28.01m**	**£15.42m**
Average Investment Balance during the year	**£59.65m**	**£34.50m**
Average Return on Investments	**0.94%**	**1.10%**

7.3. In 2017/18 a weighted average return of 1.10% was achieved. This is more than the benchmark 7 day LIBID figure of 0.67% and is considered to be an acceptable return. The majority of the funds are invested with banks and Money Market Funds (MMF's), with the remaining balance of £5m invested with the CCLA Property Fund. The return of 1.10% can be disaggregated into a return of 0.38% on bank and MMF investments, whilst 4.58% was returned by the CCLA investment.

7.4. The year on year reduction in investment balances over the financial year reflects the internal borrowing position of the Council.

Treasury Position for 2018/19 – Update to 31st May 2018

7.5. Investments Held

7.5.1. Investments held to 31st May 2018 comprise to the following:

Institution	Deposit £m	Rate %	Maturity	On Current Counterparty List?	Rating
Overnight Deposits					
Aviva	3.490	0.51	n/a	Yes	AAA
BNP Paribas	3.490	0.51	n/a	Yes	AAA
Invesco	3.490	0.49	n/a	Yes	AAA
Morgan Stanley	1.290	0.47	n/a	Yes	AAA
Federated Investors	2.670	0.52	n/a	Yes	AAA
Insight	3.250	0.50	n/a	Yes	AAA
Standard Life	3.250	0.52	n/a	Yes	AAA
Total	20.930				
Call Accounts					
GSIB	3.000	0.82	185 days	Yes	A
Total	3.000				
Fixed Term Deposits					
Lloyds	3.000	0.75	16/11/2018	Yes	A+
ANZ	3.000	0.72	30/11/2018	Yes	AA-
Total	6.000				
Other					
CCLA	5.000	4.81	n/a	Yes	n/a
Total	5.000				
TOTAL INVESTMENTS	**34.930**				

7.5.2. The above cash balances represent the full range of earmarked reserves such as school's balances.

7.5.3. All of the investments made since April 2018 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £25m. Whilst the maximum should be retained, in case economic conditions change, a day to day operational maximum of 10% of the total portfolio is currently being imposed for specified investments. This will spread the risk for the Council, but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.

7.5.4. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 8.1.7.).

7.5.5. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where the market is currently more buoyant than the north. The Council has in effect bought a share of the property portfolio, and returns paid are in the region of 5%. This is seen as a long term investment with the potential for capital growth of the investment as property prices potentially increase. However, when the investment is made fees are deducted from the initial investment hence in the first year any income received covers these fees.

7.5.6. The Net Asset Value (NAV) of the Property Fund has increased over a 12 month period to April 2018 from 289.13p per unit to 302.06p per unit, an increase of 4.5%. The rate of inflation (CPI) to the end of April was 2.2% by comparison hence the value of the investment is being marginally increased with income received at 4.81% representing a real return.

7.5.7. The matrix below shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield:

High

PROBABLITY of DEFAULT

INCREASING YIELD

High

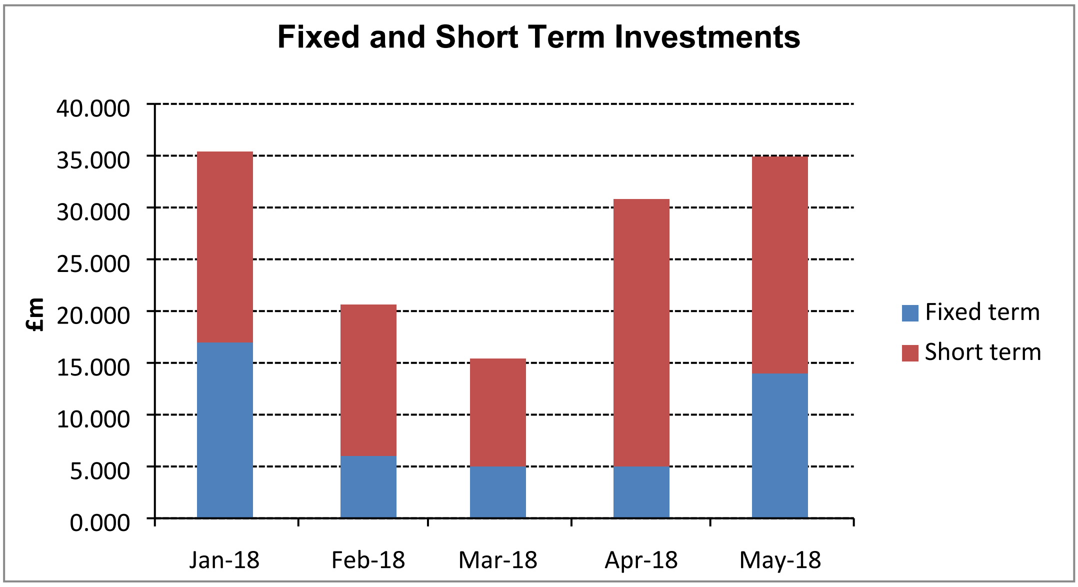
F1 A+ 6	F2 12	F3 18	B 24	C 30	D 36
F1 A+ 5	F2 10	F3 15	F3 20	B 25	C 30
F1+/AA- 4	F1 A 8	F2 12	F3 16	F3 20	B 24
F1+/AA 3	F1 A+ 6	F1 A 9	F2 12	F3 15	F3 18
F1+/AA+ 2	F1+/AA- 4	F1 A+ 6 £3.00m	F1 A 8 £3.00m	F2 10	F2 12
F1+/AAA 1 £20.93m	F1+/AA+ 2	F1+/AA 3	F1+/AA- 4 £3.00m	F1 A+ 5	F1 A+ 6

Low **High**

SEVERITY of CONSEQUENCE

SEFTON RISK TOLERANCE			INVESTED
LOW RISK	**1 - 4**	Investment Grade	**£23.93m**
LOW - MEDIUM RISK	**5 - 9**	Investment Grade	**£6.00m**
MEDIUM RISK	**10 - 20**	Investment Grade	Nil
HIGH RISK	**21 - 36**	Speculative Grade	Nil

7.5.8. The ratio of overnight deposits (short term) to fixed term investments is shown below:



7.5.9. Three new fixed term investments have been made since the last quarterly report. Two fixed term investments of £3m have been placed for 6 months, one with Lloyds Bank and one with Australia & New Zealand Bank. One amount of £3m has also been placed with Goldman Sachs International Bank in a 185 day call account.

7.5.10. The Council will continue to maximise any investment opportunities as they arise, but in light of the current cash flow forecast it is not envisaged that any substantial increase in returns can be achieved for the remainder of the current financial year as cash balances available for investment are forecast to be relatively low.

7.6. Interest Earned

7.6.1. The actual performance of investments against the profiled budget to the end of May 2018 and the forecast performance of investments against total budget at year end is shown below:

Budget Profile	Budget £m	Actual £m	Variance £m
May-18	0.059	0.060	0.001

Budget Profile	Budget £m	Forecast £m	Variance £m
Outturn 2018/19	0.360	0.360	0.000

7.6.2. There is no significant variation in forecast investment income as at the end of May 2018.

7.6.3. There has been some improvement in investment rates since the Bank of England base rate increase was announced in November 2017. As mentioned in paragraph 8.1.10 however, it is not envisaged that improved rates will lead to a significant increase in the current forecast income from investments during 2018/19.

7.6.4. The Council has achieved an average rate of return on its investments of 1.21% that has out-performed the 7 day LIBID of 0.21% to the end of May 2018.

7.6.5. Sefton has joined a regional Treasury Management working group for the purposes of sharing professional advice and experience. At the meeting of 28th September 2017, Sefton proposed the sharing of investment information so that our returns can be compared with those of neighbouring authorities. The group agreed that this would be beneficial and initial work to establish the data collection process will be undertaken in June 2018.