

**SUPPLEMENTARY REPORTS FOR  
COUNCIL  
7.30 pm on Thursday 19 September 2019  
In the Council Chamber - Civic Centre**

The attached documents are due to be considered at the meeting listed above and were unavailable for circulation when the agenda for the meeting was published. The agenda item to which the documents relate is noted below.

**AGENDA**

10. References from Cabinet and Committees

b) Referral from Cabinet - Annual Treasury Management Report 2018/19

Cabinet recommended to Full Council that the annual Treasury Management Report for 2018/19, as set out in Appendix A to the original report, including that the Council operated within the Treasury Management Strategy Statement during 2018/19, be noted and approved.

**REPORT TO:** CABINET

**DATE:** 12 SEPTEMBER 2019

**TITLE:** ANNUAL TREASURY MANAGEMENT REPORT 2018/19

**PORTFOLIO HOLDER:** COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES

**LEAD OFFICER:** SIMON FREEMAN, HEAD OF FINANCE AND DEPUTY TO THE CHIEF EXECUTIVE (01279) 446228

**CONTRIBUTING OFFICER:** ANDREW SMITH, FINANCE MANAGER (01279) 446212

**This is a Key Decision**

**It is on the Forward Plan as Decision Number I010141**

**The decision is not subject to Call-in Procedures for the following reason:**

The decision stands as a recommendation to Full Council.

**This decision will affect no ward specifically.**

**RECOMMENDED that** Cabinet recommends to Full Council:

- A** The annual Treasury Management Report for 2018/19, as set out in Appendix A to the report, including that the Council operated within the Treasury Management Strategy Statement during 2018/19, be noted and approved.

**REASON FOR DECISION**

- A** In complying with latest Codes of Practice, Full Council is required to receive an annual report on the prior year's treasury management functions of the Council, which should also receive review by Cabinet in advance of its presentation to Full Council.
- B** The Prudential Indicators are also required to be reported to Full Council. These are included within the annual treasury management report.

**BACKGROUND**

1. 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."

2. During 2018/19 the minimum reporting requirements were that Full Council should receive the following reports:
  - a) An annual treasury strategy in advance of the year (Full Council, 1 February 2018).
  - b) A mid-year treasury update report (Full Council, 6 December 2018).
  - c) An annual review following the end of the year describing the activity compared to the strategy (this report).
3. The annual report for 2018/19 has been produced in compliance with the Code and is set out in Appendix A to this report. The regulatory environment governing treasury management places onus on Councillors for the review and scrutiny of treasury management policies and activities. This report is 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 Councillors.

## **ISSUES/PROPOSALS**

4. As stewards of public funds, the Council continues to take all practical steps to protect its investment portfolio. In this respect, emphasis remains in this order of priority: security, liquidity and yield.
5. Security is defined as 'reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments'. In practice this means placing investments with organisations which have a high quality credit rating, i.e. banks and other bodies which have a Fitch rating of A(-) and above. Local authorities do not, usually, have credit ratings but are inherently safe havens for investment.
6. Liquidity means 'ensuring that investments are not committed for excessive time-periods in order to facilitate the Council's cash flow requirements and to reflect the risk of not having immediate access to funds'. Councils are discouraged from investing disproportionate sums of money for long periods of time at what seem attractive rates of return.
7. Yield is 'obtaining a reasonable return on investments'. Once again 2017/18 has been a year of continued low interest rates. The Bank of England's Base Rate increased from 0.5 per cent to 0.75 per cent in August 2018. The Council has attempted to gain the best yields without compromising security and liquidity. The average rate achieved was 0.83 per cent.
8. The advice from Arlingclose, the Council's treasury advisors, is that the Council must aim towards a good investment spread as this is the best defence to protect the Council from a possible capital loss. As a result, and within the overarching powers given by members in the Treasury Management Strategy, the Council held investments with the CCLA (the Local Authority property fund),

a Cash-Plus Fund, Money Market Funds, local authorities and the Treasury's Debt Management Office. It does not currently have any investments with Banks and Building Societies other than funds held overnight with its own banker, Barclays Bank PLC.

## **IMPLICATIONS**

### **Environment and Planning (Includes Sustainability)**

None specific.

**Author: Andrew Bramidge, Head of Environment and Planning**

### **Finance (Includes ICT, and Property and Facilities)**

As contained within the report.

**Author: Simon Freeman, Head of Finance and Deputy to the Chief Executive**

### **Housing**

None specific.

**Author: Andrew Murray, Head of Housing**

### **Community Wellbeing (Includes Equalities and Social Inclusion)**

None specific.

**Author: Jane Greer, Head of Community Wellbeing**

### **Governance (Includes HR)**

None specific.

**Author: Simon Hill, Head of Governance**

## **Appendices**

Appendix A – Treasury Management Strategy 2018/19

**HARLOW COUNCIL**  
**ANNUAL TREASURY MANAGEMENT REPORT 2018/19**

**Introduction**

1. This Report sets out the Council's outturn position in accordance with recommended practice.
2. It provides a review of external economic conditions impacting on the Council and focuses on the major issues affecting its borrowing and investments.
3. The Council uses specialist treasury management advisors to support its decision making, keep officers up to date with economic and more specifically market developments and providing specialist training and support.
4. Economic background and commentary provided by Arlingclose features within this Report.
5. The country remains in the process of exiting the European Union, with a revised departure date of 31 October 2019 and economic uncertainty continues.
6. As a steward of public finance, the Council continues to take all practical steps to protect its investment portfolio. In this respect emphasis remains in this order of priority:

**Security:** some of the following might appear contradictory or elusive in this challenging economic environment

- Reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments
- The repayment of the sum invested; and / or,
- A return equal to or higher than the prevailing rate of inflation.

**Liquidity:** availability of cash when needed (adequate but not excessive liquidity)

**Yield:** a return commensurate with the level of risk.

7. The Council invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remain central to the Council's treasury management strategy.
8. Treasury management activity is guided by the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) The Code requires the Council to approve

a treasury management strategy before the start of each financial year and, as a minimum, a mid-year and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

9. The Council's Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by Full Council on 1 February 2018, and was superseded by the TMSS 2019/20, contained within the Capital Strategy, approved by Cabinet on 7 February 2019.

#### **External Context (supplied by Arlingclose)**

10. **Economic background:** Oil prices were volatile during the year hitting a peak in October 2018 of \$85 a barrel falling back to just over \$50 in late December 2018 before steadily climbing back toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year on year, broadly in line with the Bank of England's February Inflation Report. .
11. After rising to 0.6% in the third calendar quarter (Jul-Sep), economic growth slowed in the fourth quarter of 2018 (Oct-Dec) to 0.2% largely as a result of weaker expansion in production, construction and services. Annual GDP growth at 1.4% continues to remain below trend. There were no further changes to monetary policy after the Bank of England decision to increase Bank Rate to 0.75% in August 2018.
12. The US Federal Reserve increased rates to the 2.25%-2.50% range in December 2018 but at the last Federal Open Market Committee (FOMC) meeting in March it agreed to pause any further increases in interest rates.
13. Brexit failed to be achieved by the original exit date of 29 March 2019, with a revised date of 31 October 2019. EU leaders have been clear that the terms of the deal are not a matter for further negotiation and the spectre of a no deal Brexit is now possible. The ongoing uncertainty continues to impact sterling and UK markets.
14. While the UK focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been seen a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be showing signs of a rapid slowdown in economic growth with the major drivers of its economy, Germany and France, both suffering from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.
15. **Financial markets:** The FTSE 100 (a good indicator of global corporate sentiment) fell by around 13% in price terms in December 2018. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.
16. Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in

October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55% respectively. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period. Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK issue but a global risk. During March US 10-year Treasury yields were lower than US 3 month money market rates and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which fell by 1.8% year on year at the end of 2018. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

17. **Credit background:** After hitting around 129 basis points (1.29%) in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps (0.96%) at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps (0.40%). The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a Credit Default Swap (CDS) perspective, traded between 33 and 79bps (0.33-0.79%) at the end of the period.
18. The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.
19. In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.
20. There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

### **Local Context**

21. On 31 March 2018, the Council had net investments of £37.490m arising from its revenue and capital income.. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.18 Actual £m
General Fund CFR	46.258
HRA CFR	187.370
<b>Total CFR</b>	<b>233.628</b>
External borrowing	(-)211.837
<b>Internal borrowing</b>	<b>21.791</b>
Less: Usable reserves	(-)51.581
Less: Working capital	(-)7.700
<b>Net investments</b>	<b>(-)37.490</b>

22. The treasury management position at 31 March 2019 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.18 Balance £m	Moveme nt £m	31.3.19 Balance £m	31.3.19 Rate %
Long-term borrowing	211.837	-	211.837	3.292%
<b>Total borrowing</b>	<b>211.837</b>	<b>-</b>	<b>211.837</b>	
Long-term investments	(-)2.000	(-)2.000	(-)4.000	2.59%
Short-term investments	(-)11.300	3.800	(-)7.500	1.06%
Cash and cash equivalents	(-)24.190	3.990	(-)20.200	0.65%
<b>Total investments</b>	<b>(-)37.490</b>	<b>5.790</b>	<b>(-)31.700</b>	
<b>Net borrowing</b>	<b>174.347</b>	<b>5.790</b>	<b>180.137</b>	

### **Borrowing Strategy during the year**

23. At 31 March 2019 the Council held £211.837m of long term loans from the Public Works Loan Board, unchanged on the previous year.

### **Treasury Investment Activity**

24. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £31.70 million and £53.74 million due to timing differences between income and expenditure. The investment position is shown in table 3 below.



Table 3: Treasury Investment Position

	31.3.18 Balance £m	Net Movement £m	31.3.19 Balance £m	31.3.19 Income Return %
Banks & building societies (unsecured)	0.020	3.690	3.710	0.50%
Government	-	5.280	5.280	0.50%
Local Authorities	19.300	(-)10.300	9.000	1.04%
Money Market Funds	14.170	(-)4.460	9.710	0.51%
Other Pooled Funds				
Cash Plus Fund (Royal London)	2.000	-	2.000	0.85%
Property Fund (CCLA)	2.000	-	2.000	4.33%
<b>Total investments</b>	<b>37.490</b>	<b>(-)5.790</b>	<b>31.700</b>	

25. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
26. In furtherance of these objectives Officers have preferred to invest with local authorities rather than individual banks or building societies which carry bail-in risk. Whilst investments in Money Market Funds (MMF) carry risk of bail-in, the Funds themselves are large and diversified and hence the exposure is significantly reduced.
27. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 4 below.

Table 4: Investment Benchmarking - Treasury investments managed in-house

	Credit Score (where 1 is low risk)	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Total Rate of Return %
31.03.2017	4.04	AA-	56%	43	0.51%
31.03.2018	4.10	AA-	42%	53	0.97%
31.03.2019	4.16	AA-	48%	86	1.09%
<b>Similar LAs</b>	<b>4.13</b>	<b>AA-</b>	<b>53%</b>	<b>89</b>	<b>1.80%</b>
<b>All LAs</b>	<b>4.20</b>	<b>AA-</b>	<b>55%</b>	<b>53</b>	<b>1.43%</b>

28. **Readiness for Brexit:** The Council ensured that it held accounts at UK-domiciled banks and Money Market Funds to ensure that it could hold sufficient liquidity over the year end including its account with the Debt Management Account Deposit Facility (DMADF) for any surplus cash.

### **Non-Treasury Investments**

29. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Ministry of Housing, Communities and Local Government's (MHCLG) Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
30. The Council has lent money to its subsidiary and a local business, to support local public services and stimulate local economic growth.
31. HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council which began trading on 1 February 2017. The Council provided a start-up loan to the business of £1.209m repayable over sixty two months and approved on 21 July 2016. The balance outstanding as at 31 March 2019 was £0.702m.
32. Harlow Property Limited was provided with two loans to support its developments within the Harlow Enterprise Zone, approved on 23 January 2014. The advances made were £1m on 15 March 2016 and a further £1.5m on 3 March 2017. Interest accrues on these loans. The total outstanding as at 31 March 2019 was £2.802m with security held against the increase in the property values.
33. These investments generated £167,000 of investment income for the Council, representing a rate of return of 4.5%.

### **Compliance**

34. The Head of Finance and Deputy to the Chief Executive reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

**Annex A**  
**Prudential Indicators 2018/19**

**Capital Expenditure:** The Council's capital expenditure and financing may be summarised and is consistent with the draft statement of accounts, as follows.

Capital Expenditure and Financing	2018/19 Estimate £m	2018/19 Actual £m	Difference £m
General Fund	15.250	10.421	(-)4.829
HRA	18.804	17.205	(-)1.599
<b>Total Expenditure</b>	<b>34.054</b>	<b>27.626</b>	<b>(-)6.428</b>
Capital Receipts	3.999	4.243	0.244
Government Grants	0.665	1.482	0.817
Major Repairs Reserve	11.439	10.362	(-)1.077
Revenue	6.156	4.219	(-)1.937
Borrowing	11.795	7.320	(-)4.475
<b>Total Financing</b>	<b>34.054</b>	<b>27.626</b>	<b>(-)6.428</b>

**Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.19 Estimate £m	31.03.19 Actual £m	Difference £m
General Fund	62.441	53.358	(-)9.083
HRA	187.370	187.370	-
<b>Total CFR</b>	<b>249.811</b>	<b>240.728</b>	<b>(-)9.083</b>

**Actual Debt:** The Council's actual debt at 31 March 2018 was as follows:

Debt	31.03.19 Estimate £m	31.03.19 Actual £m	Difference £m
Borrowing	211.837	211.837	-
Finance leases	-	-	-
<b>Total Debt</b>	<b>211.837</b>	<b>211.837</b>	<b>-</b>

**Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing

requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt and CFR	31.03.18 Estimate £m	31.03.18 Actual £m	Difference £m
Total debt	211.837	211.837	-
Capital financing requirement	249.811	240.728	(-)9.083
Headroom	37.974	28.891	(-)9.083

Total debt remained below the CFR during the forecast period.

**Operational Boundary for External Debt:** The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities are not borrowing but form part of the Council's debt.

Operational Boundary and Total Debt	31.03.19 Boundary £m	31.03.19 Actual Debt £m	Complied
Borrowing	269.000	211.837	✓
Other long-term liabilities	1.500	-	✓
Total Debt	270.500	211.837	✓

**Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit and Total Debt	31.03.19 Boundary £m	31.03.19 Actual Debt £m	Complied
Borrowing	275.000	211.837	✓
Other long-term liabilities	5.000	-	✓
Total Debt	280.000	211.837	✓

**Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>31.03.19 Estimate %</b>	<b>31.03.19 Actual %</b>	<b>Difference %</b>
General Fund	4.59%	1.75%	(-)2.84%
HRA	12.19%	12.04%	(-)0.15%