TREASURY MANAGEMENT ANNUAL REPORT

1. Outline

This report reviews the results of the full financial year as well as providing quarter 4 monitoring information in line with normal quarterly management reporting. The most significant elements of treasury management activity during 2018/19 were:

- At 31st March 2019, the Council's total loan debt net of treasury investments stood at £3,213.3m, compared to the net loan debt of £3,301.4m as at 31st March 2018.

- City Council treasury investments held at 31st March 2019 were £79.6m. The Council also held investments of £85.8m as accountable body.

    - The City Council did not breach any of its prudential limits set under the Local Government Act 2003 and the CIPFA Prudential Code for Capital Finance.

    - Loan interest, repayment charges and associated costs totalled £299.7m gross, and £115.6m after recharges to other services. This was £5.3m below the budget of £120.9m. This was due largely to capital programme slippage and other cash flows resulting in lower than planned borrowing.

2. Background

2.1 The City Council, like all local authorities, is permitted by government to finance capital investment and day to day cash flows from borrowing, in accordance with the prudential borrowing system. The Council's net loan debt at 31st March 2019 stood at £3,213.3m (excluding accountable body investments). This report reviews how the debt and associated investments were managed during the financial year 2018/19.

2.2 The City Council has adopted CIPFA's Code of Practice for Treasury Management in the Public Services which includes the requirement to present a treasury management Annual Report.

2.3 Loans and investments are shown at nominal value unless otherwise indicated, consistent with budget and monitoring reports and the Prudential Indicators. The basis of accounting in the Financial Accounts is different in some cases where required by proper accounting practices.

3. The objective of treasury management

3.1 CIPFA defines the objective of Treasury Management as "the management of the organisation's 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". In balancing risk against return, Local Authorities should be more concerned to avoid risks than to maximise return. In particular, this requires a balance to be struck when borrowing between:

a) The security offered by long term fixed rate funding;

b) The expected cost of short term and variable rate funding, compared with long term funding

Similarly, when investing surplus funds the emphasis should be on the security of capital invested rather than maximising the rate of return.

4. Financial markets during 2018/19

4.1 Globally a somewhat weaker economic outlook developed during the year than had been previously expected. This helped to keep US and other developed economy bond yields low. In the UK, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% to 0.75% in August. This remains at a historically extremely low level, and below previous expectations for the year. Political and economic uncertainty about Brexit continued to keep Sterling weak and to dampen expectations about the UK's economic outlook. These uncertainties helped keep UK long term fixed interest rates (based on Government Gilt yields) at a low level but with significant volatility at times.

The impact can be seen in the PWLB borrowing rates available to local authorities (see chart at Annex 1).

4.2 Credit risks for the Council's investments remained relatively stable during the year. Credit Default Swaps, which are an indicator of credit risk, drifted up towards the end of 2018 as a result of Brexit uncertainty, but have since declined again in 2019 and remain historically low. The big UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) completed the division of their business between retail (ringfenced) and investment banking arms.

5. Treasury strategy and activities during the year

5.1 The City Council's actual net loan debt at 31st March 2019 was £3,213.3m compared to the expected net loan debt at the time of the Original Budget in March 2018 of £3,499.1m. This is due to slippage in capital expenditure and other cashflow movements across the Council. Additional long term loans taken amounted to £60m compared to the original assumption of £180m new long term borrowing.

5.2 The treasury strategy for the year:

- Maintained a balanced strategy which enabled the Council to benefit from current low short term interest rates, maintaining a significant short term and variable rate loan portfolio
- Acknowledged the risk that maintaining a significant short term and variable rate loan debt may result in increasing borrowing costs in the longer term, but balanced this against the savings arising from cheaper variable rates in the short term
- Reviewed treasury management activity in the context of the Council's current financial position together with the outlook for interest rates
- Continuously reviewed the advantages and disadvantages of different sources of borrowing.

5.3 Opportunities to improve risk management or make savings by prematurely repaying loans are kept under review. Market conditions proved favourable for the early repayment of £ of the Council's LOBO loans during the year, as set out in Annex 2. The Council was advised by its treasury advisers Arlingclose on these repurchases, which generate significant cost reductions over time.

5.4 The City Council's Treasury Strategy in recent years has sought to maintain a significant exposure to short-term and variable-rate borrowing in order to take advantage of cheaper short-term rates at around bank base rate. The variable and short term borrowing of £416.6m at 31st March 2019 (see Table 7.1) was borrowed at an average rate of 0.96%. By borrowing short term rather than more expensive long term fixed rate loans, savings were generated, but at the risk that interest rates may subsequently rise. In order to manage these risks, the short term debt portfolio size was kept broadly in line with the indicative £500m in the Strategy for the year.

5.5 The majority of the Council's borrowing needs during the year were met from short term borrowing, minimising interest costs. £60m of long term fixed rate borrowing was taken during the year from the PWLB, at interest rates from 2.44% to 2.48%. A further £85.0m of PWLB loans were taken to refinance the premature repayment of some LOBO loans (details are provided at Annex 2).

5.6 HRA loan debt is accounted for separately in accordance with the two pool debt system, which the City Council introduced following the reform of Housing Subsidy. The level of HRA loan debt has decreased from £1,090.2m, to £1064.8m, taking account new capital investment and HRA debt repayment provision (or MRP) in the year. No long term loans were taken for the HRA during the year other than refinancing the LOBO prepayments, in order to maintain prudent exposure for the HRA to cheaper short term interest rates.

6. Investment management

6.1 Under the current treasury strategy, a working balance of around £40m short term investments is targeted in order to provide liquidity to meet cash flow fluctuations.

6.2 Treasury Investments are made in accordance with the creditworthiness criteria in the Treasury Management Policy and are also reported to Cabinet as part of the quarterly capital monitoring reports in line with the liquidity management objective for investments. Lending has continued to be limited to very short periods (of no longer than three months) to the institutions within the Treasury Management Policy's criteria. A range of information has been used to assess investment risk, in addition to credit ratings. Regular meetings are held to review outstanding investments and criteria for new investments in the light of developments in market conditions. None of the City Council's treasury investments has been impaired or suffered default.

6.3 Actual investments are reported quarterly to Cabinet as part of accountability for decisions made under treasury management delegations. Annex 3.1 lists all investments made during Quarter 4 of 2018/19 for the City Council.

6.4 Investments outstanding at 31st March 2019 are summarised as follows.

Period Outstanding	Value Invested £m	Average Interest Rate %
Instant Access	79.59	0.77%
Fixed Overnight	0	0.00%
Up to 3 months	0	0.00%
3 to 6 months	0	0.00%
Total	**79.59**	**0.77%**

6.5 New EU regulations for Money Market Funds (MMFs) came into force during 2018/19, and existing funds converted to the new Low Volatility Net Asset Value (LVNAV) structure. This is not expected to have any material effect for the very short term cash funds which the Council uses.

6.6 The Council also continues to manage substantial funds as Accountable Body for an increasing number of Government programmes: the Growing Places Fund, the Regional Growth Fund and the Advanced Manufacturing Supply Chain Initiative (AMSCI). These funds are managed by the City Council but are not the Council's own money. The unspent balance of the funds at 31st March 2019 was £85.8m as set out in Annex 3.2. These funds are being invested in accordance with the Accountable Body agreements in very low-risk deposits with the UK Government (predominantly in the DMADF and Treasury Bills).

7. Debt profile

7.1 Long term borrowing is taken at a range of maturities to ensure that debt maturing in any year does not generally exceed 10% of total external debt, and that short-term/variable rate debt does not exceed the limit of 30% set in the City Council's prudential indicators (full maturity profile at Annex 4). This ensures that the Council is not overly exposed to the risk of high refinancing costs in any year. The following table summarises how the maturity profile of the Council's debt changed within the year.

Debt Profile (General Fund and HRA combined)	31.03.18 £m	31.03.19 £m
Fixed rate over 40 years	370.0	250.0
Fixed rate 20 to 40 years	1,212.3	1,261.2
Fixed rate 10 to 20 years	734.3	734.1
Fixed rate 5 to 10 years	283.3	419.1
Fixed rate 1 to 5 years	191.9	131.9
Fixed < 1 year (note 1)	48.3	80.0
Variable and short term	547.2	416.6
Gross Debt	3,387.3	3,292.9
Investments < 1 year	(85.9)	(79.6)
Net Debt	3,301.4	3,213.3

Nominal value of debt and excluding accruals; LOBO loans at final maturity

The average interest rate paid on all the City Council's debt in 2018/19 was 4.38%. This includes the cost of historic debt taken when fixed interest rates were higher.

The above maturity profile assumes that Lender's Option Borrower's Option (LOBO) loans are repaid at their final maturity date. A full maturity profile at 31st March 2019 compared to 31st March 2018 is given in Annex 4.

At 31st March 2019 the debt portfolio included £101.1m LOBOs, less than 4% of the total portfolio. No LOBO loans have had their options called by the lenders since the arrangements were entered into, and given the current and forecast interest rate environment it is considered to be a low risk that this will take place in the foreseeable future.

7.2 At 31st March 2019, the gross loan debt of the HRA and General Fund pools is summarised by maturity as follows:

Debt Profile	31.03.19 HRA £m	31.03.19 GF £m	31.03.19 TOTAL £m
Fixed rate over 40 years	158.6	91.4	250.0
Fixed rate 20 to 40 years	556.7	704.5	1,261.2
Fixed rate 10 to 20 years	184.3	549.8	734.1
Fixed rate 5 to 10 years	72.4	346.7	419.1
Fixed rate 1 to 5 years	47.1	84.8	131.9
Fixed < 1 year	12.5	67.5	80.0
Variable and short term	33.2	383.4	416.6
Total Debt	1,064.8	2,228.1	3,292.9

Note: LOBO loans shown at final maturity

8. Revenue cost of borrowing

8.1 The actual net cost of borrowing to corporate treasury budgets was £115.6 This is £5.3m below the budget, due largely to capital programme slippage and other cash flows resulting in lower than planned borrowing. The Treasury Management outturn is summarised in the table below:

	Budget £'m	Actual £'m	Variation £'m
Gross interest payable	137.2	134.8	(2.4)
Interest receivable	(0.4)	(0.5)	(0.1)
Revenue charge for debt repayment	176.8	171.0	(5.8)
Early payment discount - Pension	(9.7)	(9.7)	0.0
Contributions to (from) reserves	3.1	3.1	0.0
Other Costs	3.1	1.0	(2.1)
Total Treasury Management Budget	**310.1**	**299.7**	**(10.4)**
Less recharges to:			
HRA	(91.1)	(86.0)	5.1
Other Services	(98.1)	(98.1)	(0.0)
Net Corporate Treasury	**120.9**	**115.6**	**(5.3)**

9. Prudential Indicators

9.1 The City Council is required under the Local Government Act 2003 and the CIPFA Prudential Code for Capital Finance in Local Authorities to set various prudential indicators and limits covering capital finance and treasury management. The outturn position against the Council's approved prudential indicators is attached at Annex 5. The City Council did not breach any of its prudential limits set under the Local Government Act 2003 and the CIPFA Prudential Code for Capital Finance.

10. Risk management and performance

10.1 Risk management is at the centre of treasury performance and monitoring. The City Council has adopted the CIPFA Treasury Management Code's policy recommendation that "the successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of its treasury management activities will be measured."

10.2 There is no single quantitative measure which summarises the management of the different types of treasury risk and their financial impact. Key reporting and review processes include:

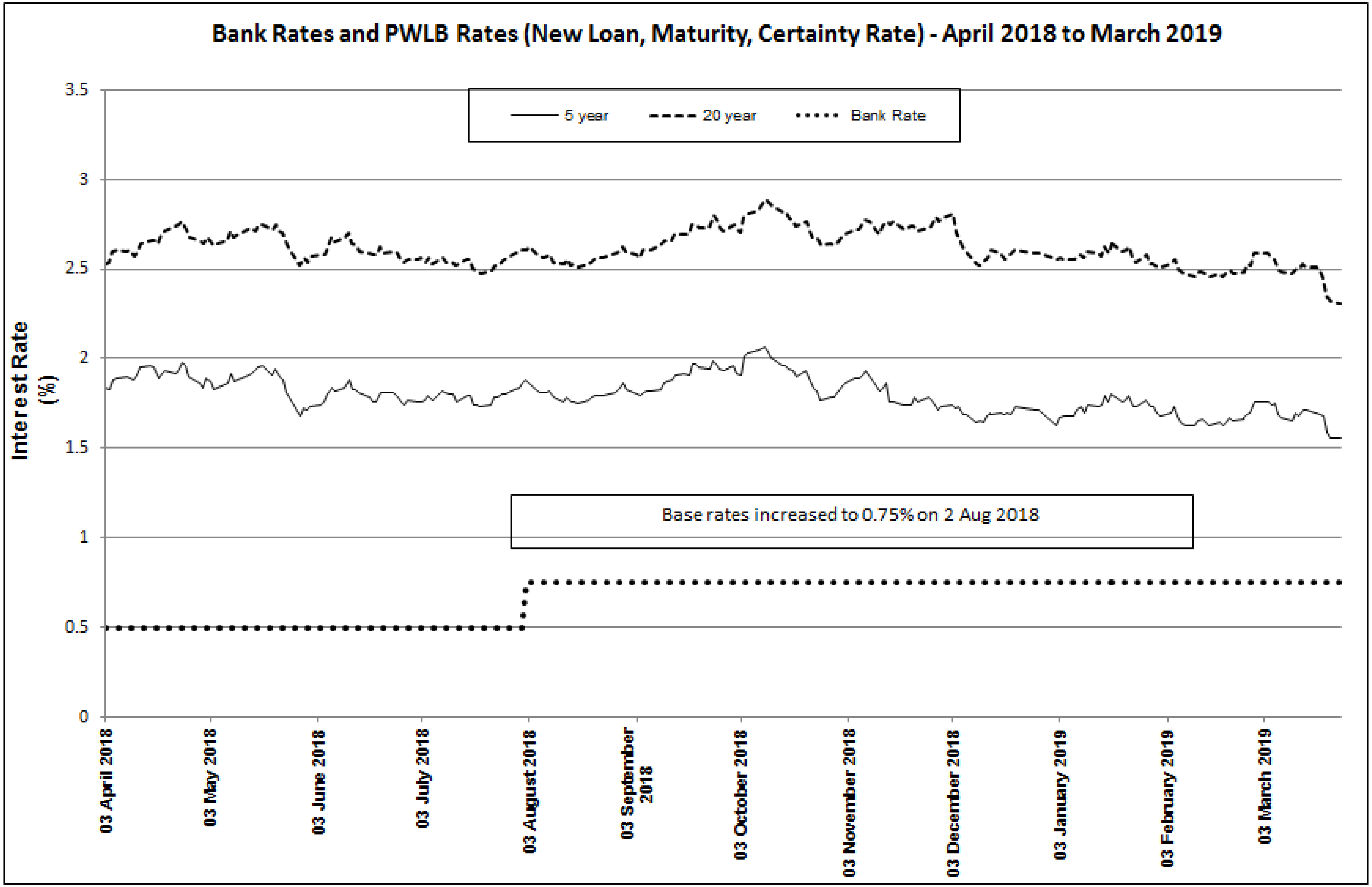
- Quarterly monitoring reports to Cabinet provide an overview of key treasury decisions and indicators.
- The adequacy of risk control arrangements are tested regularly by internal and external audit.
- The City Council's Treasury Management Policy and Strategy sets out policies, limits and strategies for managing treasury risks, which have been reviewed throughout this report.

Headline indicators include:

Has the Council complied with the CIPFA Treasury Management Code?	YES
Were the Council's lending criteria complied with during the year?	YES
Were treasury investment defaults avoided in the year?	YES
Were the Council's treasury prudential limits complied with?	YES
Were revenue costs kept within budget?	YES

11. Decisions taken under treasury management delegations

11.1 Each quarter, decisions taken by the Corporate Director of Finance and Governance and the treasury management team are reported to Cabinet as art of Capital and treasury monitoring. Long term borrowing decisions during Quarter 4 are included in Annex 2, and investment activity during Quarter 4 is reported at Annex 3 below.


Bank Rates and PWLB Rates (New Loan, Maturity, Certainty Rate) - April 2018 to March 2019
5 year
20 year
Bank Rate
Interest Rate (%)
3.5
3
2.5
2
1.5
1
0.5
0
Base rates increased to 0.75% on 2 Aug 2018
03 April 2018
03 May 2018
03 June 2018
03 July 2018
03 August 2018
03 September 2018
03 October 2018
03 November 2018
03 December 2018
03 January 2019
03 February 2019
03 March 2019

Appendix 3

1st April 2018 - 31st March 2019

Annex 2

New Long Term Loans taken out during the year.

Date of loan	Loan	Counter Party	Interest Rate	Maturity Date
06 December 2018	£30m	PWLB	2.48%	06 December 2033
12 December 2018	£30m	PWLB	2.44%	12 December 2035

New Long Terms Loans to fund LOBO refinancing.

Date of loan	Loan	Counter Party	Interest Rate	Maturity Date
02 August 2018	£27.25m	PWLB	2.41%	02 August 2031
02 August 2018	£27.25m	PWLB	2.31%	02 August 2029
02 August 2018	£27.25m	PWLB	2.24%	02 August 2028
23 November 2018	£3.25m	PWLB	2.56%	23 November 2033

Long Term Loans prematurely repaid during the year.

Date of repayment	Loan/ (Repayment)	Counter Party	Interest Rate	Maturity Date	Premia/ (Discounts)
02 August 2018	£50m	RBS	4.12%	29 March 2060	17.13m
02 August 2018	£10m	RBS	4.16%	12 September 2078	4.29m
23 November 2018	£1.25m	State Street	11.13%	23 November 2050	2.01m

Annex 3.1

Treasury Management Investment Details
1st January 2019 to 31st March 2019

New Investments Market Fixed Term Deposits

Date Out	Date In	Borrower	Amount £	Interest Rate
07/01/2019	15/01/2019	Thurrock Borough Council	3,500,000	0.80%
22/03/2019	01/04/2019	Thurrock Borough Council	10,100,000	0.85%

In addition to the above deposits with individual institutions the Council uses money market funds and other call accounts where money may be added or withdrawn usually without notice. A summary of transactions for the quarter is as follows:

New Investments Call Accounts

	No of Transactions		Average	Average
	Investments	Withdrawal	Balance £	Rate Earned
Barclays Bank PLC FIBCA A/C	10	13	9,127,862	0.55%
Svenska Handelsbanken	9	9	10,877,778	0.55%
HSBC	1	1	100,787	0.30%

New Investments Money Market Funds

	No of Transactions		Average	Average Rate Earned
	Investments	Withdrawal	Balance £	
Aberdeen Standard Liquidity Fund	10	11	22,460,000	0.78%
Amundi Money Market Fund	3	8	13,176,667	0.78%
CCLA Public Sector Deposit Fund	0	1	19,000,000	0.78%
Deutsche Managed Sterling Fund	1	1	320,000	0.75%
Federated Money Market Fund	8	8	11,790,000	0.78%
LGIM Sterling Liquidity Fund	0	1	16,667	0.75%

Note
Investment activity in previous quarters has been reported in the relevant quarterly Capital & Treasury Monitoring to
Cabinet. This appendix reports on the exercise of investment delegations to the Corporate Director of Finance & Governance in the last quarter of the financial year.

Annex 3.2

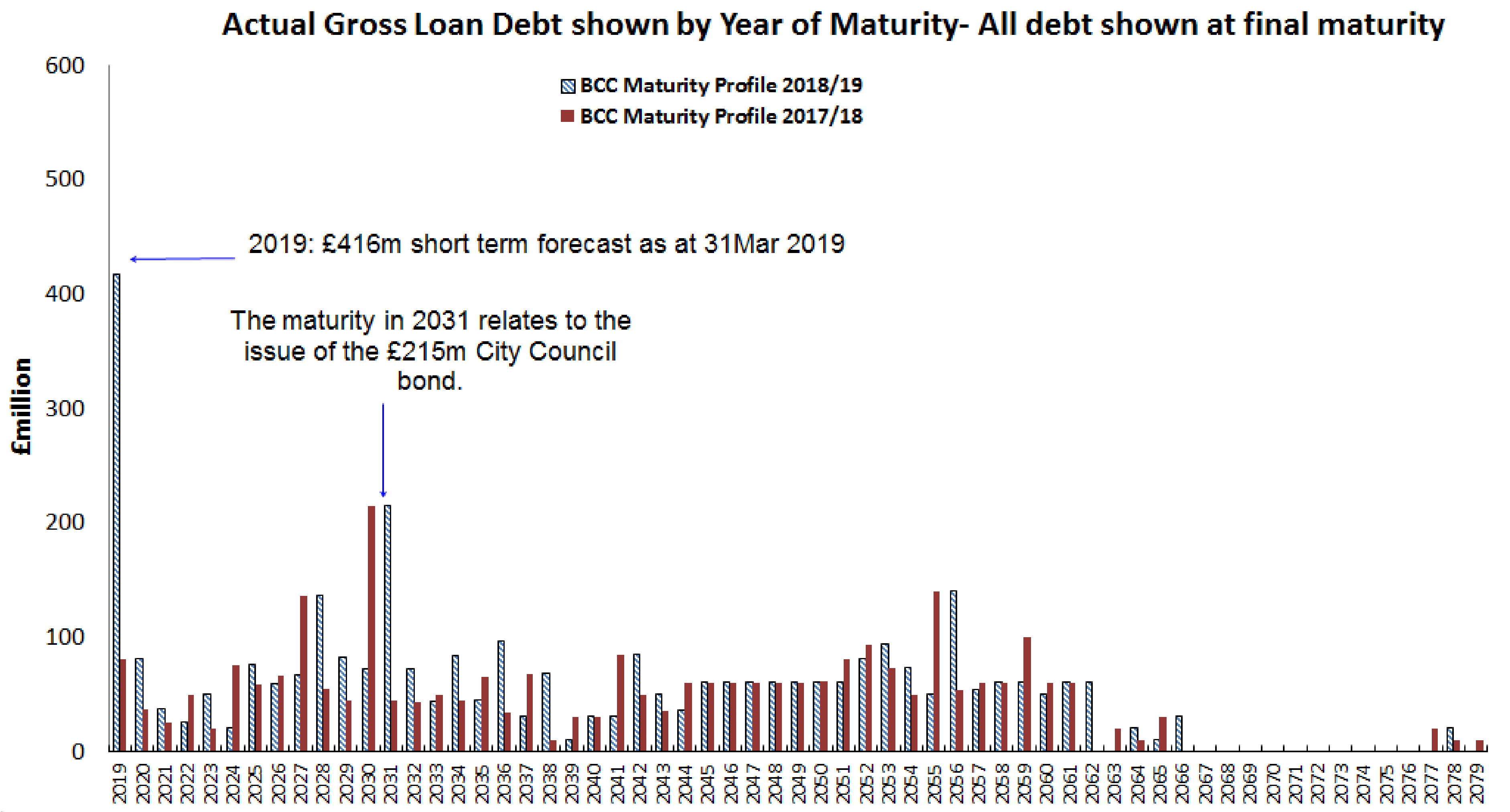
Accountable Body Investments - 31st March 2019

	Growing Places Fund	Advanced Manufacturing Supply Chain Initiative	Regional Growth Fund	Total
	£000	£000	£000	£000
Goldman Sachs Money Market Fund	6,582	5,773	7,435	19,790
J P Morgan Money Market Fund			64	64
Total Money Market Funds	**6,582**	**5,773**	**7,499**	**19,854**
Debt Management Office Treasury Bills	9,995	45,920	9,991	65,906
Total Accountable Body investments	**16,577**	**51,692**	**17,491**	**85,760**

Note

This appendix shows amount invested externally by The Council as Accountable Body.
These are separate from The Council's own investments.

Annex 4


Actual Gross Loan Debt shown by Year of Maturity- All debt shown at final maturity
BCC Maturity Profile 2018/19
BCC Maturity Profile 2017/18
2019: £416m short term forecast as at 31Mar 2019
The maturity in 2031 relates to the issue of the £215m City Council bond.
£million
600
500
400
300
200
100
0
2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042 2043 2044 2045 2046 2047 2048 2049 2050 2051 2052 2053 2054 2055 2056 2057 2058 2059 2060 2061 2062 2063 2064 2065 2066 2067 2068 2069 2070 2071 2072 2073 2074 2075 2076 2077 2078 2079

Annex 5A

This appendix provides monitoring against the Council's approved Prudential Indicators

DEBT AND PRUDENTIAL INDICATORS

	WHOLE COUNCIL	18/19 Indicators £m	18/19 Outturn £m
	Capital Finance		
1	Capital Expenditure - Capital Programme	476.9	344.7
2	Capital Expenditure - other long term liabilities	30.3	30.6
3	Capital expenditure	507.2	375.3
4	Capital Financing Requirement (CFR)	4,635.4	4,568.2
	Planned Debt		
5	Peak loan debt in year	3,557.9	3,402.9
6	+ Other long term liabilities (peak in year)	449.1	449.7
7	= Peak debt in year	4,007.0	3,852.6
8	does peak debt exceed year 3 CFR?	no	no
	Prudential limit for debt		
9	Gross loan debt	3,851.0	3,402.9
10	+ other long term liabilities	449.0	449.7
11	= Total debt	4,300.0	3,852.6

Notes

1 Forecast capital expenditure has increased since the indicator was set due to additions to the capital programme, as reported in the quarterly capital monitoring reports.

4 The Capital Financing Requirement represents the underlying level of borrowing needed to finance historic capital expenditure (after deducting debt repayment charges).This includes all elements of CFR including Transferred Debt.

5-7 These figures represent the forecast peak debt (which may not occur at the year-end). The Prudential Code calls these indicators the Operational Boundary.

8 It would be a cause for concern if the City Council's loan debt exceeded the CFR, but this is not the case due to positive cash flows, reserves and balances. The Prudential Code calls this Borrowing and the Capital Financing Requirement.

11 The Authorised limit for debt is the statutory debt limit. The City Council may not breach the limit it has set, so it includes allowance for uncertain cash flow movements and potential borrowing in advance for future needs.

Annex 5B

DEBT AND PRUDENTIAL INDICATORS

	HOUSING REVENUE ACCOUNT	18/19 Indicators £m	18/19 Outturn £m
	Capital Finance		
1	Capital expenditure	131.0	108.6
	HRA Debt		
2	Capital Financing Requirement (CFR)	1,058.1	1,064.8
3	Statutory cap on HRA debt	1,150.4	1,150.4
	Affordability		
4	HRA financing costs	90.4	102.6
5	HRA revenues	277.2	278.6
6	HRA financing costs as % of revenues	32.6%	36.8%
7	HRA debt : revenues	3.8	3.8
8	Forecast Housing debt per dwelling	£17,335	£17,526

Notes

4 Financing costs include interest, and depreciation rather than Minimum Revenue Provision (MRP), in the HRA.

7 This indicator is not in the Prudential Code but is a key measure of long term sustainability. This measure is forecast to fall below 2.0 by 2026/27, which is two years later than previously forecast.

8 This indicator is not in the Prudential Code but is a key measure of affordability: the HRA debt per dwelling should not rise significantly over time.

Annex 5C

DEBT AND PRUDENTIAL INDICATORS

	GENERAL FUND	**18/19 Indicators £m**	**18/19 Outturn £m**
	Capital Finance		
1	Capital expenditure (including other long term liabilities)	376.2	266.7
2	Capital Financing Requirement (CFR)	3,577.3	3,503.4
	General Fund debt		
3	Peak loan debt in year	2,499.8	2,338.1
4	+ Other long term liabilities (peak in year)	449.1	449.7
5	= Peak General Fund debt in year	2,948.9	2,787.8
	General Fund Affordability		
6	Total General Fund financing costs	274.2	269.8
7	General Fund net revenues	855.2	855.2
8	General Fund financing costs (% of net revenues)	32.1%	31.5%
9	General Fund financing costs (% of gross revenues)	24.2%	24.0%

Note

4 Other long term liabilities include PFI, finance lease liabilities, and transferred debt liabilities.

6 Financing costs include interest and MRP (in the General Fund), for loan debt, transferred debt, PFI and finance leases.

8 This indicator includes the gross revenue cost of borrowing and other finance, including borrowing for the Enterprise Zone and other self-supported borrowing.

9 This is a local indicator measuring finance costs against relevant gross income including revenues from sales, fees, charges and rents, which are available to support borrowing costs.

Annex 5D

PRUDENTIAL INDICATORS

	TREASURY MANAGEMENT	18/19 Indicators	18/19 Outturn
	Interest rate exposures	**Limit**	**Maximum**
1	upper limit on fixed rate exposures	130%	86%
2	upper limit on variable rate exposures	30%	22%
	Maturity structure of borrowing	Limit	
	(lower limit and upper limit)		**Year End**
3	under 12 months	0% to 30%	14%
4	12 months to within 24 months	0% to 30%	1%
5	24 months to within 5 years	0% to 30%	5%
6	5 years to within 10 years	0% to 30%	13%
7	10 years to within 20 years	5% to 40%	23%
8	20 years to within 40 years	10% to 60%	38%
9	40 years and above	0% to 40%	6%
	Investments longer than 364 days		
	upper limit on amounts maturing in:		
		Limit	**Outturn**
10	1-2 years	400	0
11	2-3 years	100	0
12	3-5 years	100	0
13	later	0	0

Note

1-9 These indicators assume that LOBO loan options are exercised at the earliest possibility, and are calculated as a % of net loan debt.