

REPORT TO:	AUDIT COMMITTEE		
DATE:	30 July 2018		
TITLE:	ANNUAL TREASURY OUTTURN REPORT 2017/2018		
TYPE OF REPORT:	Recommendation		
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OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

Date of meeting: 30 July 2018

ANNUAL TREASURY OUTTURN REPORT 2017/2018

Summary

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.

This Annual Treasury Outturn Report looks backwards at 2017/2018 and covers:

1. The 2017/2018 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary

Additional supporting information:

- Appendix 1 - Investments as at 31 March 2018
- Appendix 2 - Borrowing as at 31 March 2018
- Appendix 3 - Property Investment Portfolio as at 31 March 2018
- Appendix 4 - Prudential Indicators
- Appendix 5 - The Economy 2017/2018

The Council's Treasury Policy Statement 2017/2018 and annual Treasury Strategy Statement 2017/2018 was approved by Cabinet on the 28 February 2017.

A copy of which can be found here: [Documents for 28 February 2017](#)

Recommendations

Audit Committee is asked to review the actual treasury outturn 2017/2018.

Reason for the Decision

The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. The 2017/2018 Treasury Outturn

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Council's Code of Practice on Treasury Management require that the Audit Committee consider an Annual Treasury Outturn Report.
- 1.2 During the year the Council maintained a cautious approach to investment and management of debt.
- 1.3 The Councils portfolio position as at 31 March 2018 was:

	31 March 2017 Actual £million	31 March 2018 Actual £million
Borrowing	13.00	13.80
Investments	(27.26)	(15.25)
Net Position	(14.26)	(1.45)

The reduction in investments between 31/3/2017 and 31/3/2018 is due to internal borrowing (effectively the councils has temporarily used its cash balances to fund capital projects rather than taking additional external borrowing). This is shown in the growth of the Capital Financing Requirement in Appendix 4

1.4 Interest receivable

Budgeted Interest Receivable	Actual Interest Received
(£317,850)	(£397,480)

The positive variance is mostly due to an additional £119,000 from internal borrowing charge against capital projects (Major Housing).

1.5 Interest payable

Budgeted Interest Payable	Actual Interest Paid
£480,000	£293,688

The positive variance is due to the use of internal borrowing instead of external borrowing.

Details of the investment portfolio as at the 31 March 2018 can be found in *Appendix 1*

Details of the borrowing portfolio as at the 31 March 2018 can be found in *Appendix 2*

2. Compliance with Treasury Limits

- 2.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement 2017/2018 and annual Treasury Strategy Statement 2017/2018. The outturn for the Prudential Indicators is shown in *Appendix 3*.

3. Outturn Summary

In summary the Council:

- Did not pursue any debt rescheduling as long term loans were reviewed against future long term rates and early repayment penalties.
- Ensured counterparty listings on our lending lists were maintained and updated regularly, and reported in monthly monitoring reports as necessary.
- Ensured priority was given to security and liquidity in order to reduce counterparty risk. This was achieved by adopting Link Asset Services methodology of using ratings from three agencies to provide the core element of the credit watch service with outlooks and credit default swaps spreads to give early warning signs of changes, and sovereign ratings to select counterparties.
- Undertook benchmarking with other local Councils to ensure that experiences were shared and investment instruments were consistent, while maintaining good credit quality and security.

APPENDIX 1 - Investments as at 31 March 2018:

Institution	Principal	Start Date	End Date	Rate %	Ratings
BNP (Banque Nationale de Paris) – Money Market Fund	£30,000	N/A	N/A	0.45	AAA
Svenska Handelsbanken	£950,000	N/A	N/A	0.43	AA
Barclays FIBCA – Call account	£1,510,000	N/A	N/A	0.35	A
Total Call Accounts	£2,490,000				
Cheshire West & Chester Council	£2,000,000	19/01/2018	20/01/2020	1.00	AAA
Barnsley Metro Borough Council	£2,000,000	21/09/2017	21/09/2020	0.92	AAA
Bury Metro Borough Council	£3,000,000	21/04/2016	23/04/2018	1.00	AAA
Surrey Heath Borough Council	£1,000,000	24/10/2017	24/04/2018	0.45	AAA
Moray Council	£2,000,000	23/02/2018	23/08/2018	0.75	AAA
Gaywood Community Centre	£10,200	20/07/2016	01/08/2021	1.00	
Total Fixed Term Investments	£10,010,200				
Norfolk & Waveney Enterprise Services (LEP)*	£2,750,000	Various	30/11/2018	1.80	
Total NWES Investment	£2,750,000				
Total Overall Investments	£15,250,200				

*see also Appendix 2 borrowings from Suffolk County Council

APPENDIX 2 - Borrowing as at 31 March 2018:

Start Date	End Date	Loan No	Value £	Institution	Rate	Term
19.03.18	31.03.18	3807	£1,000,000	South Somerset District Council	0.70%	13 day temporary loan
Total Short Term			£1,000,000			
22.03.07	21.03.77	5888	£5,000,000	Barclays – fixed rate loan	3.81%	Long Term - fixed for 70 year period.
12.04.07	11.04.77	5887	£5,000,000	Barclays – fixed rate loan	3.81%	Long Term - fixed for 70 year period.
15.09.09	14.09.19	495951	£300,000	PWLB	2.92%	Long Term – fixed for 10 years
27.03.14	30.11.18	3789	£2,500,000	Suffolk County Council (LEP)	1.80%	**see note below
Total Long Term			£12,800,000			
Total Borrowing			£13,800,000			

**A loan was taken out, on behalf of Norfolk and Waveney Enterprise Services Ltd (NWES), with Suffolk County Council for the Local Enterprise Partnership. A corresponding investment is shown in Appendix 1 with NWES at the same rate of interest (£500,000 drawn down in 2013/2014, a further £274,275 followed in 2014/2015, with the remainder in 2015/2016).

APPENDIX 3 - Current Property Investment Portfolio

On the 31 January 2017 Cabinet approved the 'Capital and Local Property Investment Fund Strategy 2017-2021'

Investments as at 31/3/2018

Property	Capital Expenditure to date	Return achieved
Burnham Market bungalow	£314,000	(TBC. when sold)

APPENDIX 4: Prudential Indicators

PRUDENTIAL INDICATOR	2016/2017 Actual £000's	2017/2018 Actual £000's
Capital Expenditure	19,469	21,565
Ratio of financing costs to net revenue stream	1.94%	1.97%
Net borrowing		
brought forward 1 April	17,200	13,000
carried forward 31 March	13,000	13,800
Change in year - increase/(decrease)	(4,200)	800
Net Investment		
brought forward 1 April	(28,300)	(27,260)
carried forward 31 March	(27,260)	(15,250)
Change in year - increase/(decrease)	1,040	(12,010)

Capital Financing Requirement

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 debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2017/2018 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources

CFR	31 March 2017 Actual £000's	31 March 2018 Actual £000's
Opening Balance	17,988	27,531
Add unfinanced capital expenditure	10,803	13,155
Less Minimum Revenue Provision (MRP)	(320)	(394)
Less voluntary/additional MRP	(925)	(946)
Less finance lease repayments (where the Council is the lessor)	(15)	(11)
Closing CFR	27,531	39,335

Net borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2017/2018. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2017 Actual £million	31 March 2018 Actual £million
Borrowing	13.00	13.80
Investments	(27.26)	(15.25)
Net Position	(14.26)	(1.45)
Closing CFR	27.53	39.34

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 (Council Tax and Government Grant).

	2017/2018
Authorised limit	£35m
Maximum gross borrowing position	£13.8m
Operational boundary	£50m
Average gross borrowing position	13.4%
Financing costs as a proportion of net revenue stream	1.97%

	2016/2017	2017/2018
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£000's	£000's
Authorised limit for external debt -		
Borrowing	35,000	52,000
Operational boundary for external debt -		
Borrowing	30,000	50,000
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	35,000	52,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	20,000	20,800

Maturity structure of fixed rate borrowing during 2017/2018			
	upper limit	lower limit	Actual
under 12 months	100%	0%	28%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	72%

APPENDIX 5: The Economy and Interest Rates (Provided by Link Asset Services)

UK. The outcome of the EU referendum in June 2016 resulted in a gloomy outlook and economic forecasts from the Bank of England based around an expectation of a major slowdown in UK GDP growth, particularly during the second half of 2016, which was expected to push back the first increase in Bank Rate for at least three years. Consequently, the Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of cheap financing to the banking sector up to February 2018. Both measures were intended to stimulate growth in the economy. This gloom was overdone as the UK economy turned in a G7 leading growth rate of 1.8% in 2016, (actually joint equal with Germany), and followed it up with another 1.8% in 2017, (although this was a comparatively weak result compared to the US and EZ).

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

Consequently, market expectations during the autumn rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The MPC meeting of 14 September provided a shock to the markets with a sharp increase in tone in the minutes where the MPC considerably hardened their wording in terms of needing to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered on this warning by withdrawing the 0.25% emergency rate cut which had been implemented in August 2016. Market debate then moved on as to whether this would be a one and done move for maybe a year or more by the MPC, or the first of a series of increases in Bank Rate over the next 2-3 years. The MPC minutes from that meeting were viewed as being dovish, i.e. there was now little pressure to raise rates by much over that time period. In particular, the GDP growth forecasts were pessimistically weak while there was little evidence of building pressure on wage increases despite remarkably low unemployment. The MPC forecast that CPI would peak at about 3.1% and chose to look through that breaching of its 2% target as this was a one off result of the devaluation of sterling caused by the result of the EU referendum. The inflation forecast showed that the MPC expected inflation to come down to near the 2% target over the two to three year time horizon. So this all seemed to add up to cooling expectations of much further action to raise Bank Rate over the next two years.

However, GDP growth in the second half of 2017 came in stronger than expected, while in the new year there was evidence that wage increases had started to rise. The 8 February MPC meeting minutes therefore revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years.) This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate. This shift in market expectations resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

As for equity markets, the FTSE 100 hit a new peak near to 7,800 in early January before there was a sharp selloff in a number of stages during the spring, replicating similar developments in US equity markets.

The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets. However, sterling did suffer a sharp devaluation against most other currencies, although it has recovered about half of that fall since then. Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant hold up to making progress.

The manufacturing sector has been the bright spot in the economy, seeing stronger growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector has a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

EU. Economic growth in the EU, (the UK's biggest trading partner), was lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing to stimulate growth. However, growth eventually picked up in 2016 and subsequently gathered further momentum to produce an overall GDP figure for 2017 of 2.3%. Nevertheless, despite providing this massive monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in March, inflation was still only 1.4%. It is, therefore, unlikely to start an upswing in rates until possibly towards the end of 2019.

USA. Growth in the American economy was volatile in 2015 and 2016. 2017 followed that path again with quarter 1 at 1.2%, quarter 2 3.1%, quarter 3 3.2% and quarter 4 2.9%. The annual rate of GDP growth for 2017 was 2.3%, up from 1.6% in 2016. Unemployment in the US also fell to the lowest level for 17 years, reaching 4.1% in October to February, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has been the first major western central bank to start on an upswing in rates with six increases since the first one in December 2015 to lift the central rate to 1.50 – 1.75% in March 2018. There could be a further two or three increases in 2018 as the Fed faces a challenging situation with GDP growth trending upwards at a time when the recent Trump fiscal stimulus is likely to increase growth further, consequently increasing inflationary pressures in an economy which is already operating at near full capacity. In October 2017, the Fed also became the first major western central bank to make a start on unwinding quantitative easing by phasing in a gradual reduction in reinvesting maturing debt.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and 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.

Japan. GDP growth has been improving to reach an annual figure of 2.1% in quarter 4 of 2017. However, it is still struggling to get inflation up to its target rate of 2% despite huge monetary and fiscal stimulus, although inflation has risen in 2018 to reach 1.5% in February. It is also making little progress on fundamental reform of the economy.