SOUTH HOLLAND DISTRICT COUNCIL

Report of: **Executive Director Commercialisation (S151), Christine Marshall**

To: **Governance and Audit Committee 6 June 2019**
Council 31 July 2019

Author: **Sean Howsam – Finance Manager – Treasury (PSPS)**

Subject: **Annual Treasury Management Review 2018/19**

Purpose: **To consider the Annual Treasury Management Review for 2018/19 prior to it being submitted to Council for approval.**

Recommendation(s):

1) That the Governance and Audit Committee scrutinise the Annual Treasury Management Review 2018/19 and make any comments for consideration by Council when they consider this document for approval at their meeting on 31 July 2019.

1.0 BACKGROUND

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of 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).

During 2018/19 the following reports have been submitted:

- an annual treasury strategy in advance of the year (Council 8 March 2018);
- a mid year (minimum) treasury update report (Council 28 November 2018);
- An annual review following the end of the year describing the activity compared to the strategy (this report).

1.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore 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.

1.3 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee. Member training on treasury management issues was undertaken on 15 March 2018 in order to support the members' scrutiny role.

1.4 The Treasury Management function is administered by Public Sector Partnership Services Ltd (previously known as Compass Point Business Services) on behalf of the Council.

2.0 INTRODUCTION

2.1 This report summarises the following :-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to its indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Borrowing and investment outturn positions;
- Economy and interest rates.

3.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2018/19

3.1 The Council undertakes capital expenditure on long-term assets. These activities may either 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.

3.2 The actual capital expenditure forms one of the required prudential indicators. The following tables show the actual capital expenditure and how this was financed.

£'000 General Fund	**2017/18 Actual**	**2018/19 Estimate**	**2018/19 Actual**
Capital expenditure	2,606	5,203	3,678
Financed in year	(1,486)	(3,495)	(2,074)
Unfinanced capital expenditure	1,120	1,708	1,604

£'000 Housing Revenue Account (HRA)	**2017/18 Actual**	**2018/19 Estimate**	**2018/19 Actual**
Capital expenditure	3,369	7,715	4,885
Financed in year	(3,369)	(7,715)	(4,883)
Unfinanced capital expenditure	-	-	2

4.0 THE COUNCIL'S OVERALL BORROWING NEED

4.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2018/19 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

4.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced by utilising temporary cash resources within the Council or through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets).

4.3 Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

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

4.4 The Council's 2018/19 MRP Policy as required by Ministry of Housing, Communities and Local Government (MHCLG) guidance was approved as part of the Treasury Management Strategy Report for 2018/19 on 8 March 2018 and amended at Council on 27 February 2019.

4.5 The Council's CFR for the year is shown below, and represents a key prudential indicator:

CFR (£'000): General Fund	**31 March 2018 Actual**	**31 March 2019 Budget**	**31 March 2019 Actual**
Opening Balance	2,557	3,847	3,847
Add unfinanced capital expenditure (as above)	1,120	1,708	1,604
Add Transfer of Land & Buildings From HRA	170	-	-
Closing Balance	**3,847**	**5,555**	**5,451**

CFR (£'000): HRA	**31 March 2018 Actual**	**31 March 2019 Budget**	**31 March 2019 Actual**
Opening Balance	68,609	68,439	68,439
Add unfinanced capital expenditure (as above)	-	-	2
Less Transfer of Land & Buildings to General Fund	(170)	-	-
Closing Balance	**68,439**	**68,439**	**68,441**

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

4.6 Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2017/18) plus the estimates of any additional CFR for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. 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 gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2018 Actual (£'000)	**31 March 2019 Budget (£'000)**	**31 March 2019 Actual (£'000)**
Gross Borrowing Position	67,456	67,456	67,456
CFR	72,286	73,994	73,892

4.7 The authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The following table demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - 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.

	2018/19
Authorised limit	£91m
Maximum gross borrowing position	£67.456m
Operational boundary	£87m
Average gross borrowing position	£67.456m
Financing costs as a proportion of net revenue stream – Non HRA HRA	-2.20% 33.29%

5.0 **TREASURY POSITION AS AT 31 MARCH 2019**

5.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2018/19 the Council's treasury position including accrued interest was as follows:

	31/3/18 Amount £'000	**Rate/ Return %**	**Average Life**	**31/3/19 Amount £'000**	**Rate/ Return %**	**Average Life**
Fixed rate funding						
PWLB	67,456	3.48	44 years	67,456	3.48	43 years
Leases	-	n/a		-	n/a	
Total debt	**67,456**	**3.48**	**44 years**	**67,456**	**3.48**	**43 years**
CFR	72,286			73,892		
Over/(under) borrowing	(4,830)			(6,436)		
Cash and investments:						
long term equity and service loans	(2,456)	n/a	n/a	(5,460)	n/a	n/a
short term	(32,597)	0.76	155 days	(33,602)	1.07	173 days
instant access deposits	(3,115)	0.46	1 day	(4,977)	0.73	1 day
Total cash and investments	**(38,168)**	**0.73**	**141 days**	**(44,039)**	**1.02**	**150 days**
Net debt	**29,288**			**23,417**		

5.2 Investments and Cash and Cash Equivalents held as at 31 March 2019 including accrued interest were as follows:

INVESTMENT PORTFOLIO	Actual 31/03/18 £000's	Actual 31/03/18 %	Actual 31/03/19 £000's	Actual 31/03/19 %
Treasury Investments				
Banks	14,088	40	29,556	76
Building Societies	4,009	11	3,002	8
Local Authorities	15,014	42	3,019	8
Total managed in house	**33,111**	**93**	**35,577**	**92**
Money Market Funds	2,601	7	3,002	8
Total managed externally	**2,601**	**7**	**3,002**	**8**
Total Treasury Investments	**35,712**	**100**	**38,579**	**100**
Non-Treasury Investments				
Equity	927	38	2,580	47
Service Loans (long term debtors)	1,529	62	2,880	53
Total Non-Treasury Investments	**2,456**	**100**	**5,460**	**100**

SUMMARY	Actual 31/03/18 £000's	Actual 31/03/18 %	Actual 31/03/19 £000's	Actual 31/03/19 %
Total Treasury Investments	35,712	94	38,579	88
Total Non-Treasury Investments	2,456	6	5,460	12
Total of all Investments	**38,168**	**100**	**44,039**	**100**

The maturity structure of the investment portfolio was as follows:

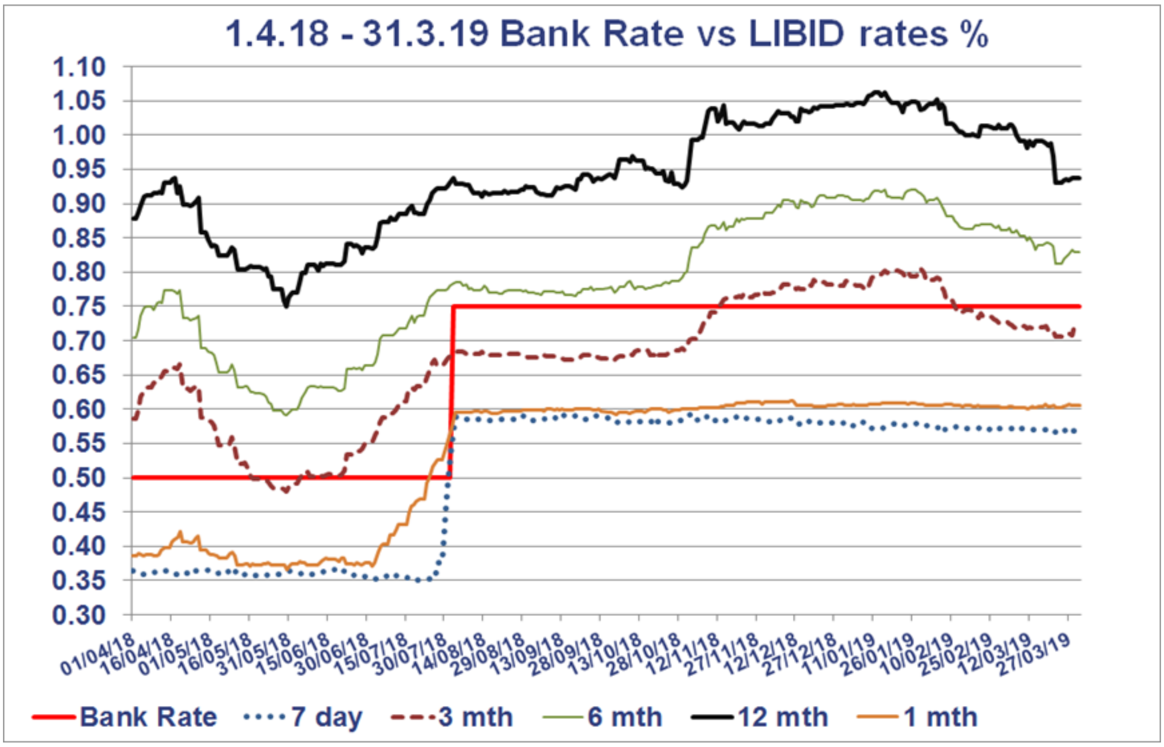
	2017/18 Actual £'000	2018/19 Actual £'000
Investments		
Longer than 1 year	2,456	5,460
Under 1 year	35,712	38,579
Total	38,168	44,039

The exposure to fixed and variable rates on investments was as follows:

	31/3/18 Actual £'000	31/3/19 Actual £'000
Fixed rate	34,126 (89%)	36,483 (83%)
Variable rate	4,042 (11%)	7,556 (17%)

6.0 **THE STRATEGY FOR 2018/19**

6.1 **Investment strategy and control of interest rate risk**



Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018/19, and after UK Gross Domestic Product (GDP) growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the Monetary Policy Committee (MPC) would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period investments were therefore kept shorter term in anticipation that rates would be higher later in the year.

It was not expected that the MPC would raise Bank Rate again during 2018/19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November 2018 was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

6.2 **Borrowing strategy and control of interest rate risk**

During 2018/19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. All current loan debt specifically relates to the HRA and the General Fund has no loan debt. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure.

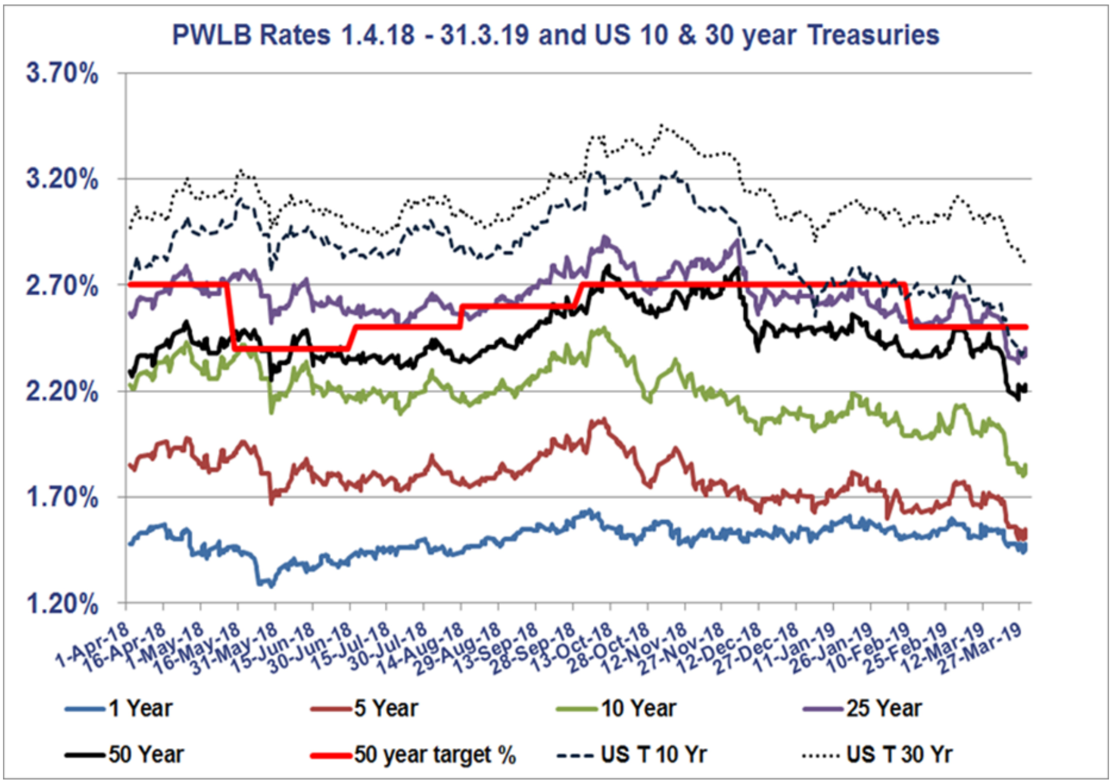
Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View	12.2.18												
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%



Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December 2018. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the European Union (EU) so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields and PWLB rates have also fallen.

7.0 **BORROWING OUTTURN FOR 2018/19**

7.1 Due to investment concerns with both counterparty risk and low investment returns, no new borrowing was undertaken during the year.

7.2 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7.3 The Council's external borrowing from the PWLB at 31 March 2019 remained at £67.456m at a fixed rate of 3.48% and matures on 28 March 2062.

8.0 **INVESTMENT OUTTURN FOR 2018/19**

8.1 **Investment Policy** – the Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 8 March 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.

8.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

8.3 Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources (£'000)	**31 March 2018**	**31 March 2019**
Balances	15,062	18,928
Earmarked reserves	7,819	8,902
Major Repairs Reserve	6,435	4,684
Capital Grants and Contributions	1,841	2,707
Usable capital receipts	4,304	4,959
Total	**35,461**	**40,180**

8.4 The Council held average treasury investment balances of £43.2m were mainly internally managed and achieved an average rate of return of 0.819% compared with the average 3 Month London Interbank Bid (LIBID) rate of 0.675%.

The Council also held average non-treasury investment balances (excluding equity) of £1.9m. The Council has issued three loans totalling £2.88m to Welland Homes Limited, which is the Council's wholly owned Housing Development Company. These are service loans (classified as long term debtors) and the Council receives interest of 3.5% and 5.5% on these loans which is payable on a quarterly basis. Total interest earned during the year was £77,206.

The combined rate of return on all investments averaged 0.956%.

8.5 Actual investment interest earned during 2018/19 was £431k against an original budget of £258k. The main reasons for the increase were higher than anticipated interest rates available in the market during the second half of the financial year and higher than anticipated levels of investment balances.

9.0 **THE ECONOMY AND INTEREST RATES (commentary provided by Link Asset Services - external treasury advisors – as at 8 April 2019)**

9.1 **UK.** After weak **economic growth** of only 0.2% in quarter one of 2018, 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 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 has been having increasing 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 only 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%, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for **Consumer Price Index (CPI) inflation** itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 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, (8 April 2019), been unable to muster a majority in the Commons over its Brexit deal. This is therefore likely to continue to affect UK markets during 2019/20.

9.2 **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 of 2018 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 fourth 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 basis points by the end of 2020.

9.3 **EUROZONE**. The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the Eurozone (EZ) and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4; it is likely to be only 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 ECB completely 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, 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%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 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 also announced a third round of Targeted Longer-Term Refinancing Operations (TLTRO’s); 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 TLTRO’s will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans.

9.4 **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.

9.5 **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.

9.6 **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 overdone.

10.0 **OTHER ISSUES**

10.1 **IFRS 9 Financial Instruments** – When producing the 2018/19 financial statements the Council has implemented this new accounting standard. This has changed the way financial instruments are valued in the accounts and also how risk is measured and accounted for as follows:

- The valuation of investments previously valued under the available for sale category e.g. service/strategy related equity has been designated by the Council as Fair Value Other Comprehensive Income under the new regulations. This has resulted in the Council's long term equity in Welland Homes increasing by £400k and the South Holland Local Housing Community Interest Company equity increasing by £1m on the balance sheet.

- The Council now has to assess the expected credit loss on its financial instruments. As most of the Council's treasury investments are simple deposits this has had no material impact on the Council. This assessment is likely to be more problematic for non-treasury management investments dealt with in the capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries.

11.0 **OPTIONS**

11.1 There are no alternative options presented.

12.0 **REASONS FOR RECOMMENDATION**

12.1 To comply with the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2017.

13.0 **EXPECTED BENEFITS**

13.1 The report provides Members with a summary of the economy, the effect it has had on financial markets and the treasury activity during 2018/19. The report requires scrutiny prior to submitting to Council for approval.

14.0 **IMPLICATIONS**

14.1 **Constitution & Legal**

14.1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of 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 and the CIPFA Prudential Code for Capital Finance in Local Authorities.

14.1.2 The Council's financial strategy, capital financing and borrowing all form part of the Policy Framework and are therefore non-executive matters that fall within the remit of the full Council.

14.2 **Financial**

14.2.1 The report provides details of the treasury activity for the 2018/19 financial year to inform members on performance and to highlight any changes in the year.

14.2.2 Total interest received was £431k with £301k to the General Fund and £130k to the Housing Revenue Account.

14.3 **Risk Management**

14.3.1 The Council's investment policy has regard to the MHCLG Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are security first, liquidity second, then return.

15.0 **WARDS/COMMUNITIES AFFECTED**

15.1 Due to budgetary considerations all wards are affected.

16.0 **ACRONYMS**

16.1 PSPS – Public Sector Partnership Services Ltd (previously Compass Point Business Services)
16.2 CIPFA – Chartered Institute of Public Finance and Accountancy
16.3 HRA – Housing Revenue Account
16.4 CFR – Capital Financing Requirement
16.5 PWLB – Public Works Loan Board
16.6 MRP – Minimum Revenue Provision
16.7 VRP – Voluntary Revenue Provision
16.8 MHCLG – Ministry of Housing, Communities and Local Government
16.9 EU – European Union
16.10 GDP – Gross Domestic Product
16.11 MPC – Monetary Policy Committee
16.12 LIBID – London Interbank Bid Rate
16.13 CPI – Consumer Price Index
16.14 ECB – European Central Bank
16.15 EZ – Eurozone
16.16 TLTRO - Targeted Longer-Term Refinancing Operations

Background papers: - SHDC Treasury Management Strategy Statement 2018/19

Lead Contact Officer

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Key Decision: No

Exempt Decision: No

This report refers to a Mandatory Service

Appendices attached to this report: None