

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**25 JULY 2019**

**9**

|   |   |
|---|---|
| <b>Report Title</b>                               | <b>ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2018/2019</b>   |
| <b>Purpose of Report</b>                          | To advise on the treasury management activities in 2018/2019, in accordance with the Council's Treasury Policy Statement. To report on actual 2018/2019 Prudential Indicators in accordance with the requirements of the Prudential Code.   |
| <b>Decision(s)</b>                                | <b>The Audit &amp; Standards Committee RESOLVES to approve the treasury management activity annual report for 2018/2019 and the actual Prudential Indicators.</b>   |
| <b>Consultation and Feedback</b>                  | Link Asset Services Limited (LAS).  |
| <b>Financial Implications and Risk Assessment</b> | There are no financial implications arising directly from this report as it reports the outturn Treasury position for 2018/19.<br><br>Andrew Cummings, Interim Director of Resources & S151 Officer<br>Tel: 01453 754115<br>Email: <a href="mailto:andrew.cummings@stroud.gov.uk">andrew.cummings@stroud.gov.uk</a> |
| <b>Legal Implications</b>                         | Any legal implications are set out in the body of the report and/or the appendices.<br><br>Craig Hallett, Solicitor & Deputy Monitoring Officer<br>Tel: 01453 754364<br>Email: <a href="mailto:craig.hallett@stroud.gov.uk">craig.hallett@stroud.gov.uk</a>   |
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| <b>Options</b>                                    | None  |
| <b>Performance Management Follow Up</b>           | The Committee will receive regular reports on treasury activity throughout the 2019/2020 financial year.  |
| <b>Background Papers</b><br><br><b>Appendices</b> | Appendix A – Temporary investments 2018/2019<br>Appendix B – Actual Prudential Indicators 2018/2019<br>Appendix C – Explanation of Prudential Indicators<br>Appendix D – The economy and interest rates 2018/2019<br>Appendix E – Borrowing and investment rates in 2018/2019                                       |

## Introduction

1. This Council fully complies with the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code for Capital Finance in Local Authorities.
2. For the financial year 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:
  - Annual treasury strategy (Council 22/02/2018)
  - Half year treasury management report (Council 20/11/2018)
  - Annual treasury review (this report)
3. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Audit & Standards Committee.

## Treasury Activity

4. A summary of treasury management activity for 2018/2019 is shown below:

| <b>Treasury Activity 2018-19</b> |                 |              |              |                 |
|----------------------------------|-----------------|--------------|--------------|-----------------|
|                                  | April<br>2018   | Increase     | Decrease     | March<br>2019   |
|                                  | £000            | £000         | £000         | £000            |
| <b>Debt</b>                      |                 |              |              |                 |
| <b>Borrowing:</b>                |                 |              |              |                 |
| Long-term                        | -105,717        | -            | 2,000        | -103,717        |
| Short-term                       | -               | -            | -            | -               |
| <b>Total debt</b>                | <b>-105,717</b> | <b>-</b>     | <b>2,000</b> | <b>-103,717</b> |
| <b>Investments</b>               |                 |              |              |                 |
| Externally managed               | -               | -            | -            | -               |
| Internally managed - Long term   | -               | -            | -            | -               |
| Internally managed - Short term  | 31,414          | 7,957        | -            | 39,371          |
| <b>Total investments</b>         | <b>31,414</b>   | <b>7,957</b> | <b>-</b>     | <b>39,371</b>   |
| <b>Net debt</b>                  | <b>-74,303</b>  | <b>7,957</b> | <b>2,000</b> | <b>-64,346</b>  |

## Investment Strategy

5. Investment strategy for 2018/2019 was to give primary importance to security of capital and liquidity. This was achieved through having regard to government 'Guidance on Local Government Investment' issued in March 2004, and our own investment policy which set out permitted specified and non-specified

investments. In addition, the Council received and followed weekly investment advice from Link Asset Services detailing counterparty credit ratings, which were also subjected to a credit default swap overlay. This was supplemented by daily update emails from Link Asset Services, economic briefings and monitoring the financial press.

6. Investment strategy, set out in the report to Council in February 2018, stated that in 2018-19 the Council would continue to invest for the longest permitted duration with quality counterparties to maximise return without compromising security. In particular instances the Section 151 Officer would authorise investments in the LAS blue category for a period of up to two years, which was longer than the LAS recommended duration of one year. Otherwise, the length of investments permitted would vary if necessary in line with LAS advice and subject to the Council's 3-year upper limit.
7. The expectation for interest rates within the strategy for 2018/19 was for Bank Rate to rise to 0.75% from 0.5% in March 2019. In fact the rate was increased to 0.75% in August 2018.
8. **Appendix A** has a summary of investments during the year.

#### **Borrowing Outturn for 2018/19**

9. The Council had total borrowing of £103.717m as at 31 March 2019. On 5 February 2019 a £2m loan from Hampshire County Council at 2.40% matured and was repaid. With a Capital Financing Requirement of £111.468m as at 31 March 2019, the Council has continued and extended an element of internal borrowing during the year to help offset low investment returns. As at 31 March 2019 there is internal borrowing of £7.751m.

| <b>Lender</b>      | <b>Principal</b> | <b>Type</b>         | <b>Interest Rate</b> | <b>Years to Maturity</b> | <b>Maturity Date</b> |
|--------------------|------------------|---------------------|----------------------|--------------------------|----------------------|
| PWLB               | £1m              | Fixed Interest Rate | 1.63%                | 2 years                  | 11/02/2021           |
| PWLB               | £2m              | Fixed Interest Rate | 1.93%                | 4 years                  | 11/02/2023           |
| PWLB               | £6m              | Fixed Interest Rate | 3.32%                | 13 years                 | 31/03/2032           |
| PWLB               | £10m             | Fixed Interest Rate | 3.45%                | 18 years                 | 31/03/2037           |
| PWLB               | £7m              | Fixed Interest Rate | 3.51%                | 23 years                 | 31/03/2042           |
| PWLB               | £7m              | Fixed Interest Rate | 3.51%                | 23 years                 | 31/03/2042           |
| PWLB               | £7m              | Fixed Interest Rate | 3.53%                | 28 years                 | 31/03/2047           |
| PWLB               | £7m              | Fixed Interest Rate | 3.53%                | 28 years                 | 31/03/2047           |
| PWLB               | £7m              | Fixed Interest Rate | 3.52%                | 33 years                 | 31/03/2052           |
| PWLB               | £7m              | Fixed Interest Rate | 3.52%                | 33 years                 | 31/03/2052           |
| PWLB               | £7m              | Fixed Interest Rate | 3.51%                | 38 years                 | 31/03/2057           |
| PWLB               | £7m              | Fixed Interest Rate | 3.51%                | 38 years                 | 31/03/2057           |
| PWLB               | £10m             | Fixed Interest Rate | 3.48%                | 42 years                 | 31/03/2061           |
| PWLB               | £9.717m          | Fixed Interest Rate | 3.48%                | 42 years                 | 31/03/2061           |
| PWLB               | £1m              | Fixed Interest Rate | 2.51%                | 44 years                 | 21/06/2063           |
| PWLB               | £2m              | Fixed Interest Rate | 3.16%                | 44 years                 | 20/08/2063           |
| PWLB               | £1m              | Fixed Interest Rate | 3.55%                | 46 years                 | 28/11/2064           |
| PWLB               | £2m              | Fixed Interest Rate | 3.20%                | 46 years                 | 18/08/2065           |
| PWLB               | £2m              | Fixed Interest Rate | 2.96%                | 47 years                 | 11/02/2066           |
| PWLB               | £1m              | Fixed Interest Rate | 2.65%                | 47 years                 | 14/06/2066           |
| <b>Total Loans</b> | <b>£103.717m</b> |                     |                      |                          |                      |

## The Economy and Interest Rates

10. An analysis of UK economic performance and interest rates and the world economic context during 2018/2019 is in **Appendix D**.

## Performance Measurement

11. **Appendix A** has details of the investments made during the year. All of these were 'approved investments' with counterparties included on the Council's lending list, and within permitted limits as regards time and amount, with the exception of breaching the limits with our own bank NatWest during the Christmas office closedown period. This breach was rectified on the first day of business in the new year.
12. The average level of investments held was £41.978 million and the average return on these investments was 0.80%, compared with the average un compounded 7-day LIBID rate of 0.507% which is a generally accepted benchmark rate (the 3 month un compounded LIBID rate is given as well for comparative purposes). The interest earned was £334k.

|                           | Average Investment | Rate of Return | Benchmark Return<br>7 day LIBID<br>un compounded | For comparison<br>3 month LIBID<br>un compounded |
|---------------------------|--------------------|----------------|--|--|
| <b>Internally Managed</b> | £41,978,403        | 0.80%          | 0.507%   | 0.675%   |
| <b>Externally Managed</b> | N/A                | N/A            | N/A  | N/A  |

13. Stroud is a member of a Link Asset Services Benchmarking group. The group is comprised of North Warwickshire Borough Council, Nuneaton and Bedworth Borough Council, Oxford City Council, Rugby Borough Council, Stratford-on-Avon District Council, Warwick District Council, Warwickshire County Council, Worcester City Council, Worcestershire County Council and Wyre Forest District Council. A primary aim of the group is to evaluate and compare return on investment taking into account the level of risk for the investment portfolio. During 2018/19 Stroud has again compared well with the benchmark group in terms of return achieved, whilst maintaining a low risk portfolio.
14. In line with the budget strategy and the 2019/20 Treasury and Investment Strategies approved by Council in February 2019 the Council is aiming to increase the return on investments through an increased risk appetite and permitting a wider range of investments.

## Prudential Indicators and Compliance with Borrowing Limits

15. The Council is required by the Prudential Code to report actual prudential indicators after the year end. These are shown in **Appendix B**.

16. The Council had maximum loans totalling £105.717m during 2018/2019. This amount of borrowing was well within both the authorised and operational borrowing limits of £130m and £122m respectively.

| <b>Borrowing limits 2018/2019</b>      | <b>Approved Limit</b> | <b>Actual</b> |
|--|-----------------------|---------------|
| Authorised limit for external debt     | £130m                 | £105.7m       |
| Operational boundary for external debt | £122m                 | £105.7m       |

### **Member Training**

17. Member training provided by Link Asset Services on treasury management issues took place on 4 December 2018. Further training for Members will be scheduled for 2019/20.

### **Local Authority Mortgage Scheme update**

Through introducing a Local Authority Mortgage Scheme the Council offered a financial guarantee to enable first time buyers to obtain a mortgage. The maximum value of the guarantee is £1.2m. The Council invested £1m and the county council £200k with Lloyds bank for 5 years at a market rate of 3.8%. Premium interest of 0.7% was payable in return for the financial guarantee. Premium interest was set aside to pay for any liability realised as a result of the financial guarantee. This scheme commenced in April 2012 and closed to new loan applications in 2015. A total of £4.7m of loans to 37 first time buyers were issued which utilised £0.9m of the available £1.2m guarantee. As at March 2019 there are no arrears cases, and there have been no repossessions under the scheme since inception. The financial guarantee continues for 5 years from the start date of each mortgage and so should gradually reduce and end in July 2020, provided that a mortgage is not in arrears during the last six months of its 5 year period. In any such cases the financial guarantee for those mortgages will extend for a further 2 years.

At March 2019 a maximum financial guarantee liability of £0.05m was outstanding (£0.49m March 2018).