

<b>Report of</b>	<b>Assistant Director, Policy &amp; Corporate</b>	<b>Author</b>	<b>Paul Cook</b>
<b>Title</b>	<b>Treasury Management Strategy (TMS) – Annual Review 2018/19</b>		
<b>Wards affected</b>	Not applicable		

## 1 Executive Summary

- 1.1 This report is part of the cycle of monitoring treasury management in the Council. The TMS covers all the borrowing and investment activities of the Council. The TMS sets prudential indicators for the year.
- 1.2 The Council sets its treasury management strategy as part of the annual revenue budget process. The 2020/21 Treasury Management Strategy (TMS) will therefore go forward to Cabinet in January 2020 and on to Council in February 2020. The 2018/19 TMS was approved by Council on 21 February 2018.
- 1.3 The Governance and Audit Committee receives a mid-year TMS update to ensure compliance with the agreed TMS. For the 2018/19 Strategy the report was considered on 13 November 2018. For the 2019/20 TMS the mid-year update is programmed for 26 November 2019.
- 1.4 The Scrutiny Committee receives an annual review looking back at the completed financial year. This report is the annual review for 2018/19
- 1.5 This 2018/19 annual review confirms that the Council operated within all TMS prudential indicators set for 2018/19.

## 2 Action required

- 2.1 The Panel is asked to consider the TMS Annual Review 2018/19.
- 2.2 To note that the Council operated in accord and are within the boundaries of the TMS prudential indicators set for 2018/19
- 2.3 The Panel is asked to note the satisfactory performance of Link Asset Services.

## 3 Reason for scrutiny

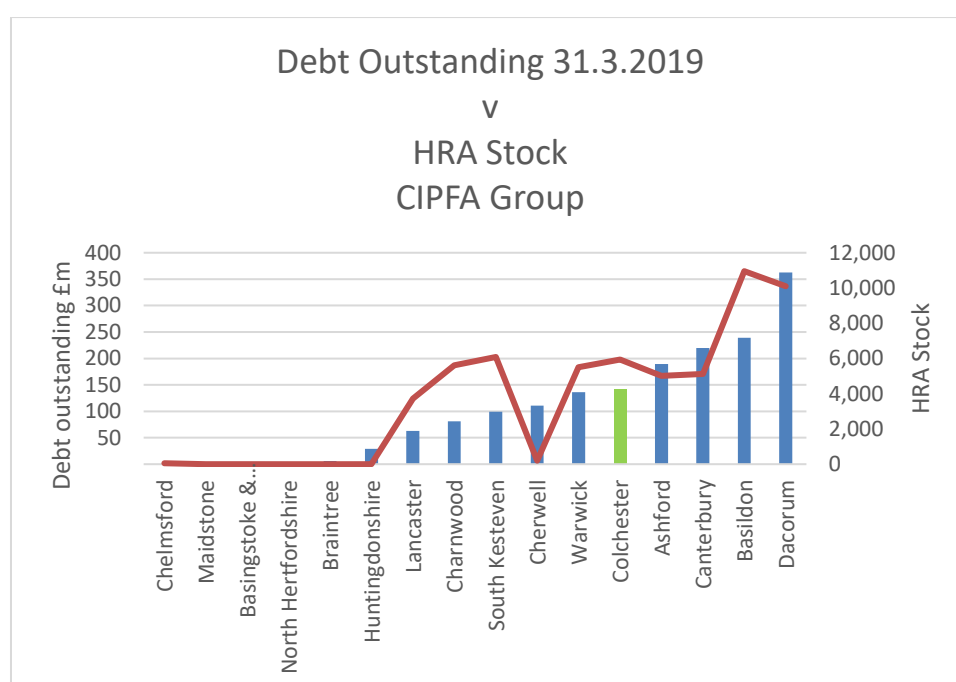
- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice requires the Council to produce three main reports each year, which are all required to be scrutinised and reviewed:
  - the Treasury Management Strategy Statement.
  - the Mid-Year Treasury Management Report.
  - the Annual Treasury Management Review (this report).

## 4 Treasury Management Review 2018/19

- 4.1 The Annual Treasury Management Review 2018/19 is attached as a separate document.

## 5. Borrowing Performance

- 5.1 To meet 2018/19 funding requirements the Council used internal funds in place of borrowing externally. It was not considered necessary to commit to external borrowing as the cost would have been significantly higher than the very low cash investment rates available for internal funds. External borrowing therefore remained at £141.094 million throughout the year. This approach will require review for 2020/21. An increase in Public Works Loan Board (PWLB) rates could result in increased long-term costs for the Council when the Council borrows to replace the internal funds.
- 5.2 The chart shows Colchester's borrowing compared to its CIPFA neighbour group. Whilst the Council is not the highest borrower, many of the group do not have a borrowing exposure. As also set out in the chart, borrowing levels are largely explained by past decisions on housing stock retention and the authorities' position at the self-financing housing settlement. The affordable level of debt for Colchester will be further considered in the Council's Capital Strategy. It is expected this will be reported to Cabinet in September 2019.



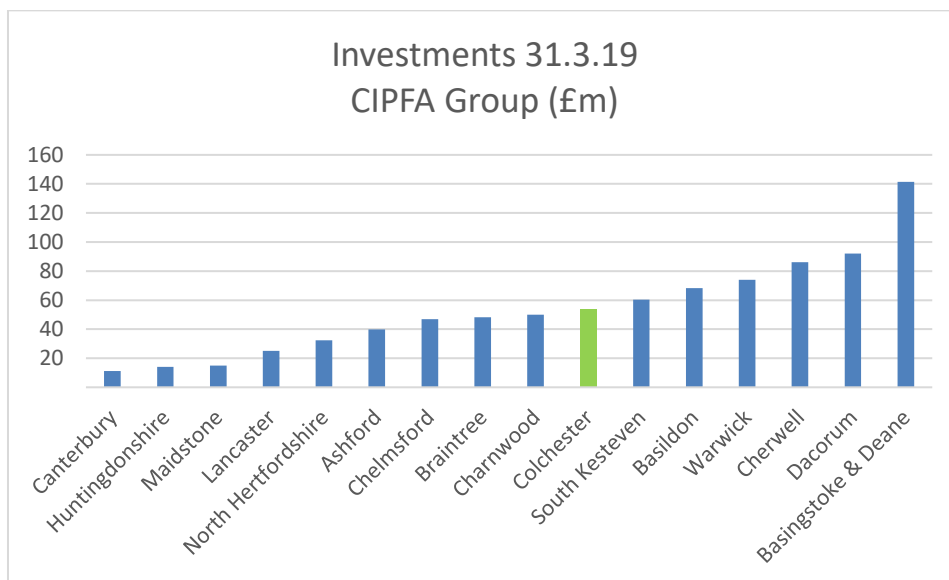
TMS Prudential Indicators Borrowing				
Indicator	2017/18	2018/19 Strategy	2018/19 Actual	Comments
	£m	£m	£m	
General Fund Capital Expenditure	17.005	38.604	25.104	2018/19 underspend already reported to Scrutiny
New Borrowing Requirement	1.291	10.263	8.835	Lower than planned as programme underspend
Capital Financing Requirement	154.864	163.952	162.355	As above
Authorised Borrowing Limit	169.635	180.252	141.094	Operated within the limit
Operational Boundary	140.537	159.613	141.094	Operated within the limit

Actual financing as a proportion of net revenue stream general fund	10.93%	12.26%	8.15%	Operated within the limit
Maturity Structure				
< 1 year	3.9%	15%	3.9%	No new borrowing is undertaken that will cause a limit to be exceeded. Over time the period to maturity of existing loans decreases and may cause variations. The strategy limits exceed 100% in total allowing some flexibility to choose loan maturities.
1 to 2	0.0%	15%	0.0%	
2 to 5	15.6%	15%	15.6%	
5 to 10	0.5%	15%	0.5%	
10 to 20	10.2%	30%	10.2%	
20 to 30	25.5%	30%	25.5%	
30 to 40	25.1%	40%	25.1%	
40 to 50	12.9%	40%	12.9%	
50+	6.3%	10%	6.3%	
Average borrowing rate	4.46%		4.46%	No change from 2017/18 as no new borrowing.

## 6. Investment Performance

- 6.1 The investment policy reflected the Council's low appetite for risk. The financial year continued the challenging low return investment environment of previous years. The Council's investments at the end of the year totalled £54.212 million. The rate of return achieved was 0.94%. To understand comparative performance an analysis of 2018/19 results will be reported to a future Panel meeting. Colchester appears to have an average level of investment for its comparator group.

TMS Prudential Indicators Investment				
Indicator	2017/18	2018/19 Strategy	2018/19 Actual	Comments
	£m	£m	£m	
Creditworthiness	Link creditworthiness system			All investments within policy
Country Limits		AA-		All investments within policy
Non-UK not to exceed		£15m		All investments within policy
Return on in-house funds (LIBID 3 Month)	0.41%	0.72% (Actual LIBID)	0.78%	Improved return
Maximum Principal invested 365 days +	5.000	5.000	0.481	All investments within policy



## **7. Treasury Management Advisors**

- 7.1 The Council employs Link Asset Services to provide a treasury management consultancy service. Their remit includes advice on borrowing, investments, counterparty credit details and general capital accounting information. Their performance was considered satisfactory in 2018/19.

## **8. Strategic Plan references**

- 8.1 Prudent treasury management underpins the budget strategy required to deliver all Strategic Plan priorities.

## **9 Publicity considerations**

- 9.1 **Appendix A** to the annual report is confidential.

## **10 Financial implications**

- 10.1 Interest paid and earned on borrowing and investments are reflected in the Central Loans and Investment Account (CLIA). Out-turn figures for 2018/19 show a favourable variance of £97k. This variance arises from additional borrowing costs offset by higher investment due to the level of cash balances available.

## **11 Risk management implications**

- 11.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Policy Statement contains a section on treasury Risk Management (TMP1).
- 11.2 TMP1 covers the following areas of risk all of which are considered as part of our treasury management activities:
- Credit and counterparty risk
  - Liquidity risk
  - Interest rate risk
  - Exchange rate risk
  - Refinancing risk
  - Legal and regulatory risk
  - Fraud, error and corruption, and contingency management
  - Market risk

## **12 Other standard references**

12.1 Having considered consultation, equality, diversity and human rights, community safety, and health and safety implications, there are none that are significant to the matters in this report.

## **Appendices**

Appendix A – List of investments (Confidential)

Appendix B – Glossary of abbreviations and initialisms

Appendix C – Treasury Management Review 2018/19