Annual Treasury Management Report

Cabinet Member for Finance and Democracy

Date:	25 July 2018
Agenda Item:	4
Contact Officer:	Anthony Thomas
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Key Decision?	**YES**
Local Ward Members :	**Full Council**

Lichfield district council
www.lichfielddc.gov.uk

AUDIT (AND MEMBER STANDARDS) COMMITTEE

1. Executive Summary

1.1 The report covers the Treasury Management performance for the financial year 2017/18.

1.2 Capital expenditure was **£2,608,485** and this is **(£759,515)** less than the Approved Revised Budget of **£3,368,000**.

1.3 There have been **(£434,481)** of actual capital receipts received in 2017/18 compared to the Approved Budget of **(£204,790)**.

1.4 The funding of the Capital Programme in 2017/18 reflects the actual expenditure of **£2,608,485** and therefore **(£258,621)** less capital receipts have been utilised.

1.5 The borrowing need of **£4,177,320** and its financing is in line with the Approved Revised Budget of **£4,471,000**, although the planned investment related to leisure outsourcing of £282,000 is now planned to take place in 2018/19.

1.6 The Balance Sheet at **APPENDIX B** shows a variance between actual and budget of **£2,552,000** on Assets less Liabilities and **(£2,552,000)** on Total Equity. These variances are explained at 3.16 & 3.17.

1.7 The level of cash available was **£24,706,278** compared to the budget of **£23,419,000**. This was utilised for internal borrowing of **£760,292** and investments of **£23,945,986**.

1.8 The Council's investments achieved a risk status of **AA-** that was more secure than the aim of **A-** and yield exceeded all four of the industry standard London Interbank (LIBID) yield benchmarks.

1.9 The report confirms the Council was compliant with all Treasury Limits and Prudential Indicators for 2017/18.

2. Recommendations

2.1 To review the report and issues raised within.

2.2 To review the actual 2017/18 Prudential Indicators contained within the report.

3. Background

The Capital Programme and Treasury Management

3.1 This Annual Treasury Report is a requirement of the Council's reporting procedures. It covers the Treasury activity during 2017/18 and the actual Prudential Indicators for 2017/18.

3.2 Treasury Management is defined as: *"The management of the local authority's investments and 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*."

3.3 Overall responsibility for Treasury Management remains with the Council. No Treasury Management activity is without risk; the effective identification and management of risk are integral to our Treasury Management objectives.

3.4 Our Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members be informed of treasury management activities at least twice a year. We report quarterly to the Cabinet and Strategic Overview and Scrutiny Committee on Treasury policy; strategy and activity.

3.5 This report is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential code and

a) presents details of capital spend, capital financing, borrowing and investment transactions;

b) reports on the risk implications of Treasury decisions and transactions;

c) gives details of the outturn position on Treasury Management transactions in 2017/18;

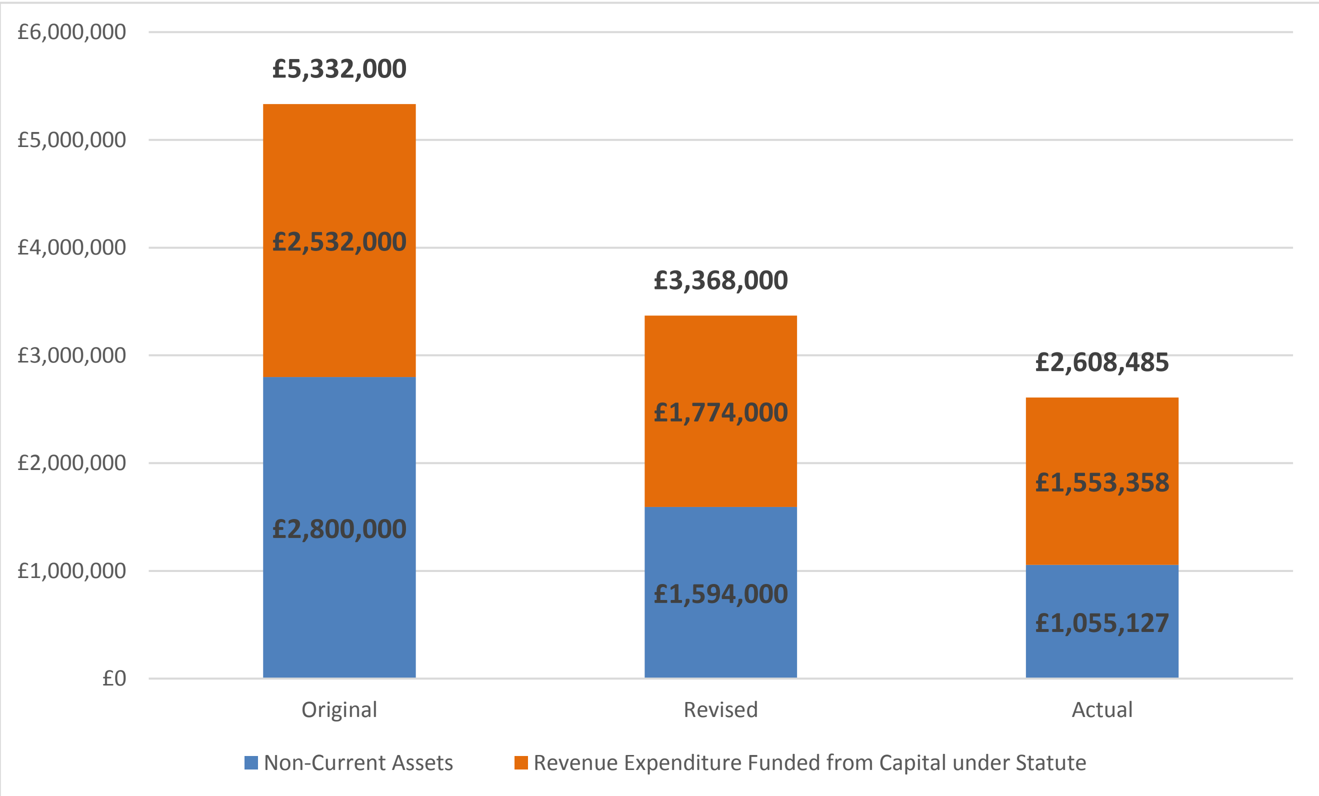
d) confirms compliance with Treasury limits and Prudential Indicators

3.6 The performance of the Treasury Management function should be measured against the investment objectives of Security (the safe return of our monies), Liquidity (making sure we have sufficient money to pay for our services) and Yield (the return on our investments).

3.7 In addition, external borrowing is considered against the objectives of it being affordable (the impact on the budget and Council Tax), prudent and sustainable (over the whole life).

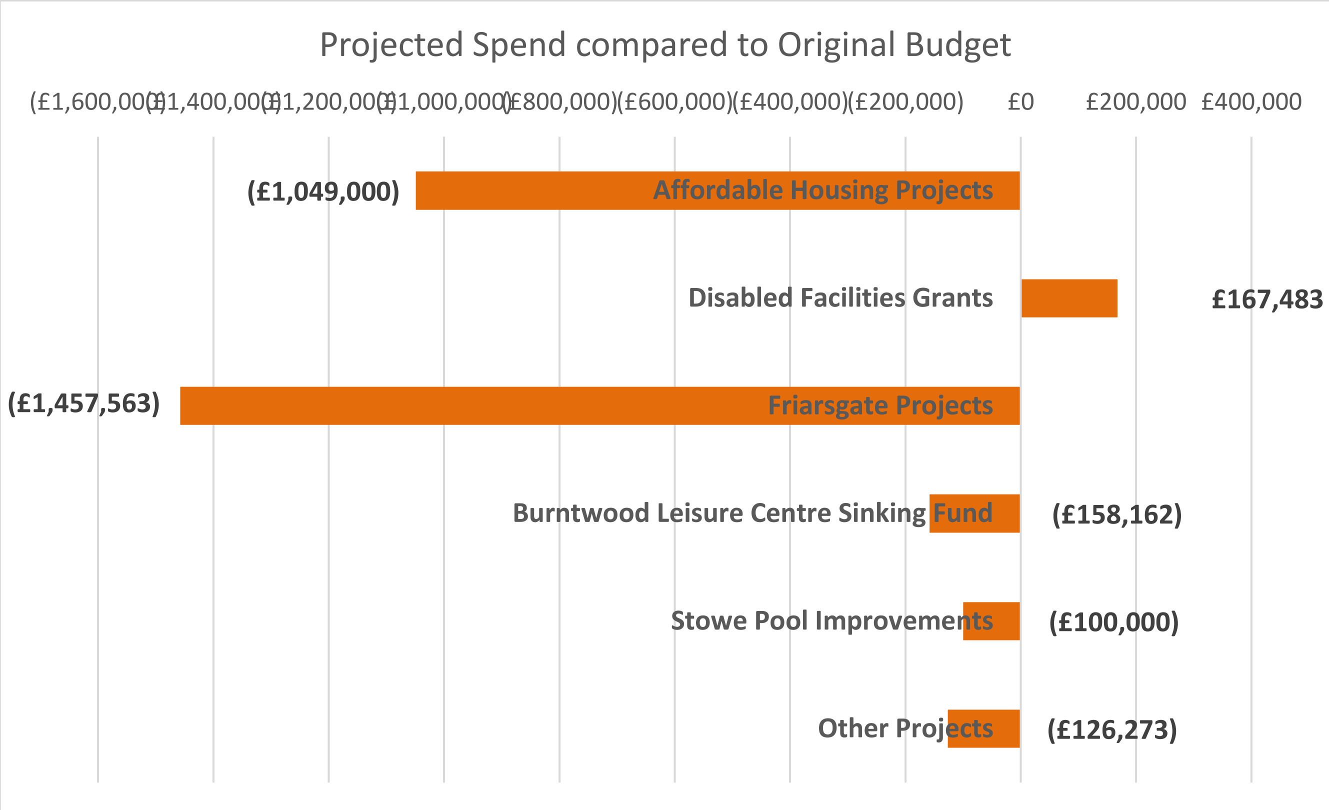
The Capital Programme

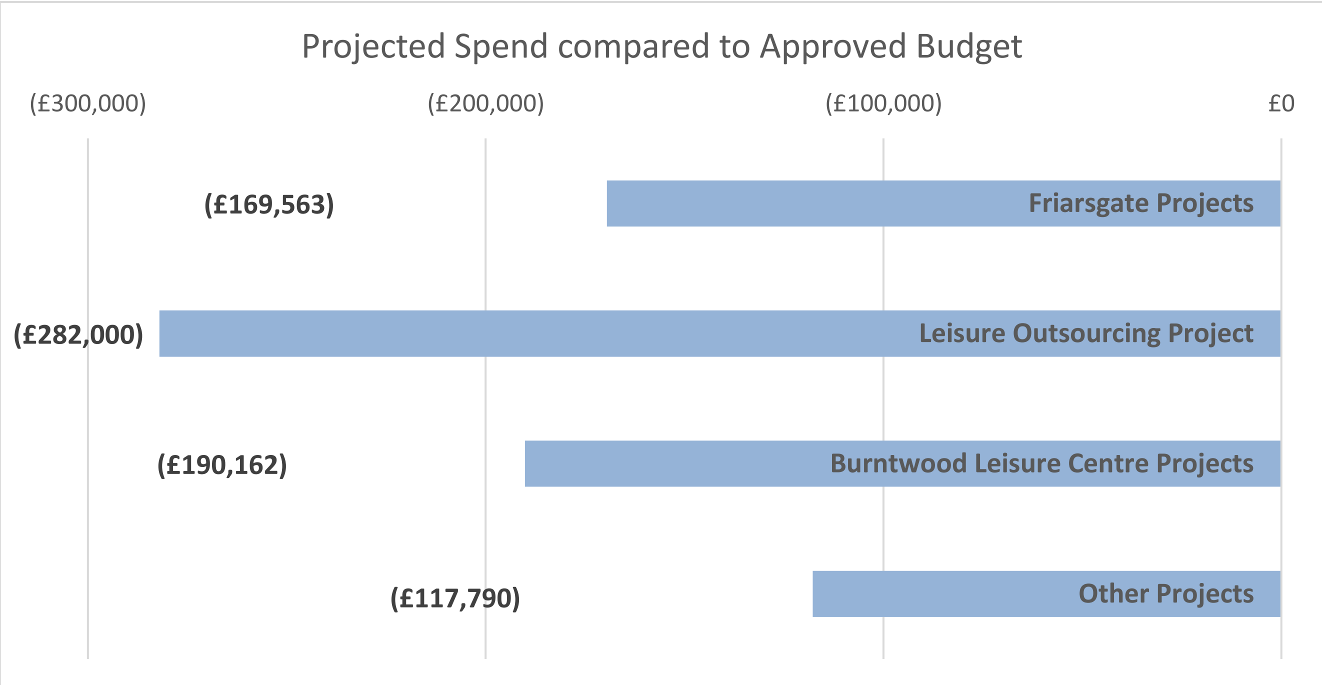
3.8 A summary of the Capital Programme performance from the Original Budget to the Actual for 2017/18 is shown in detail at **APPENDIX A** and in the chart below:



3.9 Capital expenditure was **£2,608,485** and this is **(£759,515)** less than the Approved Revised Budget of **£3,368,000**.

3.10 The main reasons for the variance to both Original and Revised Budgets are shown in the two graphs below:





3.11 **Friarsgate** – This reflects the latest project plan and the Councils decision as to whether to be the funder for this scheme.

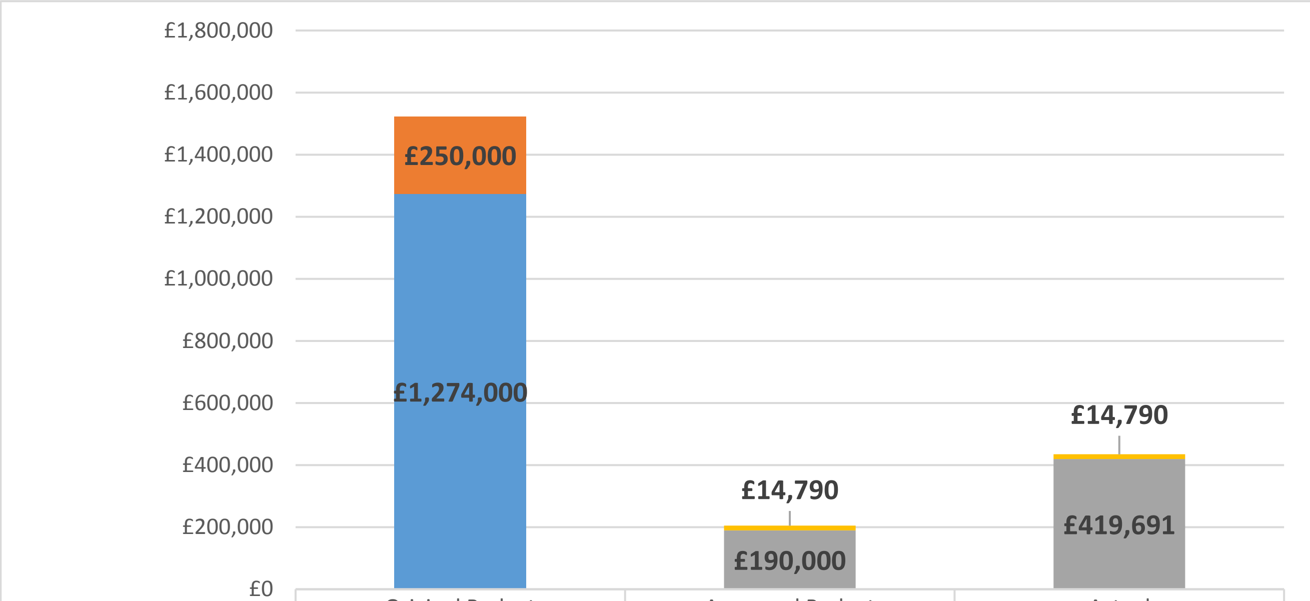
3.12 **Leisure Outsourcing** – The spend profile reflected the bid submitted, however capital investment in Burntwood Leisure Centre is likely to commence in July 2018.

3.13 **Burntwood Leisure Centre Projects** – This reflected the previous sinking fund investment plan, however, this has been superseded by the capital investment being undertaken as part of the leisure outsourcing.

Capital Receipts

3.14 There have been **(£434,481)** of actual capital receipts received in 2017/18 compared to the Approved Budget of **(£204,790)**. The additional capital receipts received of **(£229,691)** is related to the Council's share of Right to Buy sales.

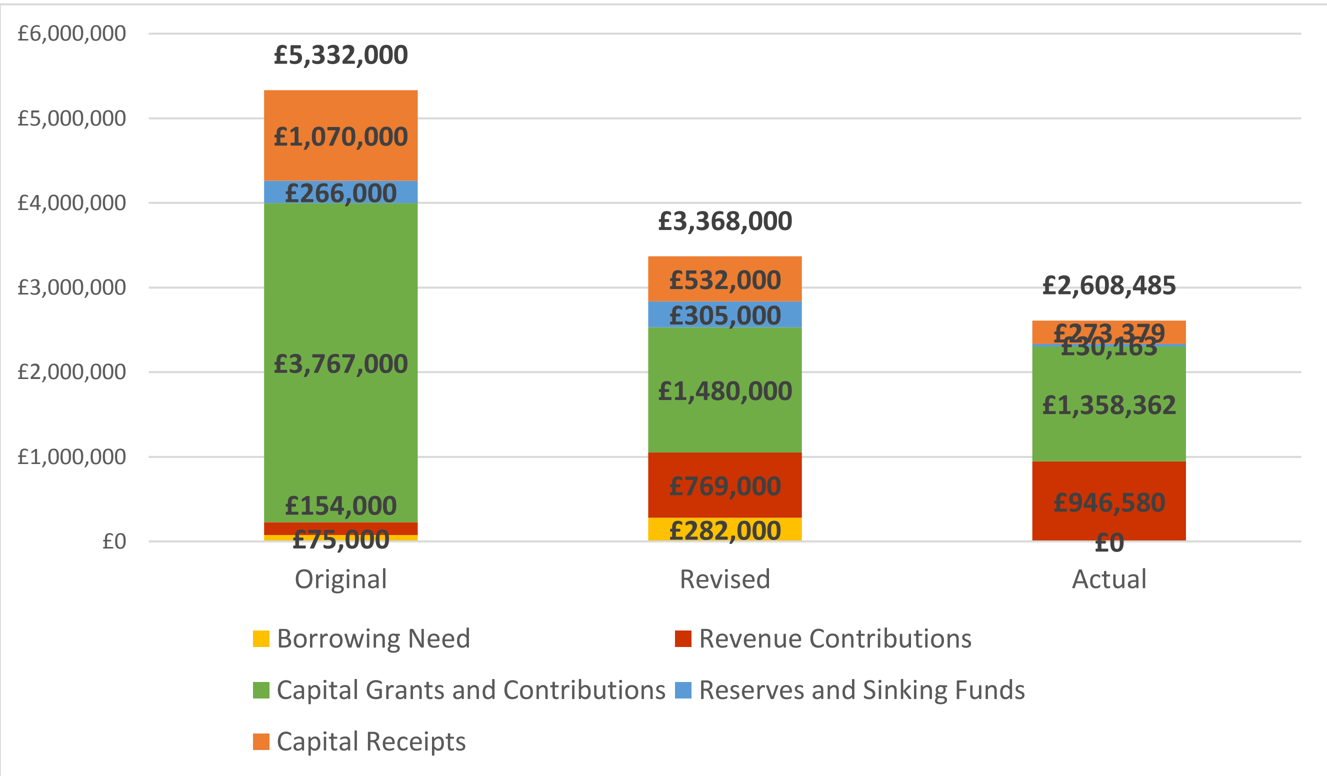
3.15 The Original and Approved Budgets together with the actual capital receipts received are shown in the graph below:



	Original Budget	Approved Budget	Actual
DFG Settlements		£14,790	£14,790
Bromford RTB Sales		£190,000	£419,691
Friarsgate	£250,000		
Asset Strategy Review	£1,274,000		

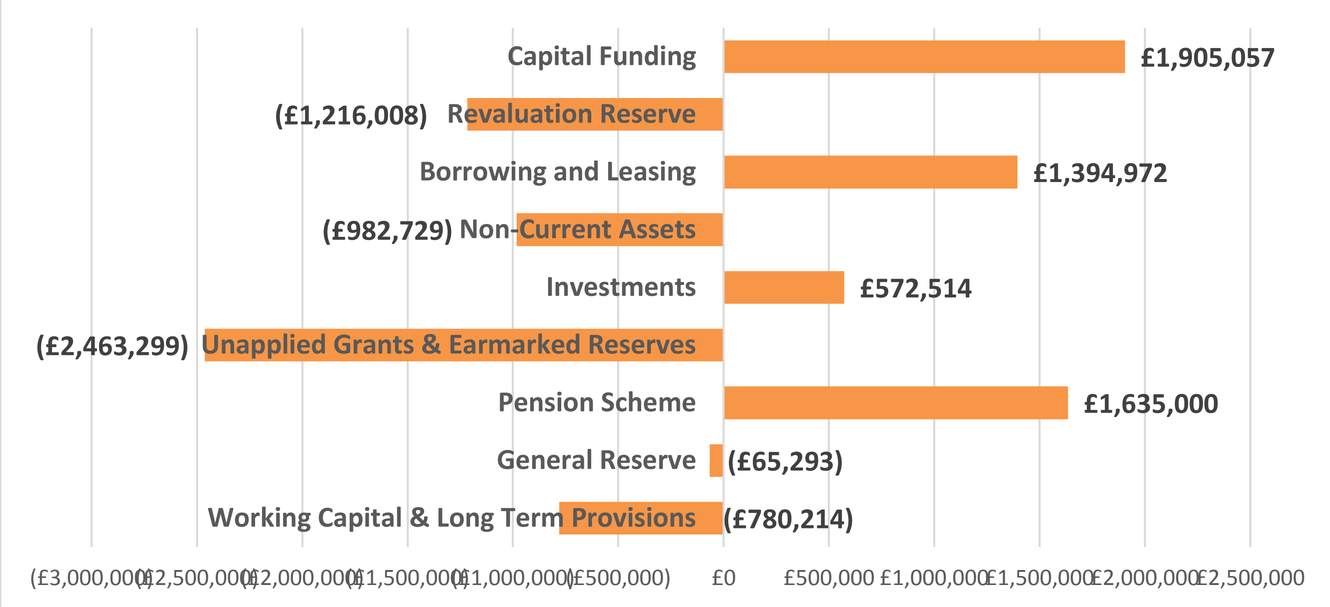
Capital Funding

3.16 The budgeted and actual sources of funding for the Capital Programme are shown in the graph below:



The Balance Sheet

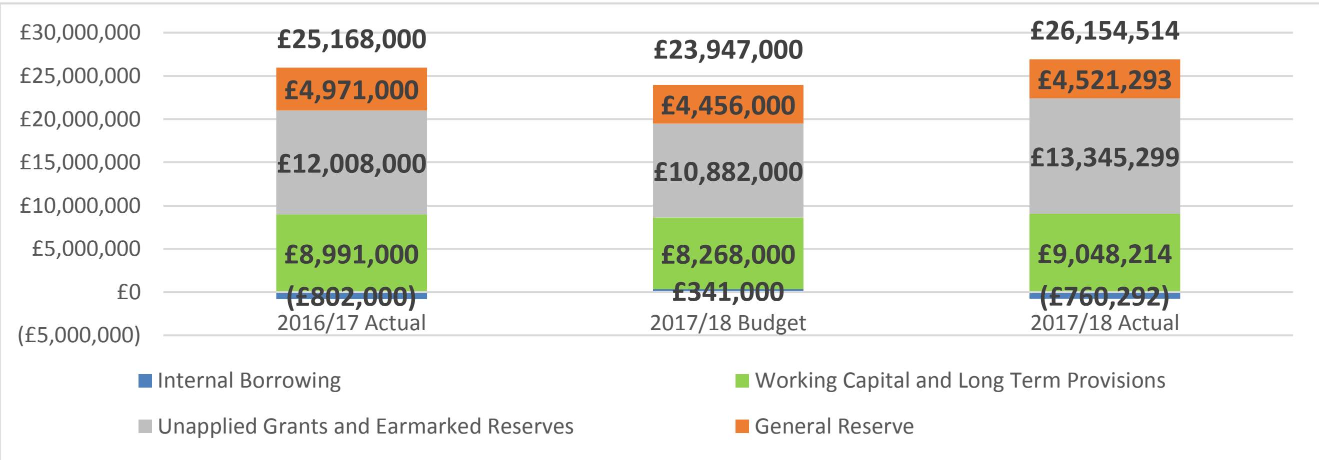
3.17 The actual Balance Sheet for 2016/17 together with the budgeted and actual Balance Sheet for 2017/18 are shown in detail at **APPENDIX B** and the variance of budget to actual for 2017/18 in the chart below:



3.18 The main reasons for the variance between the budgeted and actual Balance Sheet for 2017/18 are detailed below:

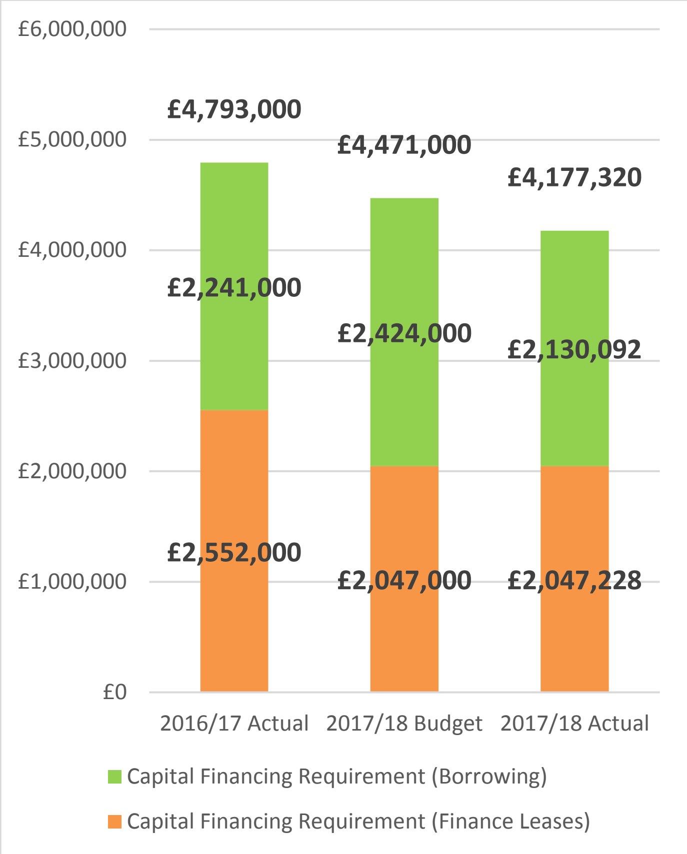
- **Capital Funding and Revaluation Reserve** – The value of these assets overall has been revalued upwards by the District Valuer resulting in a variance of **(£1,216,000)** in the revaluation reserve. The main revaluations being Burntwood Leisure Centre and Lichfield Garrick. The disposal of King Edwards Leisure Centre has contributed to the Capital Adjustment Account variance of **£1,905,000**.
- **Borrowing and Leasing** – The amount of external borrowing was lower by **£1,395,000** due to the projected works at Burntwood Leisure Centre planned as part of the leisure outsourcing being delayed until 2018/19. This borrowing actually took place on 31 May 2018.
- **Unapplied Grants & Earmarked Reserves** – An increase in Capital, Section 106 and CIL receipts of (£750,000), an increase in the Business Rates Volatility reserve (£630,000) and the Friarsgate reserve (£665,000) contributed towards the overall variance of **(£2,463,299)**.
- **Pension Scheme** – Cabinet agreed on 17-Jan-17 to pay the past service element of pensions for 2019/20 and 2020/21 of **£1,635,000** in advance.

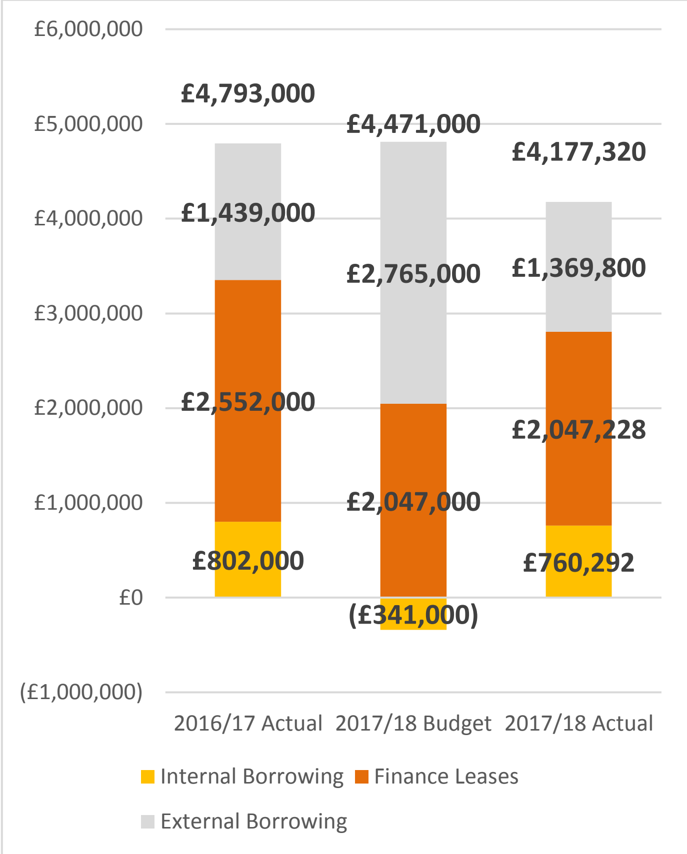
3.19 The level of investments and the sources of cash are shown in the chart below:



Borrowing Need (Capital Financing Requirement) and its Financing

3.20 The actual and Budgeted Borrowing Need together with its financing for 2016/17 and 2017/18 is shown in the graphs below. The variance of **£293,680** between budget and actual is related to the delayed spend of **£282,000** from the Leisure Outsourcing project.

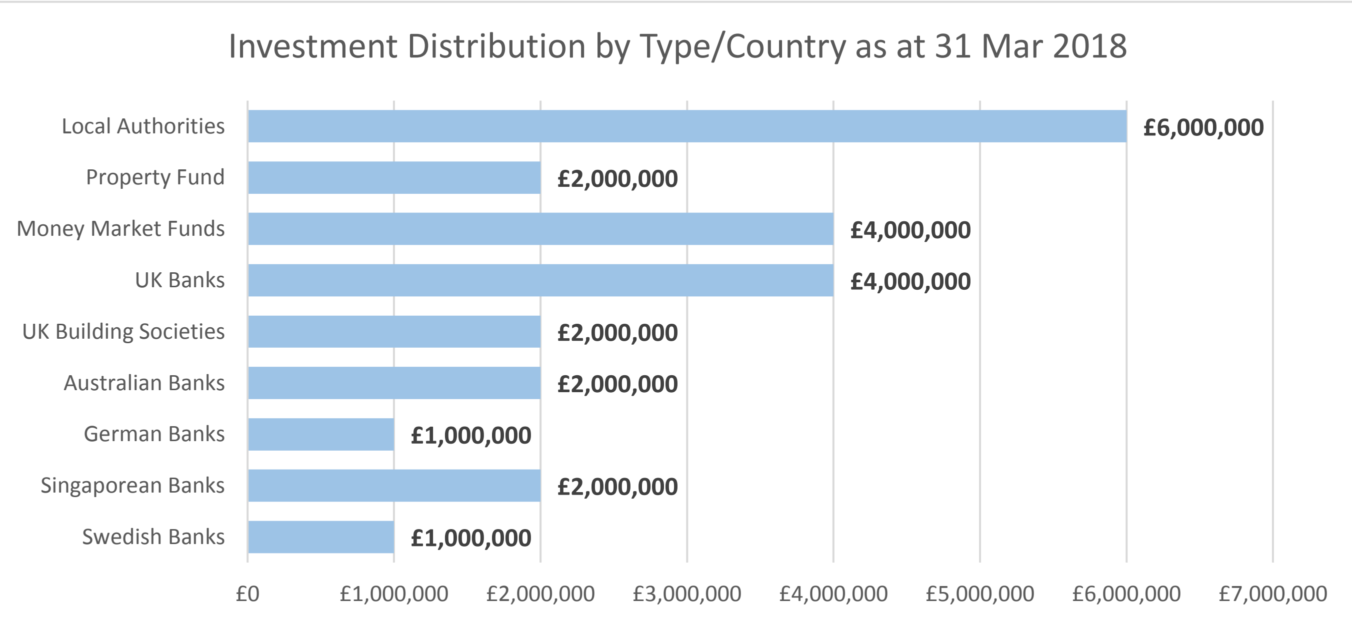




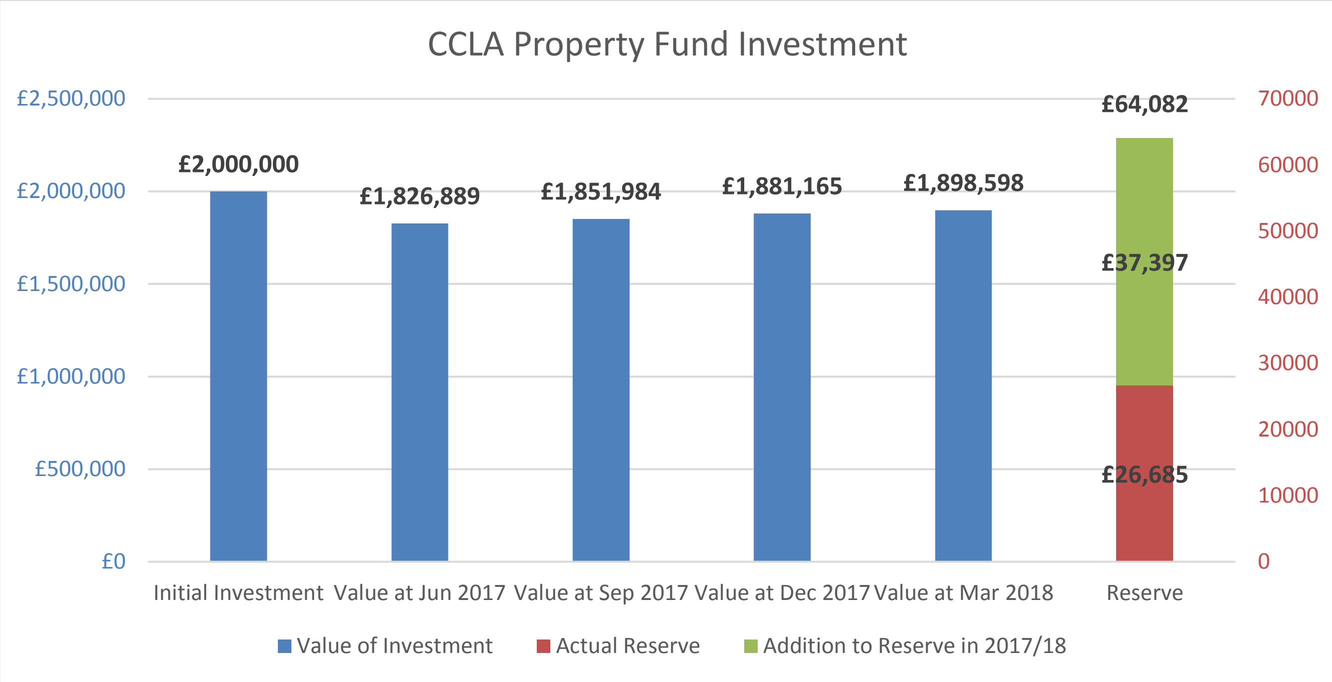
Investments

The Security of Our Investments

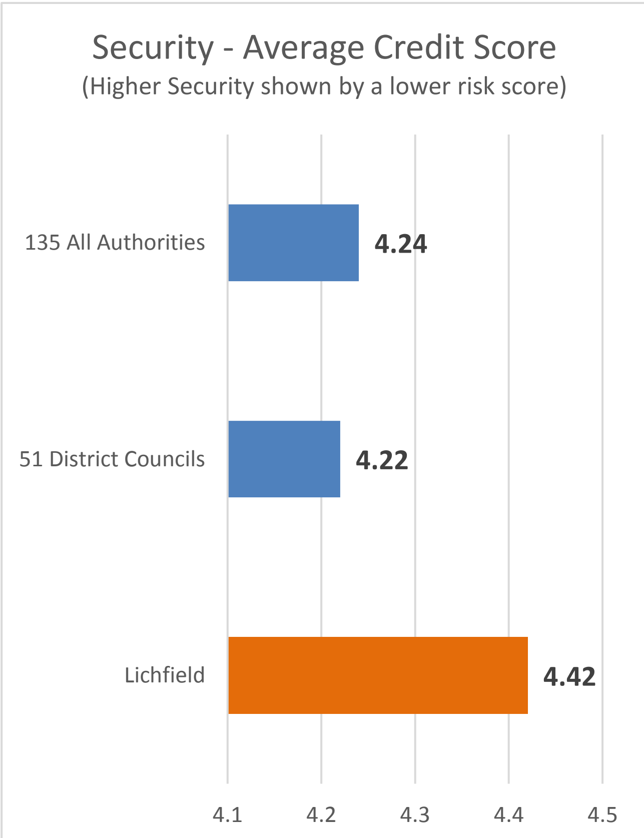
3.21 The investments the Council had at the 31 March 2018 of **£24m** (with the property fund valued at original investment of **£2m**) by type and Country are summarised in the graph below and in more detail at **APPENDIX C**

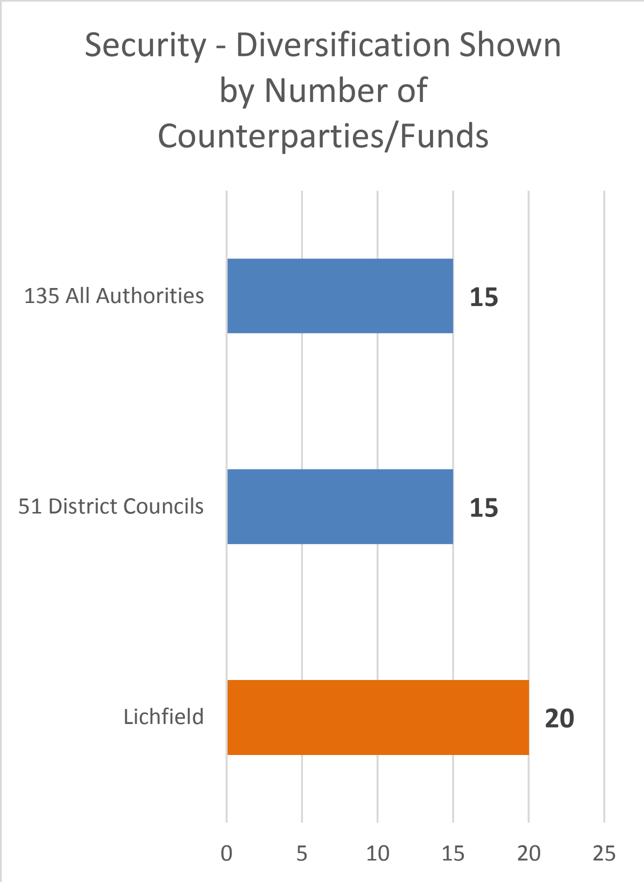


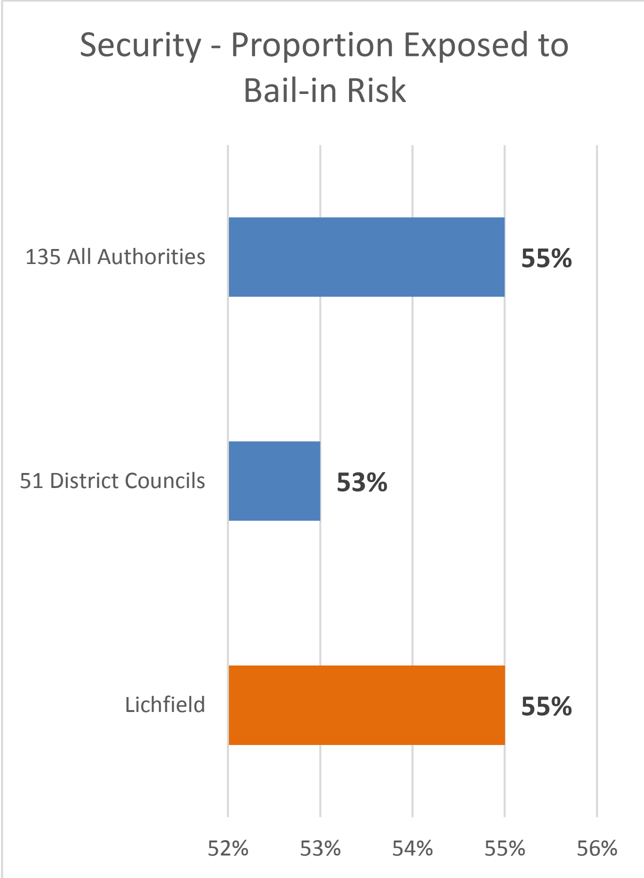
3.22 The current value of the Property Fund investment together with the value of the earmarked reserve at the end of 2017/18 intended to offset reductions in value is shown in the graph below:



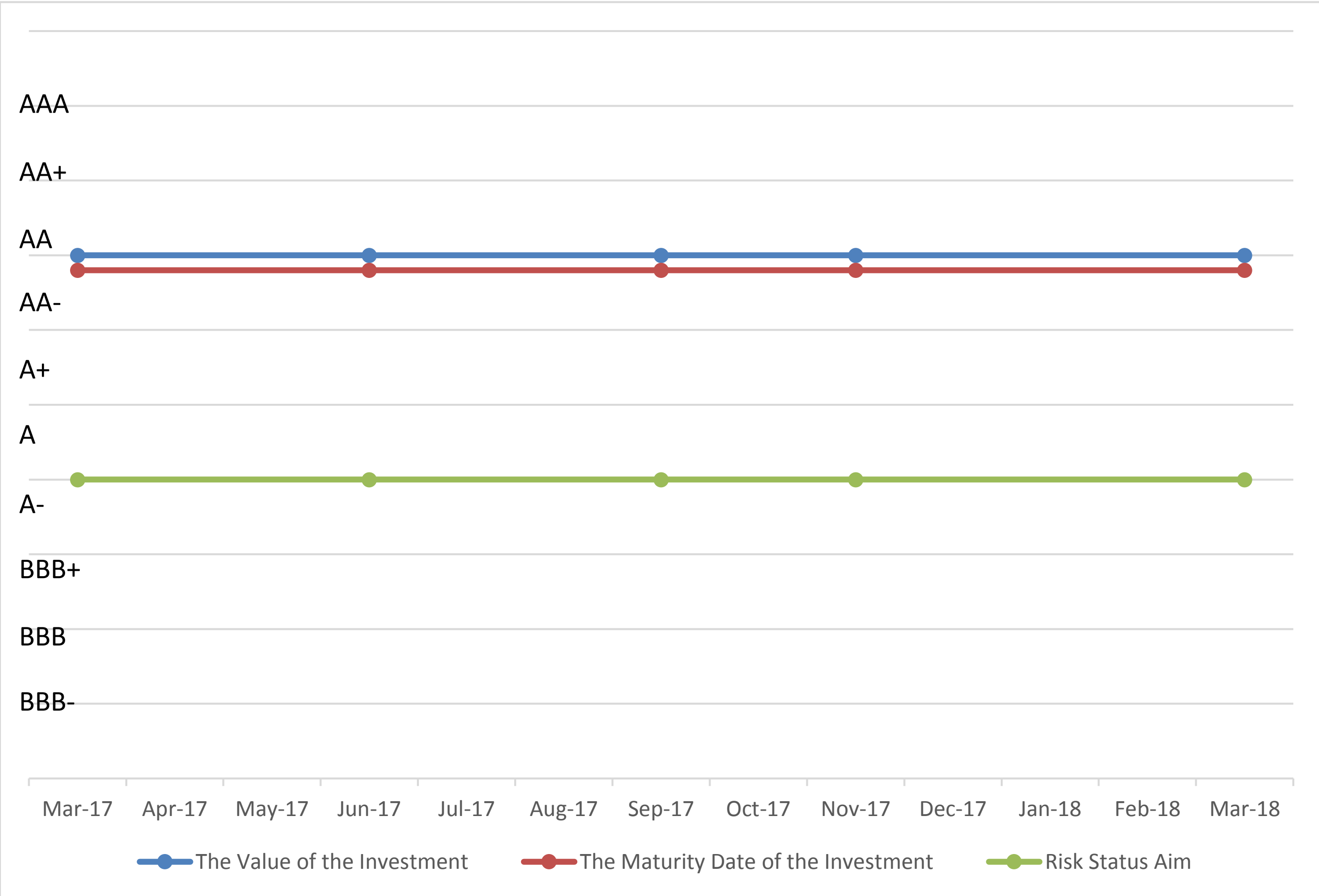
3.23 A comparison of the Council's portfolio size (with the property fund valued at its current value of **£1.9m**), average credit score, level of diversification and level of exposure to 'Bail in' risk compared to all Arlingclose Clients is shown in the charts below:





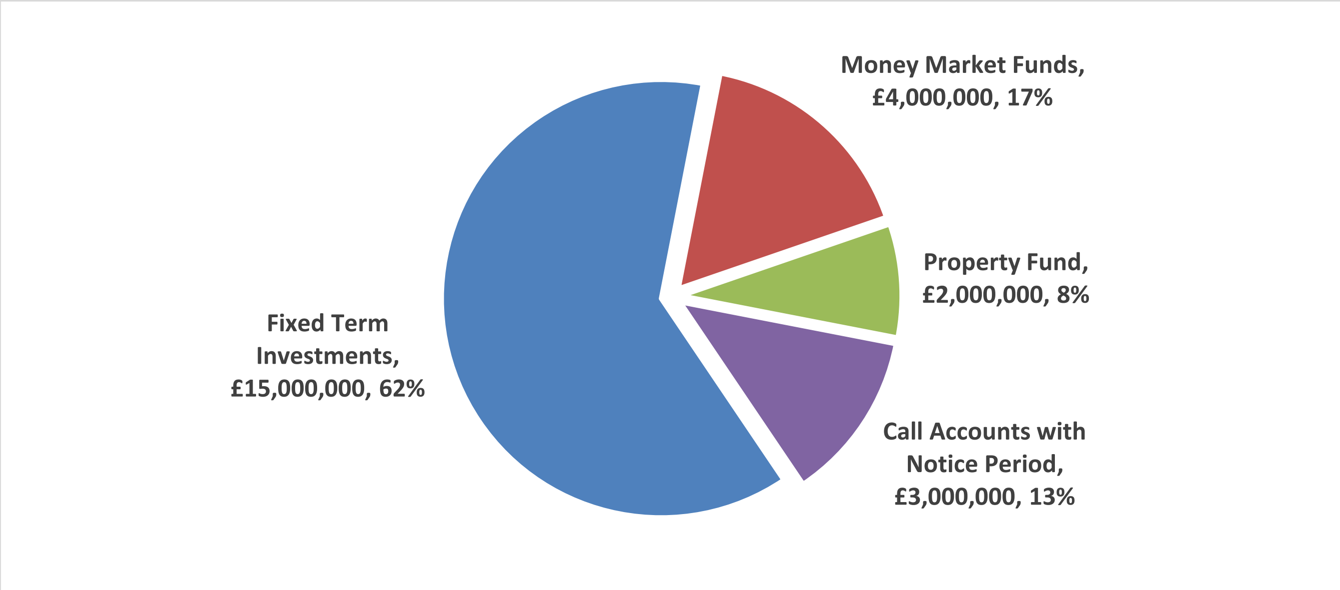


3.24 Our aim for the risk status of our investments was **A- or higher**. The risk status based on the length of the investment and the value for a 12 month period is summarised in the graph below:

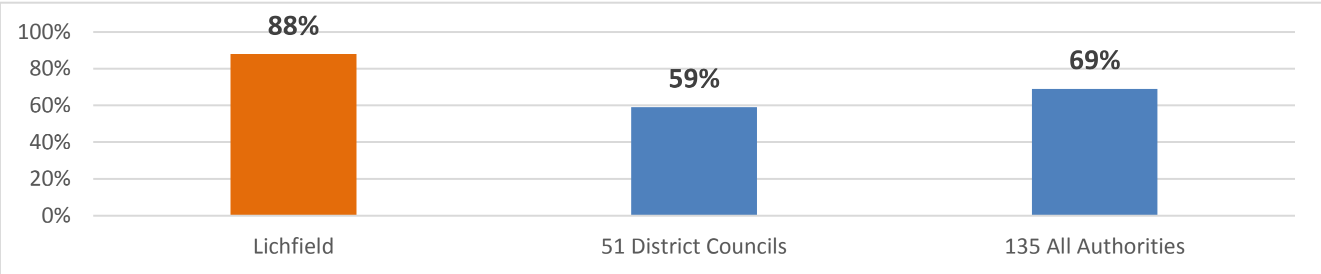


The Liquidity of our Investments

3.25 The Council has not had to temporarily borrow during 2017/18 and retains a proportion of its investments in instant access Money Market Fund investments to ensure there is sufficient cash available to pay for goods and services. The investments by type are shown in the graph below:

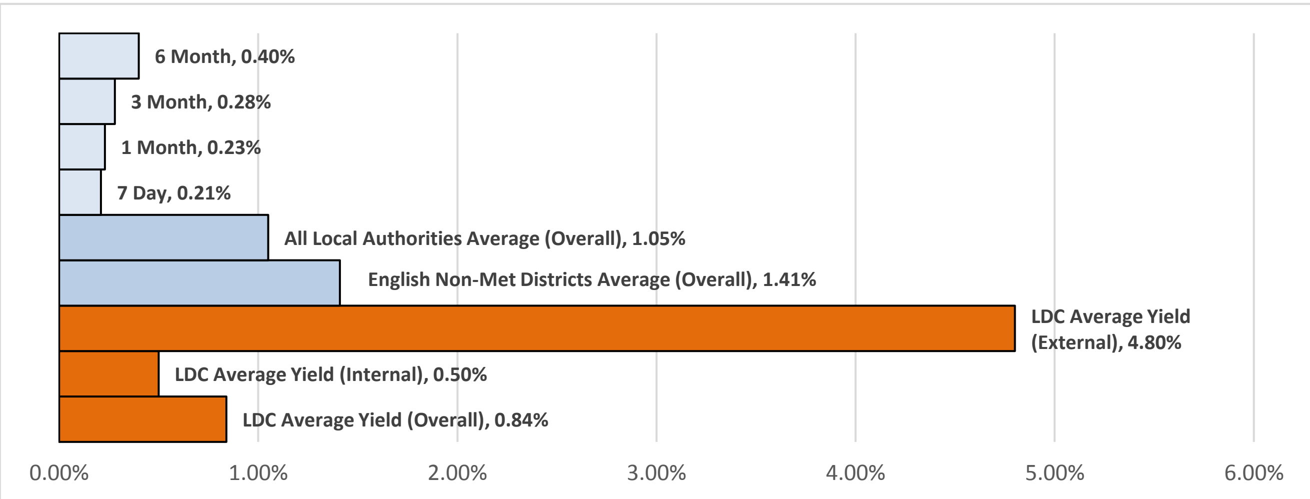


3.26 The proportion of the investment portfolio available within 100 days compared to all Arlingclose clients is shown in the graph below:



The Return or Yield of our Investments

3.27 The yield the Council achieved compared to a number of industry standard benchmarks (including our preferred benchmark of the seven day LIBID rate) and all Arlingclose clients is shown in the graph below:



3.28 The investment activity during the financial year generated **(£159,280)** of net investment income. Of this, **(£44,960)** related to the Local Authorities' Property Fund (gross income (£87,357) less transfer to reserve of £37,397).

Alternative Options	There are no alternative options.

Consultation	Consultation is undertaken as part of the Strategic Plan 2016-20 and with Leadership Team.

Financial Implications

Prudential indicators (PI) 2017/18:

- We can confirm that the Council has complied with its Prudential Indicators for 2017/18; these were originally approved by Council at its meeting on 21 February 2017 and were fully revised and approved by Council on 20 February 2018.
- In compliance with the requirements of the CIPFA Code of Practice this report provides members with a Summary Report of the Treasury Management Activity during 2017/18.
- None of the other Prudential Indicators have been breached. The Prudential Indicators are shown in detail in **APPENDIX D** and are summarised in the table below :

PI	Details	Revised Budget	Actual	Compliant
1	Capital Expenditure (£)	£3.368m	£2.608m	✓
2	Ratio of Financing Costs to Net Revenue Stream (%)	5%	5%	✓
3	Capital Financing Requirement (£)	£4.471m	£4.177m	✓
4	Gross external borrowing does not exceed the Capital Financing Requirement in the current year plus the next two years	True	True	✓
	Actual external debt	£3.468m	£3.418m	✓
5	Incremental impact of capital investment decisions on Band D Council Tax (£)	£0.00	£0.60	✓
6	Authorised Limit (£)	£15.292m	£3.991m	✓
7	Operational Boundary (£)	£5.895m	£3.991m	✓
8	Adoption of the CIPFA Code of Practice in Treasury Management	Yes	Yes	✓
9	Is our gross debt in excess of our Capital Financing Requirement and are we therefore borrowing in advance of need?	No	No	✓
10	Upper limit for investments fixed interest rate exposure (Highest)	(100%)	(80%)	✓
11	Upper limit for investments variable interest rate exposure (Highest)	(100%)	(47%)	✓
10	Upper limit for borrowings fixed interest rate exposure (Highest)	100%	100%	✓
11	Upper limit for borrowings variable interest rate exposure (Highest)	30%	0%	✓
Maturity Structure of Fixed Rate Borrowing (upper limit) (%)				
12	Under 12 months	100%	4.44%	
12	12 months and within 24 months	100%	4.44%	
12	24 months and within 5 years	100%	13.33%	
12	5 years and within 10 years	100%	22.22%	
12	10 years and within 20 years	100%	44.44%	✓
12	20 years and within 30 years	100%	11.11%	
12	30 years and within 40 years	100%	0.00%	
12	40 years and within 50 years	100%	0.00%	
12	50 years and above	100%	0.00%	
13	Principal Sums invested > 364 days (£m)	£6.000m	£2.000m	✓
14	Credit Risk	We consider security; liquidity and yield, in that order, when making investment decisions.		

Contribution to the Delivery of the Strategic Plan	The MTFS underpins the delivery of the Strategic Plan 2016-20.

Equality, Diversity and Human Rights Implications	There are no additional Equality, Diversity or Human Rights implications.

Crime & Safety Issues	There are no additional Crime and Safety Issues.

	Risk Description	How We Manage It	Severity of Risk
A	Management of the Council's Revenue and Capital budget is critical to the successful delivery of key Council priorities, and control measures need to be in place to manage the re-scheduling or re-profiling of projects and to respond to the changing financial climate including the impact of the EU Referendum	Close monitoring of expenditure. Maximising the potential of efficiency gains. Early identification of any unexpected impact on costs, for example, central Government policy, movement in the markets, and changes in the economic climate. Prioritisation of capital expenditure. Project management of projects.	Red - Severe
B	Counterparty default	This Approved Annual Investment Strategy utilises more counterparties and financial instruments to diversify the portfolio and reduce this risk.	Yellow - Material
C	Collection performance for Council Tax and Business Rates reduces.	Regular monitoring in the Money Matters Reports throughout the financial year.	Yellow - Material
D	Actual cash flows are different to those that are planned	The Council maintains a comprehensive cash flow model that is updated on a daily basis to reflect actual and planned cash flows. An element of the Council's investment portfolio will be invested in instant access accounts.	Yellow - Material
E	Planned capital receipts are not received	The Council plans to dispose of a number of assets to fund capital investment including the Bore Street Shops. The sale of the Bore Street Shops is being monitored closely to ensure any subsequent financial implications are included in the MTFS.	Red - Severe
F	New Government policies including the level of cuts to Communities and Local Government	To ensure any new policies such as those related to Business Rates and New Homes Bonus are evaluated and the impact is incorporated into the MTFS.	Red - Severe

Background Documents

- CIPFA Code of Practice for Treasury Management in the Public Services
- The Prudential Code for Capital Finance in Local Authorities
- Money Matters: Council Tax, National Non Domestic Rates and Pension Contributions – Cabinet 17 January 2017
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2016-21 Cabinet – Cabinet 7 February 2017
- Money Matters: 2017/18 Review of Financial Performance against the Financial Strategy – Cabinet 5 September 2017.
- Money Matters: 2017/18 Review of Financial Performance against the Financial Strategy – Cabinet 5 December 2017.
- Mid-Year Treasury Management Report – Audit and member Standards Committee – 22 January 2018.
- Money Matters: 2017/18 Review of Financial Performance against the Financial Strategy – Cabinet 13 February 2018.
- Money Matters: The Medium Term Financial Strategy (Revenue and Capital) 2017-22 (MTFS) – Cabinet 13 February 2018.

Relevant web link	

APPENDIX A

Capital Programme Performance in 2017/18

Project	Original Budget	Approved Budget	Actual Outturn	Variance to Approved Budget	Variance to Original Budget
BLC Enhancement Work	£42,000	£74,000	£11,838	(£62,162)	(£30,162)
Other Burntwood Leisure Centre Sinking Fund Projects	£128,000	£128,000	£0	(£128,000)	(£128,000)
Play Area at Hawksyard	£0	£0	£580	£580	£580
Squash Court and Sports Hall Floors (FGLC)	£0	£50,000	£0	(£50,000)	£0
Leisure Review: Capital Investment	£0	£282,000	£0	(£282,000)	£0
FGLC (Lighting, Boiler)	£0	£15,000	£15,824	£824	£15,824
Accessible Homes (Disabled Facilities Grants)	£850,000	£1,010,000	£1,017,483	£7,483	£167,483
Home Repair Assistance Grants	£15,000	£15,000	(£5,247)	(£20,247)	(£20,247)
Decent Homes Standard	£437,000	£0	£0	£0	(£437,000)
Energy Insulation Programme	£10,000	£30,000	£9,278	(£20,722)	(£722)
DCLG Monies	£212,000	£0	£0	£0	(£212,000)
Unallocated S106 Affordable Housing Monies	£400,000	£0	£0	£0	(£400,000)
Housing Redevelopment Scheme - Packington	£80,000	£80,000	£40,000	(£40,000)	(£40,000)
Oakenfield Play Area (Sinking Fund)	£0	£9,000	£9,000	£0	£9,000
Community Building at Hawksyard	£320,000	£320,000	£319,574	(£426)	(£426)
Healthy and Safe Communities	**£2,494,000**	**£2,013,000**	**£1,418,330**	**(£594,670)**	**(£1,075,670)**
Swan Road - Whittington Parish Council	£0	£28,000	£28,205	£205	£28,205
Bin Purchase	£0	£0	£103,112	£103,112	£103,112
Vehicle Replacement Programme	£167,000	£18,000	£18,325	£325	(£148,675)
Shortbutts Park, Lichfield	£0	£10,000	£9,868	(£132)	£9,868
Fazeley Crossroads Environmental Improvements	£0	£4,000	£3,971	(£29)	£3,971
Stowe Pool Improvements	£100,000	£0	£0	£0	(£100,000)
Ancient Monument (Friary)	£0	£1,500	£1,500	£0	£1,500
Canal Culvert at Huddlesford	£100,000	£10,000	£11,675	£1,675	(£88,325)
Clean, Green and Welcoming Places to Live	**£367,000**	**£71,500**	**£176,656**	**£105,156**	**(£190,344)**
Data Management System	£0	£5,000	£0	(£5,000)	£0
Friarsgate Support	£1,830,000	£495,000	£349,617	(£145,383)	(£1,480,383)
Friarsgate: Castle Dyke/Frog Lane Enhancement	£50,000	£97,000	£16,111	(£80,889)	(£33,889)
Friarsgate: Coach Park	£0	£0	£56,709	£56,709	£56,709
Garrick Square	£58,000	£0	£0	£0	(£58,000)
Sankey's Corner Environmental Improvements	£0	£3,000	£0	(£3,000)	£0
City Centre Strategy and Interpretation	£0	£1,500	£0	(£1,500)	£0
Car Parks Variable Message Signing	£32,000	£0	£0	£0	(£32,000)
Old Mining College - Refurbish access and signs	£0	£14,000	£0	(£14,000)	£0
Cannock Chase SAC	£0	£86,000	£85,984	(£16)	£85,984
A Vibrant and Prosperous Economy	**£1,970,000**	**£701,500**	**£508,422**	**(£193,078)**	**(£1,461,578)**
Depot Sinking Fund	£0	£11,000	£0	(£11,000)	£0
Bin Storage Area Resurfacing	£0	£20,000	£19,932	(£68)	£19,932
IT and Channel Shift Programme	£200,000	£250,000	£283,625	£33,625	£83,625
Multi Media in the Committee Room	£0	£10,000	£10,236	£236	£10,236
Asset Management: District Council House	£301,000	£291,000	£191,284	(£99,716)	(£109,716)
A Council that is Fit for the Future	**£501,000**	**£582,000**	**£505,077**	**(£76,923)**	**£4,077**
Capital Programme Total	**£5,332,000**	**£3,368,000**	**£2,608,485**	**(£759,515)**	**(£2,723,515)**

Non-Current Assets	**£2,800,000**	**£1,594,000**	**£1,055,127**	**(£538,873)**	**(£1,744,873)**
Revenue Expenditure Funded from Capital under Statute	**£2,532,000**	**£1,774,000**	**£1,553,358**	**(£220,642)**	**(£978,642)**

Funding Source	Original Budget	Approved Budget	Actual Outturn	Variance to Approved Budget	Variance to Original Budget
Capital Receipts	£1,074,000	£532,000	£273,379	(£258,621)	(£800,621)
Revenue Contributions	£154,000	£769,000	£946,580	£177,580	£792,580
Council Funding	**£1,224,000**	**£1,301,000**	**£1,219,959**	**(£81,041)**	**(£8,041)**
Borrowing Need	£75,000	£282,000	£0	(£282,000)	(£75,000)
Capital Grants and Contributions	£3,767,000	£1,480,000	£1,358,363	(£121,637)	(£2,408,637)
Reserves and Sinking Funds	£262,000	£305,000	£30,163	(£274,837)	(£231,837)
Capital Programme Total	**£5,332,000**	**£3,368,000**	**£2,608,485**	**(£759,515)**	**(£2,723,515)**

APPENDIX B

The Council's Balance Sheet

	Type	2016/17 Actual £000s	2017/18 Actual £000s	2017/18 Budget £000s	Variance to Budget £000s
Property, Plant and Equipment	ASSET	43,080	41,968	42,904	(936)
Heritage Assets	ASSET	515	515	515	0
Investment Property	ASSET	5,572	5,200	5,572	(372)
Intangible Assets	ASSET	50	76	50	26
Assets Held for Sale	ASSET	0	300	0	300
Investments	INV	24,981	24,418	23,760	658
Borrowing	BOLE	(1,439)	(1,370)	(2,765)	1,395
Finance Leases	BOLE	(2,552)	(2,048)	(2,047)	(1)
Working Capital	CRED	(7,919)	(7,953)	(7,196)	(757)
Long Term Provisions	CRED	(1,250)	(1,180)	(1,250)	70
Pensions	PEN	(36,562)	(34,393)	(36,562)	2,169
TOTAL ASSETS LESS LIABILITIES		**24,476**	**25,533**	**22,981**	**2,552**
Unusable Reserves					
Revaluation Reserve	REV	(7,800)	(9,016)	(7,800)	(1,216)
Capital Adjustment Account	CAP	(36,624)	(34,865)	(36,770)	1,905
Deferred Credits	CRED	(47)	(47)	(47)	0
Pension Scheme	PEN	36,562	36,028	36,562	(534)
Benefits Payable During Employment Adjustment Account	CRED	225	132	225	(93)
Collection Fund	UGER	(1,116)	(611)	(634)	23
Available for Sale Reserve	INV	187	101	187	(86)
Usable Reserves					
Unapplied Grants and Contributions - General	UGER	(759)	(705)	(654)	(51)
Unapplied Grants and Contributions - Cannock Chase	UGER	(28)	(22)	0	(22)
Unapplied Grants and Contributions - Section 106	UGER	(488)	(588)	(459)	(129)
Unapplied Grants and Contributions - CIL	UGER	(185)	(327)	(185)	(142)
Usable Capital Receipts	UGER	(2,784)	(2,936)	(2,457)	(479)
Usable Capital Receipts - Arts Statue	UGER	(134)	(134)	(134)	0
Burntwood Leisure Centre Sinking Fund	UGER	(247)	(236)	(45)	(191)
City Centre Redevelopment Sinking Fund	UGER	(25)	(25)	(25)	0
Elections	UGER	(226)	(194)	(226)	32
Public Open Spaces	UGER	(476)	(439)	(476)	37
Three Spires Multi Storey	UGER	(1,979)	(2,057)	(2,129)	72
Building Regulations	UGER	(209)	(147)	(209)	62
Other Earmarked Reserves	UGER	(3,326)	(4,904)	(3,223)	(1,681)
Grant Aid - Development	UGER	(26)	(20)	(26)	6
General Fund Balance	GEN	(4,971)	(4,521)	(4,456)	(65)
TOTAL EQUITY		**(24,476)**	**(25,533)**	**(22,981)**	**(2,552)**

Summary	Type	2016/17 Actual £000s	2017/18 Actual £000s	2017/18 Budget £000s	Variance to Budget £000s
Capital Funding	CAP	(36,624)	(34,865)	(36,770)	1,905
Revaluation Reserve	REV	(7,800)	(9,016)	(7,800)	(1,216)
Borrowing and Leasing	BOLE	(3,991)	(3,418)	(4,812)	1,394
Non-Current Assets	ASSET	49,217	48,059	49,041	(982)
Investments	INV	25,168	24,519	23,947	572
Unapplied Grants & Earmarked Reserves	UGER	(12,008)	(13,345)	(10,882)	(2,463)
Pension Scheme	PEN	0	1,635	0	1,635
General Reserve	GEN	(4,971)	(4,521)	(4,456)	(65)
Working Capital & Long Term Provisions	CRED	(8,991)	(9,048)	(8,268)	(780)
TOTAL ASSETS LESS LIABILITIES		**0**	**0**	**0**	**0**

Investments in the 2017/18 Financial Year

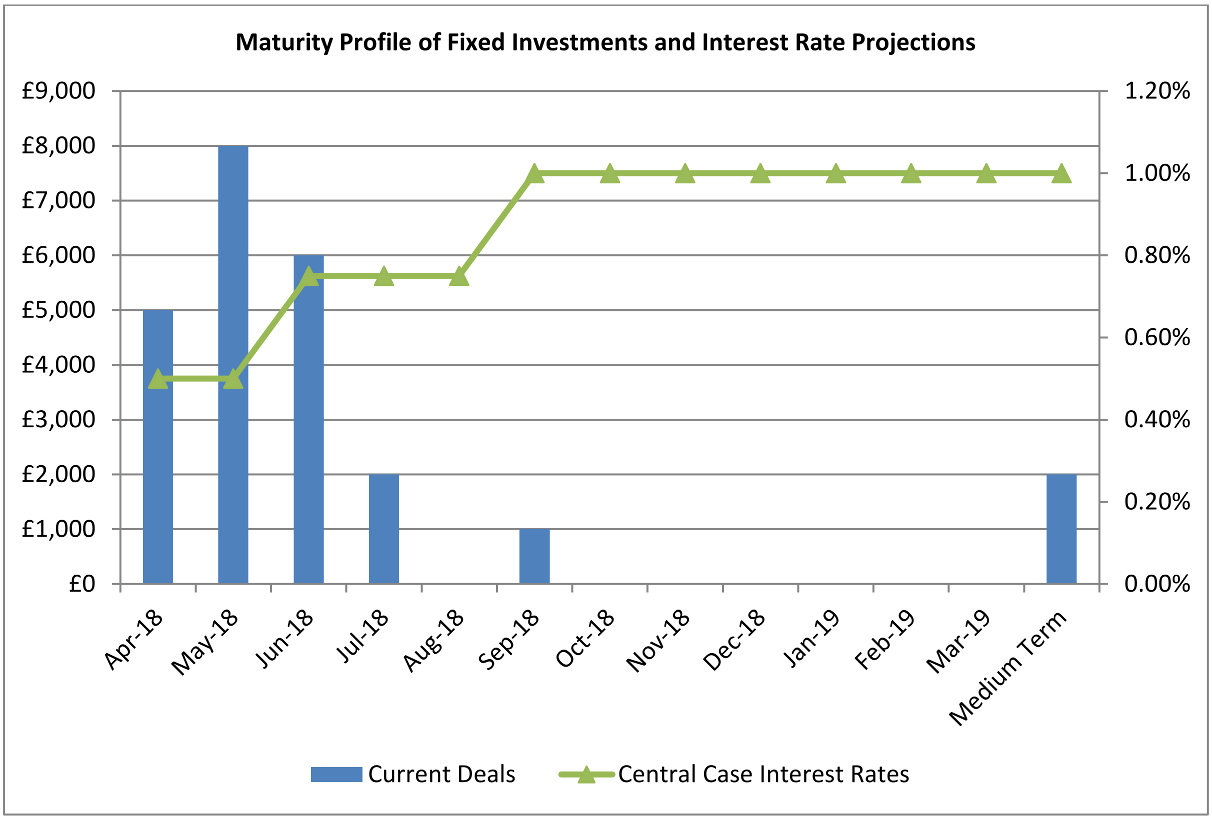
The table below shows a breakdown of our investments at the end of March 2018:

Counterparty	Principal	Matures	Days to Maturity	Rate	Lowest Credit Rating	Foreign Parent
Money Market Funds						
Invesco Aim	£1,000,000	01-Apr-18	Instant Access	0.41%	A+	N/A
Legal & General	£1,000,000	01-Apr-18	Instant Access	0.42%	A+	N/A
BNP Paribas MMF	£1,000,000	01-Apr-18	Instant Access	0.43%	A+	N/A
Amundi	£1,000,000	01-Apr-18	Instant Access	0.43%	A+	N/A
Property Fund						
CCLA Property Fund	£2,000,000	N/A	N/A	4.13%	N/A	No
Fixed Term Investments						
Rugby Borough Council	£2,000,000	29-Jun-18	90	0.35%	LOCAL	No
United Overseas Bank	£1,000,000	18-May-18	48	0.39%	AA-	Yes
DBS Bank	£1,000,000	01-Jun-18	62	0.39%	AA-	Yes
Coventry Building Society	£1,000,000	05-Apr-18	5	0.40%	A	No
Salford City Council	£2,000,000	16-May-18	46	0.50%	LOCAL	No
Commonwealth Bank of Australia	£1,000,000	03-May-18	33	0.42%	AA-	Yes
Lloyds	£1,000,000	15-May-18	45	0.65%	A	No
Nationwide	£1,000,000	15-May-18	45	0.46%	A	No
Australia and New Zealand Banking Group	£1,000,000	12-Jun-18	73	0.57%	AA-	Yes
Landesbank Hessen-Thüringen (Helaba)	£1,000,000	09-Jul-18	100	0.62%	A	Yes
Barclays Bank	£1,000,000	18-May-18	48	0.41%	A	No
Merthyr Tydfil Council	£2,000,000	29-Jun-18	90	0.85%	LOCAL	No
Call Accounts with Notice Period						
Santander UK plc	£1,000,000	27-Sep-18	180	0.55%	A	Yes
Goldman Sachs International Bank	£1,000,000	04-Jul-18	95	0.44%	A	Yes
Svenska Handelsbanken AB	£1,000,000	05-May-18	35	0.25%	AA-	Yes
Total Investments	**£24,000,000**					

External Borrowing

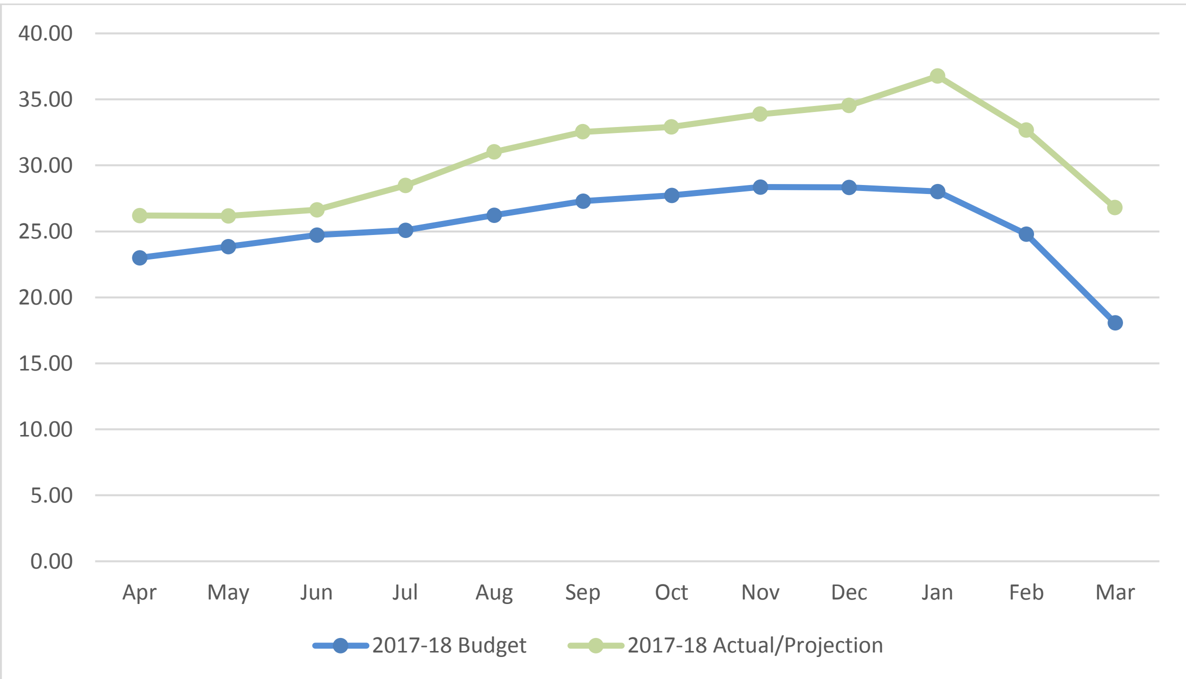
Source	Loan Amount	Maturity Date	Interest Rate	Outstanding Balance as at 31 March 2018
Public Works Loan Board	£1,522,000	08-Apr-40	2.59%	£1,369,800

The maturity profile of these investments at 31 March 2018 compared to our Treasury Management advisor Arlingclose interest rate forecasts is shown in the graph below:



Cash Flow for 2017/18

The graph below compares the budget for average investment levels in 2017/18 with the actual levels.



APPENDIX D

Performance of the Treasury Management Function

The performance of the Treasury Management function should be measured against the investment objectives of Security (the safe return of our monies), Liquidity (making sure we have sufficient money to pay for our services) and Yield (the return on our investments).

Security:

Our aim for the risk status of our portfolio was an average long-term rating of **A-** or higher. As a matter of prudence, the lowest rating from the three credit rating agencies was utilised to comply with this threshold**.**

The investments outstanding at the 31 March 2018 had a risk status of **AA-** based on the length of the investment and **AA-** based on the value of the investment, which is a more secure risk status. These risk statuses are both compliant with our aim and the recommendations from our Treasury Management advisors.

In addition, we are currently keeping the length of our investments relatively short term to ensure that we can react to changes in counterparty credit risk very easily.

The time limits were relatively short to manage counterparty credit risk (a bank or building society being unable to repay our investment). We also maintained balances in Money Market Funds to provide for unforeseen cash flow requirements. The average length of investments we have made in 2017/18 is **96 days**.

Liquidity:

Measuring the performance in relation to liquidity is a much more difficult task and the easiest way to assess performance is to see how frequently we needed to borrow on a temporary basis during the financial year. We actively managed liquidity risk in 2017/18 by purchasing Certificates of Deposit and Treasury Bills because they can be sold on the secondary market in the event the money is required for unforeseen circumstances. We also had significant sums invested in call accounts and Money Market Funds which provide instant access to cash. Therefore, due to the level of our liquid investments in 2017/18 we did not need to temporarily borrow.

Yield:

In the year of 2017/18 we have achieved an average interest rate of **0.66%.** This compares to our performance indicator of the average Seven-day London Inter-bank Bid (LIBID) rate, which was **0.21%**, the one month rate was **0.23%,** the three month rate was **0.28%** and the six month rate was **0.40%.**

In terms of interest receipts, there are two key risks/sensitivities:

a) The interest rate receivable.
b) The amount of money we have available to invest.

The interest rates, amounts of money we had available to invest, interest receipts, interest paid and net investment income in 2017/18 are shown in the table below:

	Target	Actual
Security		
Risk Status (length of Investment)	A- minimum	AA-
Risk Status (Value of the investment)		AA-
Liquidity		
Length of Investments (days)	N/A	96 days
Temporary Borrowing	£0	£0
Yield		
Average amount we had available to invest (£m)	£30.70m	£30.71m
Average Interest Rate (%)	0.65%	0.66%*
7-day London Inter-bank Bid (LIBID) rate	0.21%	
1 month London Inter-bank Bid (LIBID) rate	0.23%	
3 month London Inter-bank Bid (LIBID) rate	0.28%	
6 month London Inter-bank Bid (LIBID) rate	0.40%	
Net Investment Income (£)	(£155,500)	(£159,280)
Net Treasury Position (£)	(£19,450)	(£14,447)

- This percentage is different to the percentage on page 9, due to one calculation is based on a whole year's worth of investments and one on the investments as at 31 March 2018.

COMPLIANCE WITH PRUDENTIAL INDICATORS 2017/18

1. Background:

There is a requirement under the Local Government Act 2003 for Local Authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. It should be noted that CIPFA undertook a review of the Code during the summer of 2017, and issued a revised Code in December 2017.

The Council implemented its strategy within the limits and parameters set in its treasury policy, strategy statement and Prudential Indicators against the prevailing market conditions and opportunities as follows:

(a) Financing its capital spending from government grants/usable capital resources/ revenue contributions etc rather than from external borrowing.

(b) Adhering to the paramount requirement of safeguarding the council's invested balances during a period of unprecedented money market dislocation; maintaining adequate diversification between institutions; optimising investment returns subject to the overriding requirement of security and liquidity.

(d) Forecasting and managing cash flow and undertaking short-term borrowing and lending to preserve the necessary degree of liquidity.

2. Estimates of Capital Expenditure (Prudential Indicator 1):

2.1 This indicator is set to ensure that the level of proposed Capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax :

No. 1 Capital Financing	**2017/18 Original £m**	**2017/18 Approved £m**	**2017/18 Actual £m**
Non-Current Assets	2.800	1.594	1.055
Revenue Expenditure funded from Capital under Statute	2.532	1.774	1.553
Total	**5.332**	**3.368**	**2.608**

2.2 This capital expenditure has been financed as follows:

No. 1 Capital Financing	**2017/18 Original £m**	**2017/18 Approved £m**	**2017/18 Actual £m**
Capital Receipts	1.070	0.532	0.273
Burntwood Sinking Fund	0.170	0.202	0.012
Other Sinking Funds	0.000	0.000	0.000
Capital Grants and Contributions	3.767	1.480	1.358
Earmarked reserves etc.	0.096	0.103	0.018
Revenue Contributions	0.154	0.769	0.947
Finance Leases, Invest to Save and Borrowing	0.075	0.282	0.000
Total	**5.332**	**3.368**	**2.608**

3. Ratio of Financing Costs to Net Revenue Stream (Prudential Indicator 2):

3.1 This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments.

3.2 The ratio is based on costs net of investment income:

No. 2 Ratio of Financing Costs to Net Revenue Stream	**2017/18 Original £m**	**2017/18 Approved £m**	**2017/18 Actual £m**
Investment Income	(0.161)	(0.195)	(0.195)
Transfer to Property Reserve	0.038	0.035	0.036
Internal Interest	0.004	0.004	0.004
External Borrowing Interest	0.036	0.037	0.037
Finance Lease Interest Charges	0.016	0.016	0.048
Minimum Revenue Provision	0.581	0.604	0.616
Total Financing Costs	**0.515**	**0.501**	**0.546**
Total Funding Available	11.034	11.060	11.059
%	**5%**	**5%**	**5%**

4. Capital Financing Requirement (Prudential Indicator 3):

4.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council ensures that gross external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

No. 3 Capital Financing Requirement	**2017/18 Original £m**	**2017/18 Approved £m**	**2017/18 Actual £m**
Balance Brought Forward	4.806	4.793	4.793
Capital Expenditure financed from borrowing etc.	0.075	0.282	0.000
Minimum Revenue Provision	(0.581)	(0.604)	(0.616)
Balance Carried Forward	**£4.300**	**£4.471**	**£4.177**

5. Gross Borrowing and the Capital Financing Requirement (Prudential Indicator 4):

5.1 This is a key indicator of prudence and ensures that over the medium term gross borrowing will only be for a capital purpose.

5.2 This gross borrowing is obtained directly from the Council's Balance Sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities and is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

No. 4	**Revised £m**	**31/03/18 £m**
LT Borrowing	(1.309)	(1.309)
Short Term Element of LT Borrowing	(0.061)	(0.061)
Short Term Element of LT Liabilities	(0.516)	(0.505)
Other Long Term Liabilities	(1.582)	(1.543)
Total	**(£3.468)**	**(£3.418)**

	2017/18 Original £m	**2017/18 Approved £m**	**2017/18 Actual £m**
CFR plus next 2 years	3.993	24.714	24.420
Gross Debt	(3.461)	(3.468)	(3.418)
Gross Borrowing < CFR plus next 2 years	**True**	**True**	**True**

The Head of Finance and Procurement (Section 151) reports that the Authority had no difficulty meeting this requirement in 2017/18. There are also no difficulties envisaged for future years.

6. Incremental Impact of Capital Investment Decisions (Prudential Indicator 5):

6.1 This is an indicator of affordability that shows the impact of Capital investment decisions on Council Tax levels when the budget for the year was set.

No.5 Incremental Impact of Capital investment Decisions	2017/18 Original £	2017/18 Approved £	2017/18 Actual £
Band D Equivalent	**(£0.21)**	**£0.00**	**£0.60**

7. Affordable Borrowing Limit, Authorised Limit and Operational Boundary for External Debt:

7.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

7.2 **The Authorised Limit (Prudential Indicator 6):**
This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was set at **£15,292,000** for 2017/18.

8. Operational Boundary (Prudential Indicator 7):

This limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and was set at **£5,895,000**.

8.1 Levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. The Council maintained its total external borrowing and other long-term liabilities within both limits; at its peak this figure was :

No. 6 and 7 Authorised Limit and Operational Boundary	2017/18 Maximum £m	2017/18 Year Start £m	2017/18 Year End £m
External Borrowing - Long Term	1.370	1.370	1.309
External Borrowing - Short Term	0.069	0.069	0.061
Bank Overdraft	0.000	0.000	0.000
Other Long Term Liabilities - Short Term	0.505	0.505	0.505
Other Long Term Liabilities - Long Term	2.047	2.047	1.543
Total	**£3.991**	**£3.991**	**£3.418**

Details	2017/18 Original £m	2017/18 Approved £m	2017/18 Maximum £m
Authorised Limit	£15.292	£15.292	£3.991
Operational Boundary	£5.895	£5.895	£3.991

9. Adoption of the CIPFA Treasury Management Code (Prudential Indicator 8) :

9.1 This indicator demonstrates that the Council has adopted the principles of best practice:

Adoption of the CIPFA Code of Practice in Treasury Management

- Council approved the adoption of the CIPFA Treasury Management Code at its Full Council meeting on 25 February 2003.
- Council has incorporated any changes resulting from the CIPFA Treasury Management Code within its treasury policies, practices and procedures.
- At its meeting on 21 February 2017, Council originally approved its Prudential Indicators for 2017/18.
- The Prudential Indicators were fully revised and approved by Council on 20 February 2018.

10. Gross Debt (Prudential Indicator 9):

10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need:

No. 9	2017/18 Original £m	2017/18 Approved £m	2017/18 Actual £m
Outstanding Borrowing	(1.338)	(1.370)	(1.370)
Other Long Term Liabilities	(2.124)	(2.098)	(2.048)
Gross Debt	**(£3.462)**	**(£3.468)**	**(£3.418)**
Capital Financing Requirement	**£4.300**	**£4.471**	**£4.177**
Is our Gross Debt in excess of our Capital Financing Requirement and are we borrowing in advance of need?	**No**	**No**	**No**

11. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure (Prudential Indicators 10 and 11):

11.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a gross basis. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

No. 10 and 11	2017/18 Original %	2017/18 Approved %	2017/18 Highest %	2017/18 Lowest %	2017/18 Average %
Fixed Interest Rates					
Upper Limit on Fixed Interest Rate Exposure on Investments	(100%)	(100%)	(80%)	(53%)	(64%)
Upper Limit on Fixed Interest Rate Exposure on Debt	100%	100%	100%	100%	100%
Net Fixed Exposure (No. 10)	**0%**	**0%**	**20%**	**47%**	**36%**
Variable Interest Rates					
Upper Limit for Variable Rate Exposure on Investments	(100%)	(100%)	(47%)	(20%)	(36%)
Upper Limit for Variable Rate Exposure on Debt	30%	30%	0%	0%	0%
Net Variable Exposure (No. 11)	**(70%)**	**(70%)**	**(47%)**	**(20%)**	**(36%)**

12. Maturity Structure of Fixed Rate borrowing (Prudential indicator 12):

12.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

12.2 It is calculated as the amount of borrowing that is fixed rate maturing in each period, as a percentage of total borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No. 12 **Maturity Structure of Fixed Rate Borrowing**	**£**	**%**	**Lower Limit**	**Upper Limit**
Under 12 months	60,880	4.44%	0%	100%
12 months and within 24 months	60,880	4.44%	0%	100%
24 months and within 5 years	182,640	13.33%	0%	100%
5 years and within 10 years	304,400	22.22%	0%	100%
10 years and within 20 years	608,800	44.44%	0%	100%
20 years and within 30 years	152,200	11.11%	0%	100%
30 years and within 40 years	0	0.00%	0%	100%
40 years and within 50 years	0	0.00%	0%	100%
50 years and above	0	0.00%	0%	100%
Total	**£1,369,800**			

13. Upper Limit for total principal sums invested over 364 days (Prudential Indicator 13):

13.1 This indicator is set in order to allow the Council to manage the risk inherent in investments longer than 364 days:

No 13 **Upper Limit for total principal sums invested over 364 days**	**2017/18 Original £m**	**2017/18 Approved £m**	**2017/18 Actual £m**
Upper Limit	**£6.000**	**£6.000**	**£2.000**

14. Credit Risk (Prudential Indicator 14):

14.1 We consider security, liquidity and yield, in that order, when making investment decisions.

14.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in our assessment of counterparty credit risk.

14.3 We also consider alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk :

- Published credit ratings of the financial institution (minimum **A-** or equivalent);
- Potential for bail-in risk;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

14.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

15. Changes to the 2017 Prudential Code:

15.1 The 2017 Prudential Code has deleted three Prudential Indicators: (a) incremental impact on Council Tax, (b) adoption of the TM Code, and (c) HRA limit on indebtedness. The first two are relevant for this Council. In relation to (b), there is no longer a requirement for local authorities to formally adopt the Treasury Management Code, but local authorities in all parts of the UK are now required by law to have regard to the Code. For (a), the Council has decided not to retain this indicator as a local indicator.