monmouthshire
COUNTY COUNCIL
sir fynwy

REPORT

SUBJECT:	**TREASURY OUTTURN 2018/19**
MEETING:	**Audit Committee**
DATE:	**12th September 2019**
DIVISION/WARDS AFFECTED:	**Countywide**

1. PURPOSE:

1.1. During 2018/19, the Council's treasury management activity was underpinned by CIPFA's Code of Practice on Treasury Management 2011 ("the Code"), which required local authorities to annually produce Prudential Indicators and a Treasury Management Strategy Statement on their likely financing and investment activity. The Code also recommended that members are informed of treasury management activities at least twice a year. The S151 Officer reports twice a year (mid-year and after the year-end) on Treasury activity to the Audit Committee who provide scrutiny of treasury policy, strategy and activity on behalf of the Council.

2. RECOMMENDATIONS:

2.1. That Members note the results of treasury management activities and the performance achieved in 2018/19 as part of their delegated responsibility to provide scrutiny of treasury policy, strategy and activity on behalf of the Council.

3. SUMMARY OF ISSUES:

3.1. Sections 4 to 11 are based on a template provided by Arlingclose, the Authority's Treasury Management advisors with figures and other details specific to Monmouthshire provided by the Authority's treasury management team.

3.2. 2018/19 has been another year of economic uncertainty for the UK, Europe and worldwide due to the extension of the Brexit deadline, signs of a European economic slowdown and the US following protectionist trade policies for example, all creating volatility and uncertainty for current and forecast interest rates & other investment returns (see section 5).

3.3. Achieving a balanced budget for Monmouthshire and most other Authorities, continues to be a significant challenge with little evidence of a change on the horizon so this service area like all others needs to ensure it is keeping costs down and evaluating all income options.

3.4. The Cipfa Code, which the Authority follows continues to require us to have regard to Security & Liquidity of its investments before seeking additional returns (see 8.3).

3.5. The Treasury Management Code which was revised in 2017/18 now covers non-treasury investments as well as treasury investments requiring Authorities to show how they provide due diligence on these investments in the same way as it does for Treasury investments (see 8.12 to 8.15).

3.6. The Prudential Code which was revised in 2017/18 requires the Authority to have a Capital Strategy aimed at laying out how to best meet the wide range of objectives the Authority has with limited capital resources. This is in the process of being submitted for approval (see 4.4).

3.7. At the 31st March 2019 the Authority had a borrowing CFR (Capital Financing Requirement) of £183.9m and gross external borrowing of 178.3m. Borrowing had increased in year by £49.3m (see section 6). £34m of this related to Commercial Investments and City Deal (see section 7.4 & 7.5), £6m relating to other borrowing funded capital expenditure, £3m to an increase in total investments & the balance being a movement in working capital (see 6.1). It should be noted that the total required debt level going forward indicated by the red dotted line on the graph at 7.3, will increase as further debt is committed to, for example for 21st Century schools band B. The balance of the £50m of approved Commercial investments not yet taken out is already included in this projection.

3.8. In year, the Authority's total treasury investments increased by £3.3m to £20.4m. The Authority continues to hold a minimum of £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive - see 8.5). £2m of this was invested in pooled funds to increase investment returns whilst keeping risks low by using the expertise of the pooled fund manager and the diversification achieved within the fund (see 8.4).

3.9. As shown in section 8.15 the Authority achieved a saving of £103,000 in the areas of interest payable and interest receivable against a total net budget of £3.4m.

3.10. As reported in Sections 9 to 11, the Authority complied with the Cipfa code of practice on treasury management and the 2018/19 Treasury management strategy, during the year.

4. INTRODUCTION

4.1. The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

4.2. The Authority's treasury management strategy for 2018/19 was approved by Council on 6th March 2018. The Authority has borrowed and invested 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 remains central to the Authority's treasury management strategy.

4.3. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

4.4. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. A Capital Strategy Assessment was presented to Cabinet on the 19th December 2018 to ensure that Officers and Members together evaluate the principals, governance, planning and priority setting underpinning budget setting for 2019/20. Since that time the Authority's Capital Strategy has been drafted and a new Capital and Asset working group set up to ensure it is finalised, presented for approval and implemented. Full Council is required to give ultimate approval to the Authority's Capital Strategy as well as its Prudential Indicators and annual budgets, following where it is delegated, scrutiny by Audit Committee. The Capital Strategy is anticipated to be discussed by full Council at their September 2019 meeting.

5. EXTERNAL CONTEXT

5.1. **Economic background:** After spiking at over $85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over $50 in late December before steadily climbing toward $70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

5.2. After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

5.3. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

5.4. With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including voting against Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

5.5. While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by 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 engines of its economy, Germany and France, both suffering misfires 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.

5.6. **Financial markets:** December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. 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.

5.7. 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%. 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.

5.8. Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (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 collapsed at the end of 2018 falling by 1.8% year-on-year. 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.

5.9. **Credit background:** Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

5.10. 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.

5.11. 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.

5.12. 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.

6. LOCAL CONTEXT

6.1. On 31st March 2019, the Authority had net borrowing of £158.0m arising from its revenue and capital income and expenditure. 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	**Movement £m**	**31.3.19 Actual £m**
General Fund CFR	146.1	40.2	186.3
Less: *Other debt liabilities	(1.9)	(0.5)	(2.4)
Borrowing CFR	144.2	**39.7**	**183.9**
External borrowing	(129.0)	(49.3)	(178.3)
Internal borrowing	15.2	(9.6)	5.6

Less: Usable reserves	(18.2)	0.1	(18.1)
Less: Working capital	(14.1)	6.2	(7.9)
(Net Investments) at 31st March 2019	(17.1)	**(3.3)**	**(20.4)**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

6.2. The Authority kept borrowing below its underlying level (CFR), sometimes known as internal borrowing, in order to reduce risk and keep interest costs low, although due to the requirement to keep investments above £10m the majority of the time to satisfy the Mifid II requirements, this is less apparent than in previous years.

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

Table 2: Treasury Management Summary

	31.3.18 Balance £m	**Movement £m**	**31.3.19 Balance £m**	**31.3.19 Rate %**
Long-term borrowing	76.4	30.2	106.6	3.4
Short-term borrowing	52.6	19.1	71.7	0.9
Total borrowing	**129.0**	**49.3**	**178.3**	**2.4**
Long-term investments	0.0	0.0	0.0	N/A
Pooled Funds	0.0	2.0	2.0	6.6
Short-term investments	10.1	(1.1)	9.0	0.6
Cash and cash equivalents	7.0	2.3	9.3	Incl above
Total investments	**17.1**	**3.2**	**20.3**	**1.0**
Net borrowing	**111.9**	**46.1**	**158.0**	

6.4. The increase in long term borrowing relates to the purchases of Commercial Property at Castlegate Business Park and Newport Leisure Park which were borrowing funded. The increase in short term borrowing includes a switch from budgeted long term borrowing to short term borrowing achieving the saving included in the 2018/19 Revenue budget.

7. BORROWING STRATEGY

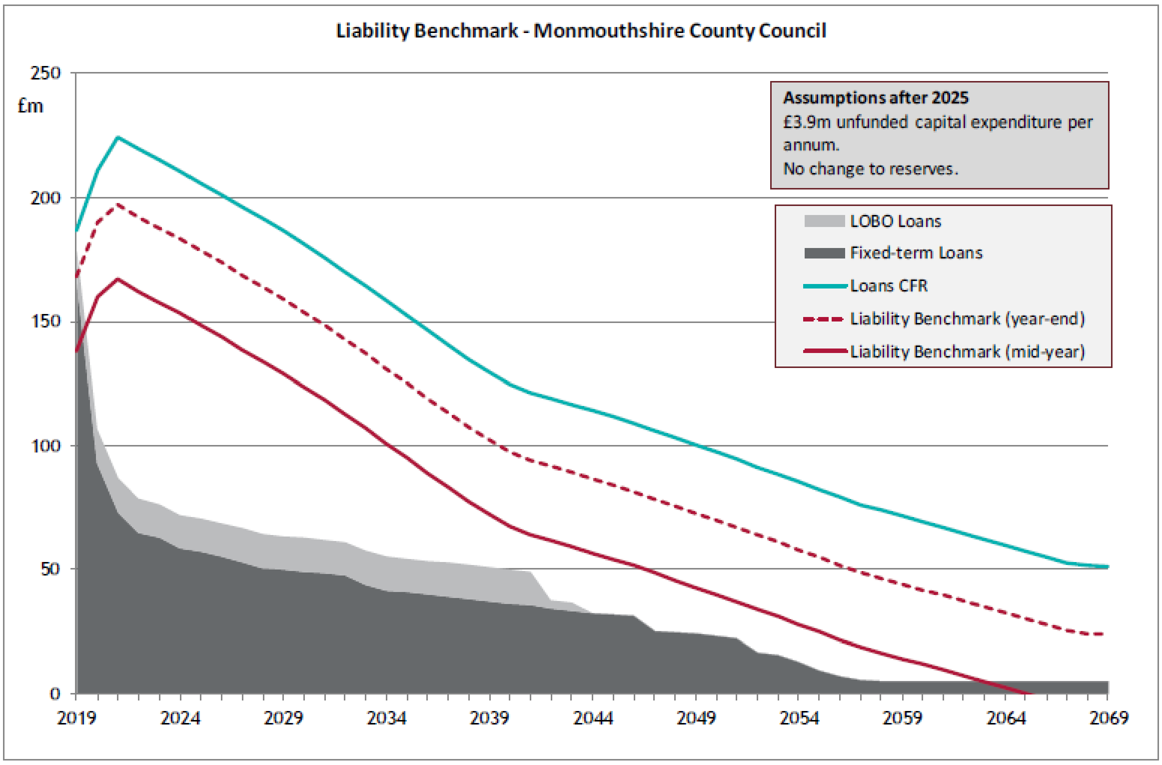
7.1. At 31st March 2019 the Authority held £178m of loans, an increase of £49m since 31st March 2018, as part of its strategy for funding the 2018/19 capital programme. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.18 Balance £m	Net Movement £m	31.3.19 Balance £m	31.3.19 Weighted Average Rate %	31.3.19 Maturity Years
Public Works Loan Board	51.7	34.0	85.7	3.4	15 Avg
WG Int free loans	5.2	(0.5)	4.7	0.0	5-10
Banks (LOBO)	13.6	0.0	13.6	4.8	23 Avg
Local authorities (short-term)	52.6	15.9	68.5	0.9	<1 year
Local authorities (long-term)	5.9	0.0	5.9	Incl above	2 Avg
Total borrowing	**129.0**	**49.4**	**178.3**	**2.4**	

7.2. When borrowing, the Authority has aimed to strike a balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

7.3. The forecast CFR (Capital financing requirement) for the Authority is increasing through 19/20 & 20/21 then falling as MRP (minimum financing requirement) is budgeted to be paid. This is as a result of the profile of capital expenditure funded by borrowing in the capital programme. The estimated borrowing requirement as determined by the Liability Benchmark (year-end) is shown in graphical form below. This does not include any 21st Century Band B school expenditure.



7.4. The loans taken out to fund the Commercial Property Investments have been secured over the forecast period of returns from those investments in order to minimise interest rate risk associated with those particular investments. The remaining new borrowing deals taken out in the year have been short term to minimise cost. With the short term rates not expected to rise in the medium term above current long term rates, this is seen as a reasonably low risk course of action. The Authority has more than 50% of its borrowing at long term fixed rates, thereby limiting the exposure to interest rate risk.

7.5. The new and replacement loans with a maturity of over one year, taken out by the Authority during the year are shown below. These loans are all PWLB Fixed rate loans and provide some longer-term certainty and stability to the debt portfolio.

Long-dated Loans borrowed	Amount £m	Rate %	Period (yrs)
City Deal			
PWLB Maturity Loan	3.0	2.34	14
Sub total	**3.0**		
Castlegate Business Park			
PWLB Maturity Loan	0.4	1.89	8
PWLB Maturity Loan	2.5	2.55	25
PWLB Annuity Loan	0.4	1.86	8
PWLB Annuity Loan	5.1	2.53	25
Sub total	**8.4**		
Newport Leisure Park			
PWLB Annuity Loan	5.0	1.71	10
PWLB Maturity Loans	17.6	2.52 (Avg)	10.5 to 38.0 (in 0.5 steps)
Sub total	**22.6**		
Total borrowing	**34.0**		

7.6. **LOBO loans:** The Authority continues to hold £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year.

Other Debt Activity

7.7. Although not classed as borrowing, the Authority held £2.4m of other debt at the 31st March 2019 which enabled assets to be acquired in previous years. This is made up of:

Debt type	Amount £m	Period (yrs)	Funding need
PFI	0.7	17	Monnow Vale hospital
Net Agency creditors	1.3	N/A	WG funded loan schemes
Property Bonds	0.4	N/A	Various
Total Other Debt	**2.4**		

8. TREASURY INVESTMENT ACTIVITY

8.1. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £8 and £43 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.18 Balance £m	Net Movement £m	31.3.19 Balance £m	31.3.19 Income Return %	31.3.19 Weighted Average Maturity days
Banks & building societies (unsecured)	0.0	4.0	4.0		
Government (incl. local authorities	16.1	(3.2)	12.9	Average 0.6%	£9m overnight; Rest up to 180 days
Money Market Funds	1.0	0.5	1.5		
Multi asset income, Pooled funds	0.0	2.0	2.0	6.6%	N/A
Total investments	**17.1**	**3.3**	**20.4**		

8.2. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £8 and £43 million due to timing differences between income and expenditure. The investment position is shown in table 4.

8.3. Both the CIPFA Code and government guidance require the Authority 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 Authority'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.

8.4. An assessment was done during 2018/19 to look at the risks and rewards of diversifying into pooled funds to improve investment returns. Whilst this is a treasury investment so that no MRP is incurred, the income returns looked steady and attractive over a 3-5 year investment cycle and the risk of incurring a significant long term capital loss looked acceptably small. £2m was invested in 2018/19 in 2 multi asset pooled funds and income returns above 5% were achieved.

8.5. The Authority continues to opt to be treated as a professional client under the Mifid II regulations and continues to hold a minimum of £10m of investments at any time. In order to take advantage of this constant holding of cash, £6m of the Authority's investments at 31st March 2019, excluding the pooled funds, had been taken out for 360 days or over at an average rate of 0.9% boosting average returns. On departure from the European Union, it is expected that legislation will remove this £10m minimum level.

8.6. Due to the Authority's relatively low level of investments and practice of using highly rates banks and money market funds, the Authority is satisfied that its current level of diversification achieves a sufficiently low level of credit risk.

8.7. The average income return was 0.6% (excluding multi asset pooled funds) as compared with 0.24% in 2017-18. This increase was due to the increasing investment balance due to Mifid II and also due to a change in the Bank of England base rate.

8.8. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

Including money market funds, excluding pooled funds

	Credit Score	Credit Rating (higher numbers lower rating)	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2018	AA	3.10	6%	5	0.69%
31.03.2019	AA-	3.84	35%	36	0.26%
Similar LAs	**AA-**	**4.16**	**38%**	**125**	**0.77%**
All LAs	**AA-**	**4.2**	**55%**	**29**	**0.85%**

8.9. £2m of the Authority's investments are held in externally managed strategic pooled multi-asset funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a £21,000 / 6.6% income return, in less than three months, which is used to support services in year. They also achieved an unrealised £46,000 /1.9% of capital growth which was taken to the Financial Instruments Revaluation Reserve, a new reserve set up for this purpose.

8.10. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. The intention is to increase the level of investment in pooled funds to £3m after year end.

8.11. The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

Non-Treasury Investments

8.12. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return.

8.13. The Authority held £34m of such non-financial asset investments at the 31st March 2019:

- Oak Grove Solar Farm £5.3m NBV

- Castlegate Business Park & service loan £7.7m NBV
- Newport Leisure Park & service loan £21.0m NBV

8.14. The rest of the Authority's Investment Properties have been held for over a decade and are retained purely for income or capital gain

- Agricultural Properties £26.4m NBV
- Industrial Properties and Retail Units £2.7m NBV

8.15. These investments generated approximately £1m of investment income for the Authority after taking account of direct costs. In comparison to the total expenditure budget for the Authority for 2019/20 of £161m, this net income is important but not highly significant. £50m of new investments in Commercial Property was approved by council for 2018/19-2020/21. So far £31m of this budget has been spent.

Treasury Performance

8.16. The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown in table 6 below.

Table 6: Performance

Interest Payable	**Actual £'000**	**Budget £'000**	**Over/ under**	**Explanation**
PWLB	2,350	2,315	35	New loan for Newport Leisure park not budgeted in 1819 as only taken out 7th March
Market loans	652	653	(1)	On target
Short term loans	529	480	49	Mainly due to increases in short term interest rates & early redemption of a loan to Police reducing income
Total Interest payable on borrowing	**3,531**	**3448**	**83**	

Interest Receivable	Actual £'000	Budget £'000	Over/ under	Explanation
Invested cash short term	(122)	(43)	(79)	Increase in rates following increase in Bank of England base rate plus higher levels of cash investments held
Pooled Funds	(21)	0	(21)	Newly acquired funds – not budgeted
Increase in fair value of funds in SRS Public	(20)	0	(20)	Fair value adjustment due to IFRS9 being introduced not budgeted
Lease income from disposal of land to Morrison's Abergavenny	(66)	0	(66)	Interest element of lease payments not budgeted
Total income from Investments	**(229)**	**(43)**	**(186)**	
Net Over/(Under)spend	**3,302**	**3,405**	**(103)**	

9. COMPLIANCE

9.1. The Assistant Head of Finance (Deputy S151 Officer) reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Debt Limits

	2018/19 Maximum during year £m	31.3.19 Actual £m	2018/19 Operational Boundary £m	2018/19 Authorised Limit £m	Complied? Yes/No
Borrowing	178.3	178.3	161.3	191.5	Yes
PFI, Finance Leases & Other LT liabs	2.4	2.4	1.3	2.8	Yes
Total debt	**180.7**	**180.7**	**162.6**	**194.3**	**Yes**

9.2. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached and this is not counted as a compliance failure. Total debt rose above the operational boundary on the 7th March 2019 when a PWLB loan was taken out to pay for the purchase of Newport Leisure Park which had not been allowed for in the operational boundary included in the 2018/19 treasury strategy.

Table 8: Investment Limits

9.3. Limits were set in the 2018/19 treasury strategy for the maximum amount to be placed with each counterparty, instrument and country and also limits for duration. In addition to this, the Authority committed to following any investment limits set by our treasury advisors which change from time to time, mostly relating to duration. The table below summarises compliance. Instrument types not listed were not utilised.

Investment type	**2018/19 Maximum**	**2018/19 Limit**	**Complied?** Yes/No
Local Authorities per counterparty	£2m	£2m or 10%	Yes
Banks per counterparty, rating A- or above	£2m	£2m	Yes
Any group of pooled funds under the same management	£1m	£2m	Yes
Limit per non-UK country	£2m	£4m	Yes
Money Market Funds	£2m	10% and £2m	Yes
Investments over 1 year	nil	£6m	Yes

10. TREASURY MANAGEMENT INDICATORS

10.1. The Authority measures and manages its exposures to treasury management risks using the following indicators.

10.2. Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating /credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.19 Actual	**2018/19 Target**	**Complied?**
Portfolio average credit rating / score	AA-	A-/ 5.0	Yes

10.3. **Interest Rate Exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on net fixed and net variable rate interest rate exposures, expressed as the amount of net principal borrowed was:

	31.3.19 Actual	**2018/19 Limit**	**Complied?**
Upper limit on fixed interest rate exposure	£96m	£110m	Yes
Upper limit on net variable interest rate exposure	£62m	£78m	Yes

10.4. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

10.5. **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing (excluding variable rate and short term borrowing) were:

	31.3.19 Actual	**Lower Limit**	**Upper Limit £m**	**Complied ?**
Under 12 months – LOBO's	£13.6m / 14%	0	50	Yes
Under 12 months - other	£0.0m / 0%	0		
12 months and within 24 months	£2.6m / 3%	0	25	Yes
24 months and within 5 years	£16.6m / 17%	0	45	Yes
5 years and within 10 years	£11.4m / 12%	0	30	Yes
10 years and above	£52.1m / 54%	0	100	Yes

10.6. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment so that LOBO loans are treated as short term.

10.7. **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sums invested for more than 365 days over each year end were:

	2018/19	**2019/20**	**2019/21**
Actual principal invested for 365 days & beyond year end	£0	£0	£0
Limit on principal invested for more than 365 days	£6m	£6m	£6m
Complied?	Yes	Yes	Yes

11. PRUDENTIAL INDICATORS

11.1. The forecasts quoted in the 2018/19 Treasury Strategy along with the actuals at outturn for these prudential indicators are:

	31.3.19 Actual	**2018/19 Estimate or Limit**	**Complied with Limit?**
Capital expenditure	£70.3m	£28.8m	Note 1

Ratio of financing costs to net revenue stream	5.25%	5.18%	
Net external borrowing	£158.0m	£135.1m	
Gross external borrowing	£178.3m	£140.3m	
Authorised limit for external borrowing	£178.3m	£191.5m	Yes
Operational boundary for external borrowing	£178.3m	£161.3m	
Incremental impact of new capital investment decisions on a Band D Council tax payer	£74.7	£15.27	Note 2

11.2. Note 1 – The actual capital expenditure for the year was £41.5m above the estimate in the treasury strategy due to additional budget being approved by Council during 2018/19, the largest of these being a borrowing funded budget of £50m to invest in Commercial Property.

11.3. Note 2 – The increase in impact on the Council tax payer of the borrowing costs relating to borrowing funded capital schemes has increased due to the increase in debt funded capital expenditure, mainly on Commercial Property in year. The additional borrowing costs relating to the Commercial Property investments is more than offset by additional income which is not reflected in these figures. As this Prudential Indicator is not required for 2019/20 by the revised Prudential code we have used the same method of calculation for this indicator as used previously.

11.4. CIPFA's Prudential Code for Capital Finance in Local Authorities 2011 included a key indicator of prudence where Gross External Borrowing should not, except in the short term exceed the Capital Financing Requirement. At the time of preparing the treasury strategy for 2018/19, the projected capital financing requirement, £155.5m did not include budgets approved by council during 2018/19. At the 31st March 2019 the CFR had increased to £183.9m, so the Gross borrowing at 31st March 2019 of £178.3m did not exceed the CFR at that time.

12. <u>REASONS:</u>

12.1. The Authority's Treasury Management Strategy for 2018/19 was underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011.

12.2. The code requires the Authority to set a treasury strategy each financial year for financing and investment activities.

12.3. The Code also recommended that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

13. RESOURCE IMPLICATIONS:

The outturn position is explained in the report, there are no other resource implications arising directly from this report.

14. EQUALITY AND SUSTAINABLE DEVELOPMENT IMPLICATIONS:

None

15. CONSULTEES:

Mark Howcroft – Assistant Head of Finance;
Arlingclose – Treasury Management Advisors to Monmouthshire CC.

16. BACKGROUND PAPERS:

None

17. AUTHOR:

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