WARWICK DISTRICT COUNCIL	Finance and Audit Scrutiny Committee 9th July 2019.	Agenda Item No. **4**

Title	2018/19 Annual Treasury Management Report
For further information about this report please contact	Richard Wilson, Principal Accountant (Capital & Treasury) 01926 456801 e mail: richard.wilson@warwickdc.gov.uk
Wards of the District directly affected	None
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	N/A
Background Papers	Treasury Management Information via External Advisers, Brokers, External Investment Agents etc.

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	No – not relevant

Officer/Councillor Approval

Officer Approval	**Date**	**Name**
Chief Executive	21/6/19	Chris Elliott
Head of Service	20/6/19	Mike Snow
CMT	21/6/19	
Section 151 Officer	20/6/19	Mike Snow
Monitoring Officer	21/6/19	Andrew Jones
Finance	20/6/19	Richard Wilson
Portfolio Holder(s)	26/6/19	Cllr Richard Hales

Consultation & Community Engagement

None

Final Decision?	Yes

Suggested next steps (if not final decision please set out below)

N/A

1. Summary

1.1. The 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). This report covers the Council's performance for the whole of 2018/19 and is attached as Appendix A.

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. Consideration of the Council's Treasury Management activities is within the remit of the Finance and Audit Scrutiny Committee on behalf of full Council, hence, it is appropriate to report the Council's annual performance direct to this Committee.

1.4. The report follows the format used in the Treasury Management Strategy Plan presented to the Executive on 7 February 2018 and comments, where appropriate, on the Council's actual performance against what was forecast in the Strategy Plan as well as, in certain instances, latest forecasts. The Council is also required to comment on its performance against its Annual Investment Strategy for the year.

1.5. The report consists of the following Appendices:

Appendix A - Annual Treasury Management Report 2018/19
Appendix B – Glossary of Terms

2. Recommendations

2.1. That the Members of the Finance and Audit Scrutiny Committee note the contents of this report in respect of this Council's 2018/19 Treasury Management activities.

3. Reasons for the recommendations

3.1. The 2018/19 Treasury Management Strategy and the Council's Treasury Management Practices, in accordance with the Code of Practice for Treasury Management, require that the Treasury Management function reports on its activities during the year by no later than 30 September in the year after that being reported on.

4. Policy Framework

4.1. Fit for the Future (FFF)

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end, amongst other things, the FFF Strategy contains several Key projects. This report shows the way forward for implementing a significant part of one of the Council's Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	**Services**	**Money**
External		
Health, Homes, Communities	**Green, Clean, Safe**	**Infrastructure, Enterprise, Employment**
Intended outcomes: Improved health for all. Housing needs for all met. Impressive cultural and sports activities. Cohesive and active communities.	Intended outcomes: Area has well looked after public spaces. All communities have access to decent open space. Improved air quality Low levels of crime and ASB.	Intended outcomes: Dynamic and diverse local economy. Vibrant town centres. Improved performance/ productivity of local economy. Increased employment and income levels.
Impacts of Proposal		
The Treasury Management function enables the Council to meet its vision.	The Treasury Management function enables the Council to meet its vision.	The Treasury Management function enables the Council to meet its vision.
Internal		
Effective Staff	**Maintain or Improve Services**	**Firm Financial Footing over the Longer Term**
Intended outcomes: All staff are properly trained. All staff have the appropriate tools. All staff are engaged, empowered and supported. The right people are in the right job with the right skills and right behaviours.	Intended outcomes: Focusing on our customers' needs. Continuously improve our processes. Increase the digital provision of services.	Intended outcomes: Better return/use of our assets. Full Cost accounting. Continued cost management. Maximise income earning opportunities. Seek best value for money.

Impacts of Proposal		
The Treasury Management function enables the Council to meet its vision.		

4.2. **Supporting Strategies**

Each strand of the FFF Strategy has several supporting strategies. The Treasury Management function is consistent with the relevant supporting strategies.

4.3. **Changes to Existing Policies**

The Treasury Management function is in accordance with existing policies.

4.4. **Impact Assessments**

No impacts of new or significant policy changes proposed in respect of Equalities.

5. Budgetary framework

5.1. Treasury Management has a potentially significant impact on the Council's budgets through its ability to maximise its investment interest income and minimise borrowing costs.

5.2. The Council relies on interest received to fund the services it provides. The gross interest received in 2018/19, including non-Treasury Management interest, was £937,300. The interest paid to the HRA on its balances was £335,100, with a net of £602,200 retained by the General Fund. The table below compares this with budgeted figures:

	Original 2018/19 Budget £'000	Latest 2018/19 Budget £'000	2018/19 Actual £'000
Gross investment interest	675	544	937
less HRA allocation	-213	-213	-335
Net interest to General Fund	**462**	**331**	**602**

5.3. The reasons for the increase against that budgeted are a combination of higher than expected interest rates, higher than expected reserves and balances (especially for the HRA) and a slower rate of capital expenditure than assumed.

6. Risks

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

6.2. Investing the Council's funds inevitably creates some risk and the Treasury Management function aims to manages this risk through the application of the SLY principle: Security(S) ranks uppermost followed by Liquidity (L) and finally Yield(Y).

6.3. In addition to credit ratings themselves, the Council has regard to any ratings watch notices issued by the rating agencies, as well as articles in the Financial press, market data and intelligence from benchmarking groups. It will also use Credit Default Swap (CDS) data as supplied by its treasury advisers (Link Asset Services) to determine the suitability of investing with counterparties.

6.4. Corporate Bonds and Floating Rate Notes (FRNs) introduce counterparty credit risk into the portfolio by virtue of the fact that it is possible that the institution invested in could become bankrupt, leading to the loss of all or part of the Council's investment. This is mitigated by only investing in Corporate Bonds or FRNs with a strong Fitch credit rating, in this case A, and issued as Senior Unsecured debt which ranks above all other debt in the case of a bankruptcy.

6.5. Covered Bonds also reduces risk as the bond is "backed" by high quality assets such as prime residential mortgages thus ensuring that if the bond issuer defaults there are sufficient assets that can be realised in order to repay the bond in full.

6.5 While Corporate Equity Funds can help to ensure capital security in real (as opposed to nominal) terms, they consequently introduce the risk of capital loss due to market price fluctuations. Under current (temporary five year) accounting requirements the Council is required to take revaluation gains or losses to the Financial Instruments Revaluation Reserve, which has lessened the likely use of the Investment Rate Volatility Reserve, set up in February 2018 to mitigate against any adverse losses.

7. Alternative option considered

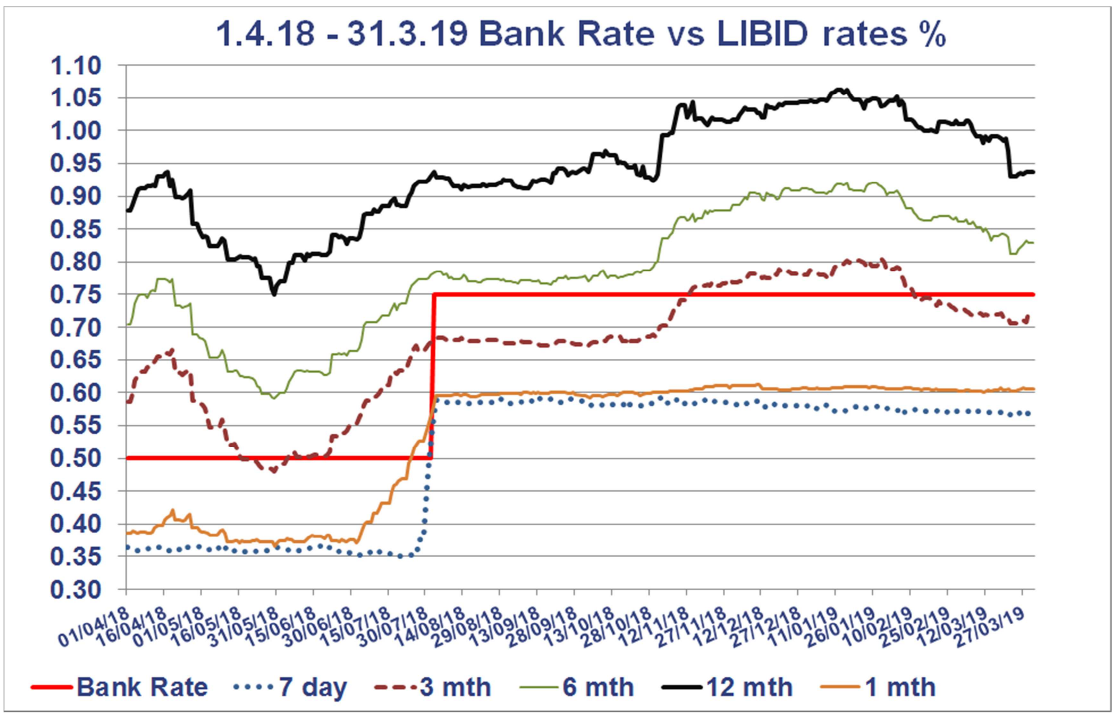
7.1 As explained in section 1 and paragraph 3.1 the Code of Practice mandates that Annual Treasury Management Performance must be reported by 30 September after that financial year has closed.

7.2 The Council could consider varying its investment vehicles or counterparty limits, however this would alter the potential credit and liquidity risks.

2018/19 Annual Treasury Management Report

1. Investment strategy and control of interest rate risk

1.1. 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 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 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. The table below shows rate movements during the year:



1.2. 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.

1.3. Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November 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.

1.4. 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.

2. Borrowing strategy and control of interest rate risk

2.1. 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. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

2.2. 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 and/or the refinancing of maturing debt.

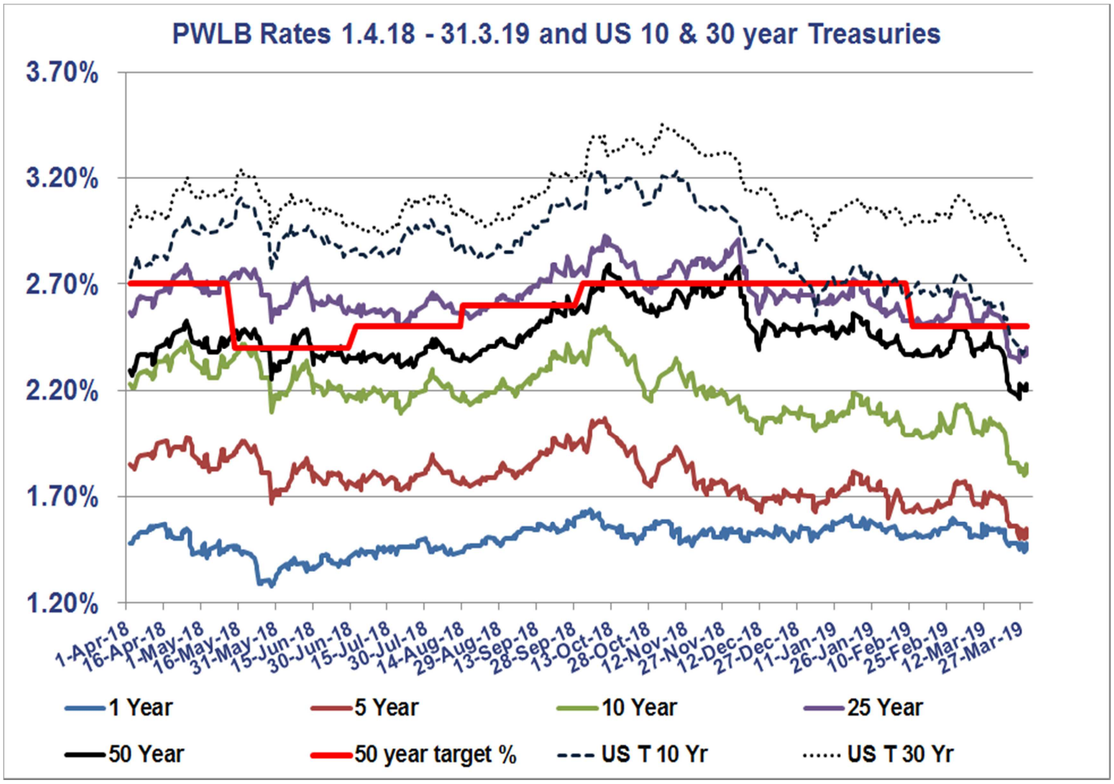
2.3. Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasury team monitored interest rates in financial markets and adopted a pragmatic strategy based on the following principles to manage interest rate risks:

- For much of the year where it was 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) the planned long-term (PWLB) borrowings would be 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.

2.4. 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%



2.5. 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. 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. Weak growth now also looks to be the outlook for China and the 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 / PWLB rates have also fallen.

3. Borrowing Outturn

3.1. **Borrowing** – No loans were drawn to fund the net unfinanced capital expenditure. There is no naturally maturing debt until 2053.

3.2. **Rescheduling** - No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling economically unviable.

3.3. **Summary of debt transactions** – The £136.157m debt portfolio had no change in the average interest rate of 3.50% and incurred £4,765,563 interest, which was charged entirely to the HRA as it related to the Self Financing borrowing incurred in 2011/12.

4. Investment Outturn

4.1. **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 18 April 2018 (Executive 7 February 2018). The 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.).

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

4.3. **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	31/3/18 £'000	31/3/19 £'000
Balances (GF, Collection Fund)	5,415	2,947
Balances (HRA)	10,667	9,553
Earmarked reserves / other balances	45,349	50,069
Provisions	4,159	4,789
Capital Receipts Reserve	8,632	8,509
Total	**74,222**	**75,867**

4.4. **Investments held by the Council**

- The Council maintained an average balance of £81.4m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.79%.
- The comparable performance indicator is the average 7-day and up to 3-months LIBID rate, which was 0.77%.
- This compares with a budget assumption of £65.5m investment balances earning an average rate of 0.73%.
- Investment income excluding externally managed funds and non-treasury management interest was £642,500, compared to a latest budget of £448,100.

4.5. **Investments held by fund managers**

The Council uses two external fund managers to invest part of its cash balances. The performance of the managers against the benchmark FTSE All-share return was:

Fund Manager	**Investments Held (£m)**	**Return**	**Bench -mark**
Columbia Threadneedle	3.0	5.0%	2.2%
Royal London	3.0	5.8%	2.2%
Total	**6.0**	**5.4%**	**2.2%**

This compares with a budget assumption of average investment balances of £6.0m at 3.705% investment return. Performance during the year has been reported in the two half-yearly Treasury Management Activity reports, which have shown significant fluctuations in value during the year, with the RLAM fund remaining in positive capital growth whereas the Columbia Threadneedle fund still has a small amount of negative capital loss, offset by the interest earned on the fund in the period.

5. Other Issues

5.1. **IFRS 9** – The introduction of the 2018/19 Accounting Code of Practice has affected the valuation of investments. The key considerations for this Council have been:

- Expected credit loss (ECL) model. Whilst this should not be material for the Council’s routine ‘vanilla’ treasury investments such as bank deposits, this is likely to be problematic for some funds that are not currently used (e.g. property funds), and also for non-treasury management investments dealt with in the Council’s capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries (see paragraph 5.3 below). The Council’s assessment of the ECL of investments was that the level of the potential impairment was immaterial.
- The valuation of investments previously valued under the ‘available for sale’ category - e.g. equity related to the “commercialism” agenda, property funds, equity funds and similar - has been changed to Fair Value through the Profit and Loss (FVPL).

5.2. Following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), on IFRS 9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds, effective from 1 April 2018. The statutory override currently applies for five years from this date, subject to any further extension. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve (the Financial Instruments Revaluation Reserve) throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. The net loss charged in 2018/19 was £199,582.

5.3. **Non-treasury management investments**. These predominantly include long-term debtors, where the borrower repays interest in addition to the principal lent to them. All interest rates are above "soft loan" rates (defined as preferential terms below normal 'market' rates). During 2018/19 the Council made long-term loans for capital purposes of £5.527m. Details of these loans and the due diligence taken is outlined in the Statement of Accounts 2018/19; none have required impairment under the IFRS 9 ECL model. The £4.442m loan to Galliford Try accounts for 80% of the total paid in 2018/19 and no interest is repayable until the end of the loan period, so the interest received on the loans has not been material to the overall treasury management function during the year. The purpose of these loans is to stimulate economic development in the District rather than an overriding purpose of income generation, which is a secondary consideration with these loans.

6. Capital expenditure and financing

6.1. 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.

6.2. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure of £26.464m and how this was financed.

Capital expenditure	2017/18 Actual £'000	2018/19 Budget £'000	2018/19 Actual £'000
General Fund	11,758	12,495	9,805
HRA	3,649	10,598	11,086
Commercial activities / non-financial investments (long-term loans to third parties)	-	5,952	5,573
Total (A)	**15,407**	**29,045**	**26,464**

Financing of capital expenditure	2017/18 Actual £'000	2018/19 Budget £'000	2018/19 Actual £'000
Capital receipts	745	1,906	1,813
Capital grants and contributions	2,695	1,299	1,322
Reserves	3,535	13,992	11,889
Revenue contributions	941	202	166
Subtotal (B)	**7,916**	**17,399**	**15,190**
Net borrowing need for the year (A – B)	**7,491**	**11,646**	**11,274**

7. Treasury limits and prudential indicators

7.1. The Prudential Capital Finance system was introduced in 2004. The system is regulated by a number of Prudential Indicators, a number of which are relevant for treasury management purposes and are included in the Annual Strategy Report. The table below shows the 2018/19 outturn against the budget and previous year's budget:

	2017/18 Actual £'000	2018/19 Budget £'000	2018/19 Actual £'000
Authorised Limit for External Debt			
Borrowing	194,050	206,050	206,050
Other Long term Liabilities	2,063	2,063	2,063
Total	**196,113**	**208,113**	**208,113**
Operational Boundary for External Debt			
Borrowing	151,050	149,958	149,958
Other Long term Liabilities	1,063	1,079	1,079
Total	**152,113**	**151,036**	**151,036**
Actual External Debt at Year End			
Long Term Borrowing	136,157	136,157	136,157
Long Term Liabilities	60	44	44
Total	**136,217**	**136,201**	**136,201**
Actual Capital Expenditure for Year			
General Fund	11,758	18,447	15,378
Housing Revenue Account	3,649	10,598	11,086
Overall	**15,407**	**29,045**	**26,464**
Capital Financing Requirement			
General Fund	9,128	11,248	22,802
Housing Revenue Account	135,738	135,787	133,279
Total CFR	**144,866**	**147,035**	**156,081**
Gross borrowing position	136,217	136,201	136,201
Under (-) / over funding of CFR	-8,649	-10,834	-19,880
Financing Costs as a % of Net Revenue Stream			
General Fund	-1.20%	-0.47%	-2.55%
Housing Revenue Account	41.06%	40.77%	41.65%
Overall	**24.85%**	**23.37%**	**23.03%**

7.2. Below are the indicators relating to borrowing:

Upper limit to fixed interest rate and variable interest rate exposures

Exposure limits	Strategy Report	Actual
Upper Limit Fixed Rate	100%	100%
Upper Limit Variable Rate	30%	30%

Upper and lower limits respectively for the maturity structure of borrowing

Strategy 2018/19	Fixed		Variable	
Period	Upper	Lower	Upper	Lower
Under 12 months	4%	0%	100%	0%
12 months and within 24 months	20%	0%	100%	0%
24 months and within 5 years	20%	0%	100%	0%
5 years and within 10 years	20%	0%	100%	0%
10 years and above	96%	0%	n/a	n/a

7.3. In both cases the indicators were complied with as the only external borrowing outstanding at the year-end was the £136.157m PWLB debt in respect of the HRA Self Financing Payment. This debt is all fixed rate maturing from years 41 to 50 (2053 onwards) of the Business Plan and, therefore, this is within both indicators shown above.

7.4. The final indicator monitors the amount invested for periods longer than 365 days which in 2018/19 was set at 70% of the investment portfolio subject to a maximum of £20 million at any one time. During 2018/19 the Council entered into one investment for 365 days or over, totalling £3m, which confirms that the indicator was complied with.

8. Annual investment strategy and investment performance

8.1. The Government guidance on local government investments requires the production of an Annual Investment Strategy that includes an outline of the investment vehicles that the Council would use and separates them off into Specified and Non Specified investments. The 2018/19 Annual Investment Strategy was approved by the Council in February 2018.

8.2. The in-house function has invested the Council's cash funds in fixed term Money Market deposits, Corporate Bonds, Certificates of Deposit (CD's), Equity Funds and Money Market Funds. The table below illustrates the performance for the year of the in-house function for each category invested in (please refer to the second half year report for a breakdown by half year):

Vehicle	Return (Annualised) £'000	Benchmark (Annualised) £'000	Perform -ance £'000
Money Markets	265.5	262.7	2.8
Money Market Funds	269.8	227.4	42.4
Call Accounts	36.8	40.4	-3.6
Total	**572.1**	**530.5**	**41.6**

Money Market Investments (includes Certificate of Deposits & Bonds):

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) performance
Up to 7 days			
Annual performance	0.50%	0.50%	0.00%
Annual interest	£240	£239	£1
Over 7 days & Up to 3 Months			
Annual performance	0.85%	0.77%	0.08%
Annual interest	£24,797	£22,502	£2,295
Over 3 Months & Up to 6 Months			
Annual performance	0.96%	0.88%	0.08%
Annual interest	£65,141	£59,648	£5,493
Over 6 Months to 365 days			
Annual performance	0.96%	1.02%	-0.05%
Annual interest	£137,556	£145,222	-£7,667
366 days and Over			
Annual performance	1.15%	1.07%	0.08%
Annual interest	£37,808	£35,135	£2,673
Total Interest For Year	**£265,542**	**£262,746**	**£2,795**

Money Market Funds:

8.3. Under IFRS 9 there have been changes to investment categories, with most Constant Net Asset Value (CNAV) funds, other than those invested in Government bonds, being re-categorised as Low Volatility Net Asset Value (LVNAV).

8.4. The in-house function utilised AAA rated LVNAV (Deutsche, Goldman Sachs, Invesco, Standard Life and Federated) money market funds and Variable Net Asset Value, VNAV, (Federated and Royal London) funds to assist in managing its short term liquidity needs. The table below illustrates the performance of these funds for the full year:

Money Market Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Deutsche			
Annual performance	0.58%	0.58%	-
Annual interest	£9,799	£9,811	-£12
Goldman Sachs			
Annual performance	0.59%	0.57%	0.02%
Annual interest	£23,470	£22,564	£906
Invesco			
Annual performance	0.62%	0.57%	0.05%
Annual interest	£51,331	£46,760	£4,571
Standard Life			
Annual performance	0.65%	0.57%	0.08%
Annual interest	£58,039	£50,871	£7,168
Federated			
Annual performance	0.70%	0.57%	0.13%
Annual interest	£35,390	£28,619	£6,771
Federated Variable Net Asset Value (VNAV)			
Annual performance	0.78%	0.64%	0.14%
Annual interest	£46,902	£34,375	£12,527
Royal London Cash Plus Account (VNAV)			
Annual performance	0.74%	0.64%	0.10%
Annual interest	£44,837	£34,352	£10,485
Total Interest For Year	**£269,768**	**£227,352**	**£42,416**

8.5. The ‘Up to 7 days’ LIBID rate is the benchmark for the LV/CNAV funds and it can be seen that they all made returns in excess of this. The VNAV fund benchmark is based on the 6 month LIBID rate (plus a margin of 0.0625%) and the returns include fees and so are not directly comparable with the benchmark.

Call Accounts:

8.6. The Council operates two Call accounts with HSBC and Svenska Handelsbanken. In the case of the HSBC account on balances of £2m and over this offered instant access at a rate above the lower performing LV/CNAV MMF’s thus forming a useful addition for investing the Council’s cash flow derived money. The Svenska Handelsbanken account is a 35-day notice account that became less attractive against the rate available in the Money Markets for 3 month fixed investments. The performance of these call accounts are shown in the table below:

Call Account	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
Rate for year	0.60%	0.57%	0.03%
Value of interest earned in year	£15,923	£15,109	£814
Svenska Handelsbanken Account			
Rate for year	0.48%	0.59%	-0.11%
Value of interest earned in year	£20,910	£25,323	-£4,413
Total Interest For Year	**£36,833**	**£40,432**	**-£3,599**

8.7. The Annual Investment Strategy anticipated that the Council would have an average investment balance of £92.2m during 2018/2019. The actual was £87.4m due to working capital decreasing as a result of increased cash requirements.

8.8. Paragraph 5.5 of the Annual Investment Strategy makes reference to a 70% maximum long term investments holding. Based on the average investment balance of £87.4m a maximum of £61.2m could have been invested for more than 365 days at any one time. Only £3m was invested for more than 365 days, which was 3.4% of the portfolio. This was in anticipation of the long-term interest rate rising. The Council did not exceed the 70% limit on longer term investments nor did it contravene the requirement to hold at least 40% of its portfolio in short term (365 days or less) investments.

In-House Investment Returns:

8.9. In the Annual Investment Strategy approved in February 2018, it was anticipated that the in-house portfolio would achieve a return for 2018/19. The actual rate was 0.79%, as shown below:

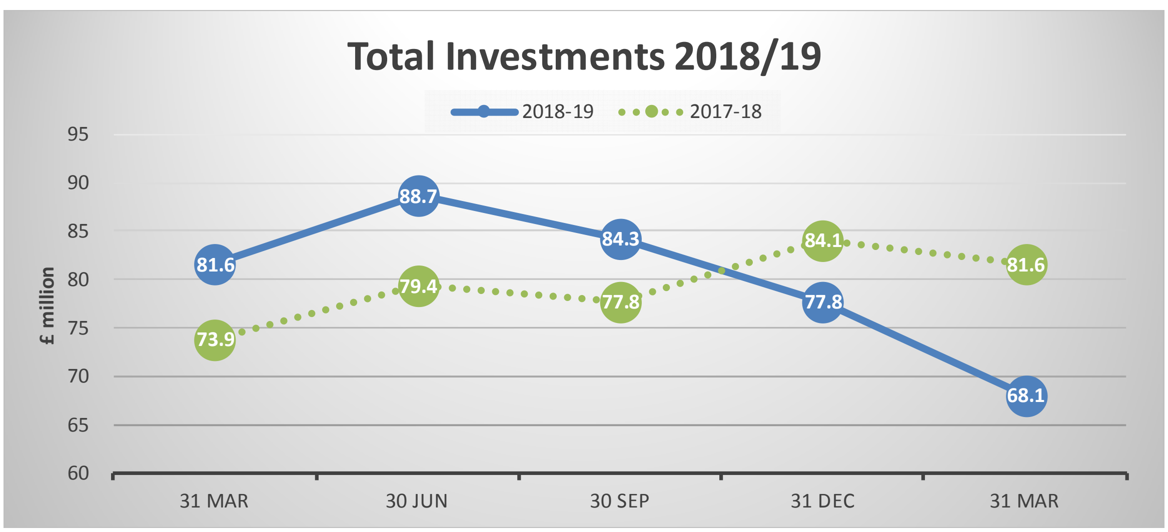
Year	Interest Received £'000	Interest Rate Achieved %
2017/18 Actual	389.5	0.64%
2018/19 Original	614.0	0.73%
2018/19 Latest	448.1	0.68%
2018/19 Actual	642.5	0.79%

8.10. An analysis of the overall investments of the Council as at 31 March 2019, split between in-house and externally managed, is shown in the table below, with the previous half-year figures shown for comparison purposes:

Fund	Closing Balance 31 Mar 19 £'000	Closing Balance 30 Sept 18 £'000
Money Markets incl. CD's & Bonds	35,500	37,364
Money Market Funds	25,345	35,957
Business Reserve Accounts incl. Call Accounts	1,295	4,503
Total In House Investments	**62,140**	**77,824**
Corporate Equity Funds	6,000	6,000
Total Investments	**68,140**	**83,824**

8.11. The nominal money markets figure at 31 March 2019 does not includes £274,000 capital depreciation as a result of the overall price for CDs at 31 March being lower than that which was paid when the CD was originally purchased. However, these CDs and bonds were purchased on a "buy to hold" basis and, therefore, this capital depreciation will not be realised when the CD's mature as they will be redeemed at "par" i.e. the original price.

8.12. The graph below shows how the total of the Council's investments varies through the year according to its cash flows, comparing 2018/19 (solid line) with the previous year (dotted line). It shows that during the first quarter of the financial year (April to June) the Council's investments grow as cash flows in from such sources as Council Tax and NNDR and then decline later in the year as cash flows out e.g. precepts exceed that coming in. The graph shows how the unfinanced element of the capital programme has reduced cash-backed balances during 2018/19.



9. Equity Funds

9.1. The two equity funds were opened in April 2017, each with a £3m nominal balance. Paragraph 4.5 shows the returns for 2018/19. The half-year treasury management report to this meeting has more details on these funds in section 11.

Fund	Value of Fund 31 Mar 19 £'000
Royal London UK Equity Fund	3,202.4
Columbia Threadneedle UK Equity Income Fund	3,031.1
Total Equity Funds	**6,233.5**

9.2. For comparison purposes, the total value of both funds at 31 March 2018 were £5.895m.

9.3. The inclusion of equity funds in the Council's Investment Strategy was on the basis that these funds should be held for a number of years. History has shown that these funds may present volatile returns over the short-term but in the long-term prove to provide returns greater than many other investment instruments. In addition, they are perceived to be less risky and more liquid that other similar pooled investment vehicles such as property funds.

10. Performance measurement

10.1. In addition to the in-house local benchmarks referred to in this document the Council participates in the Link Group Investment Benchmarking Club. This benchmarks the investment returns and also the maturity and credit risk inherent in the portfolio. The Council is part of a local group which consists of District and County Councils and this Council's performance over the past year is reflected in the tables below:

Table A - Weighted Average Rate of Return (WARoR)

	WDC WARoR %	Local Group WARoR %	Link Asset Services Model WARoR %	Performance against Link Asset Services Model Band
June Quarter	0.62	0.64	0.64	Inline
September Quarter	0.72	0.77	0.77	Inline
December Quarter	0.81	0.83	0.85	Inline
March Quarter	0.92	0.95	0.86	Above
Average for Year	**0.77**	**0.80**	**0.78**	

10.2. It can be seen that the Council's average return was slightly below Link Group's' model portfolio rate of return and also the local group's based on the risk in its portfolio. However, this has to be assessed against the lower credit risk taken in this Council's portfolio, as shown below.

Table B - Weighted Average Credit Risk

	WDC	Local Group
June Quarter	2.70	2.79
September Quarter	2.95	2.73
December Quarter	2.83	3.03
March Quarter	2.61	2.89
Average for Year	**2.77**	**2.86**

10.3. This benchmark measures the average credit risk in the portfolio according to the institutions invested in and corresponds to the duration limits in Link Group’s suggested credit methodology using a sliding scale of 1 to 7 where 1 indicates the least risk of default.

11. External treasury management advisers

11.1. Link Group continues to provide our Treasury Management Advisory service.

Glossary of Treasury Management related terms

LAS: Link Asset Services, Treasury Solutions – the Council's treasury management advisers.

CE: Capital Economics - is the economics consultancy that provides Link Asset Services, Treasury solutions, with independent economic forecasts, briefings and research.

CFR: Capital Financing Requirement - the Council's annual underlying borrowing need to finance capital expenditure and a measure of the Council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: Consumer Price Index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed: The Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: The Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: Gross Domestic Product – a measure of the growth and total size of the economy.

G7: The group of seven countries that form an informal bloc of industrialised democracies - United States, Canada, France, Germany, Italy, Japan, and United Kingdom - that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: Gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

HRA: Housing Revenue Account.

IFRS: International Financial Reporting Standard.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

LIBID: The London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

MHCLG: The Ministry of Housing, Communities and Local Government -the Government department that directs local authorities in England.

MPC: The Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: Minimum Revenue Provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: Quantitative Easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: The Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

TMSS: The annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full Council before the start of each financial year.

VRP: A Voluntary Revenue Provision to repay debt, in the annual budget, which is additional to the annual MRP charge (see above definition).