Blaenau Gwent County Borough Council

APPENDIX 1

TREASURY MANAGEMENT ANNUAL REVIEW REPORT 2018/2019

1. INTRODUCTION AND BACKGROUND

The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2009 was adopted by this Council in February 2010 and this Council fully complies with its requirements. The Code was revised in 2011 and further revised in 2017.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a mid year review and an annual review report of the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions, which in this Council is the Chief Officer Resources.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specified named body which in this Council is the Corporate Overview Scrutiny Committee.

Treasury management in this context is defined as:

"The management of the local authority'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. "

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of treasury management activities, for the financial year 2018/19.

2. THIS TREASURY MANAGEMENT ANNUAL REVIEW REPORT COVERS

- Economic Background during the period
- the Council's treasury position as at 31st March 2019;
- borrowing and investment rates for 2018/19;
- annual review of the borrowing strategy 2018/19;
- borrowing outturn for 2018/19;
- debt rescheduling for 2018/19;
- compliance with treasury limits and Prudential Indicators for 2018/19;
- annual review of the investment strategy for 2018/19;
- investment outturn for 2018/19;

Blaenau Gwent
County Borough Council

APPENDIX 1

TREASURY MANAGEMENT ANNUAL REVIEW REPORT 2018/2019

3. ECONOMIC BACKGROUND DURING PERIOD

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. But 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.

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.

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.

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.

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.

4. TREASURY POSITION AS AT 31st MARCH 2019

The Council’s debt and investment position at the beginning of the year and the end of the year was as follows:

Blaenau Gwent County Borough Council

APPENDIX 1

TREASURY MANAGEMENT ANNUAL REVIEW REPORT 2018/2019

This illustrates that the total debt outstanding as at 31st March 2019 was £157.349 million, comprising of long term debt of £95.700 million and short term debt of £61.649 million.

	31March 2018 Principal	Average Rate/ Return	31 March 2019 Principal	Average Rate/ Return	Increase/ (Decrease) in Borrowing
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	71,942	4.57%	72,700	4.64%	758
- Market Loans	21,500	1.55%	19,000	2.05%	(2,500)
Variable Rate Funding:					
- Market (LOBO *)	4,000	4.5%	4,000	4.5%	0
Total Long Term Debt	***97,442***	***3.76%***	***95,700***	***4.19%***	***(1,742)***
Short Term Loans(<365 days)	51,249	0.47%	61,649	0.90%	10,400
Total Debt	**148,691**	**2.88%**	**157,349**	**2.85%**	**8,658**
Investments:					
- Short Term	2,000		6,000		4,000
Total Investments	***2,000***		***6,000***		***4000***

** LOBO – Lenders Option Borrowers Option. This loan has a fixed rate for the first two years of 3.85%. The remaining period of the loan (which we are now in) has a rate of 4.5%, but the lender can increase this rate at six month intervals.*

5. BORROWING AND INVESTMENT RATES IN 2018/19

The following table displays a selection of interest rates prevailing as at 1st April 2018 and 31st March 2019.

	1/4/2018	31/3/2019
Bank Base Rate	0.5%	0.75%
7 day LIBID	0.36%	0.57%
PWLB 10 year Maturity	2.43%	2.05%
PWLB 15 year maturity	2.66%	2.37%

PWLB 25 year maturity	2.77%	2.60%

6. ANNUAL REVIEW OF THE BORROWING STRATEGY FOR 2018/19

The Treasury Management Strategy Statement for 2018/19 was approved by Council in March 2018. The Borrowing Strategy adopted as part of this was as follows:

To utilise the Authority's overdraft facility:
to fund unexpected daily cash deficits;
to fund temporary cash shortfalls where there are no other sources of funding available within the marketplace.

To borrow over the short term:
to fund temporary cash shortfalls;
to maintain a suitably balanced maturity profile;
to make short term savings required in order to meet budgetary constraints;
in anticipation of securing longer term loans at more attractive rates.

To borrow over the long term:
to reduce the Authority's average cost of borrowing;
to maintain a stable, longer term portfolio;
to maximise the potential for future debt rescheduling.

If appropriate to avoid all new external borrowing:
to maximise savings in the short term;
to run down temporary investment levels;
to minimise exposure to interest rate and credit risk.

Borrowings undertaken during the period (see section 7 below) have been done so in accordance with this strategy and has focused on short term borrowings in order to minimise borrowing costs. Current short term borrowing rates are very low and are forecast to stay at these levels for the indeterminable future The Authority is therefore taking advantage of such rates and is predominantly borrowing short term to fund the remainder of its capital expenditure and maturing debt until such time the market indicates that long term rates are more advantageous. Towards the end of the financial year, long term rates started to fall and the Council converted £3m of short term debt into long term debt, with a view to make further conversions in 2019/2020.

In the current economic climate it is considered that the approved strategy is still fit for purpose and therefore no revisions are proposed.

7. BORROWING OUTTURN FOR 2018/19

Long Term Borrowing
Definition

APPENDIX 1

TREASURY MANAGEMENT ANNUAL REVIEW REPORT 2018/2019

Long term borrowing relates to debt taken out for a period of greater than one year. It is taken out for periods of 1 year up to 50 years. This borrowing is required to finance capital expenditure undertaken in the year that is funded through:

- Borrowing approvals from Welsh Government, known as un-hypothecated supported borrowing (USB), for which revenue support for the borrowing costs is provided through the revenue support grant;
- Prudential borrowing, for which borrowing costs are funded through revenue savings.

Total outstanding as at 31st March 2019

The total long term debt outstanding as at 31st March 2019 was £95,700 million. This is made up of debt taken from the Public Works Loan Board (PWLB), from other local authorities (through the market place), and from the market (LOBO). This debt is due to be repaid within the following years:

Maturing Within	£000s
1YR	11,270
1-2YRS	8,666
2-3YRS	2,697
3-4YRS	7,920
4-5YRS	2,764
5-6YRS	4,051
6-10YRS	17,723
10-15YRS	13,555
15+ YRS	27,054
Total	**95,700**

New borrowings for 2018/19

During 2018/19, the Authority did take y long term debt from the PWLB towards the end of the financial year to replace maturing loans and finance capital expenditure.

Short Term Borrowing

Definition

Short term borrowing relates to debt taken out for a period of less than one year i.e. it will all be fully repaid within a year. These short term loans are taken out to manage the Authority's short term cash flow i.e. to fund deficits in cash flow on a daily basis pending receipt of income from grants or other sources, or pending the taking out of longer term debt to fund capital expenditure whilst we wait for advantageous longer term borrowing opportunities. Current short term borrowing rates are very low and are forecast to stay at these levels for the indeterminable future. The Authority is therefore taking advantage of such rates and is borrowing short term to fund the remainder of its capital expenditure and maturing debt until such time the market indicates that long term rates are more advantageous.

Total outstanding as at 31st March 2019

APPENDIX 1

TREASURY MANAGEMENT ANNUAL REVIEW REPORT 2018/2019

The total short term debt outstanding as at 31st March 2019 was £61,649 million. This is made up of debt taken from other local authorities through the market place.

New borrowings for 2018/19
Appendix A lists the short term loan activity during the year and shows that over the period a total of £51,249 million loans were brought forward from the previous year and £129,500 million of new short term loans were raised. A total of £119,100 million of these new loans were repaid during the year (including the brought forward loans) leaving a balance outstanding as at 31st March 2019 of £61,649 million.

The following table gives a summary which shows that the average rate of interest paid was well within the benchmark.

	Total Value of Loans during the period	**Average Loan**	**Interest paid during the period**	**Average Interest Rate**	**Benchmark Interest Rate ***
Short Term borrowing	£129,500M	£2.26M	£412k	0.90%	1.00%

** Benchmark = budgeted interest rate for new borrowings 1.00%*

7.DEBT RESCHEDULING

No debt rescheduling was undertaken during the period.

8. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Treasury Strategy Statement 2018/19, approved by Council in March 2018.

Operational Boundary for external debt
The Council resolved that this limit be set at £152 million for 2018/19 .The average level of borrowings to the 31st March was £146 million so within the limit set.

The operational boundary can be exceeded on an occasional basis, and this is to be expected due to cash flow fluctuations. Sustained breaches however, would indicate that either the limit has been set too low, or that the Authority is breaching its prudential boundaries and that corrective action needs to be taken.

Monitoring of the operational boundary is undertaken on a daily basis and any such continual breaches would be investigated and a recommended course of action reported to Council.

APPENDIX 1

TREASURY MANAGEMENT ANNUAL REVIEW REPORT 2018/2019

Authorised Limit for external Debt
The Council resolved that this limit be set at £168 million for 2018/19. The Authorised Limit is set having regard to the operational boundary above.

The average level of borrowings for the year to the 31st March was £146 million, so well within the limit set.

The Authorised Limit must not be breached.

Maturity Structure of Fixed Rate Borrowing

The Council resolved the following limits for the maturity structure of fixed rate borrowings for 2018/2019:

	Upper Limit	Lower Limit	Actual as at 31/3/2019
under 12 months	20%	0%	11.78%
12 months and within 24 months	20%	0%	9.06%
24 months and within 5 years	50%	0%	13.98%
5 years and within 10 years	75%	0%	22.75%
10 years and above	95%	5%	42.43%

The actual debt maturity profile at 31st March 2019 is well within the limits set.

Upper Limit on Variable Interest Exposure

Council resolved the upper limit on variable rate exposures for 2018/19 should be set at 30% of outstanding long term debt. This strategy limits the proportion of interest which is subject to variable rate terms and hence protects the Council against increased costs in times of rising interest rates.
The actual level of variable borrowings is £4 million (LOBO) which equates to 4.1% of the outstanding long term debt as at 31st March 2019, so is well within the limit set.

9. ANNUAL REVIEW OF INVESTMENT STRATEGY FOR 2018/19

The Annual Investment Strategy for 2018/19 adopted by Council in March 2018–), was to maintain only temporary, short term investments and to make those investments in accordance with anticipated cash flow requirements (including the investing of sums borrowed at prevailing low interest rates in anticipation of capital spending). The Council's investment priorities are:

a. the security of capital;
b. the liquidity of its investments.

The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

In order to ensure that the Authority's investments are secure and that risk is minimised an investment matrix is used to determine investment counterparties, which factors in Fitch and Moody's credit ratings, credit default swap (CDS) spread data, and credit rating agency comments.

This strategy has been adhered to in determining the investments for 2018/19 outlined in section 10 below.

10. INVESTMENT OUTTURN FOR 2018/19

Appendix B gives details of the investments made during the first half of the year, and the following table gives a summary, which shows the Authority's average rate of return was above the benchmark. This is despite the fact that the Authority's approved investment counterparties being restricted to the Authority's bank, the Debt Management Account Deposit Facility of the Debt Management Office and local authorities where interest rates are low. This is in line with the Authority's risk averse policy whereby the security of the capital sum is the number one priority at the expense of competitive investment returns.

	Total Value of Investments	Average Investment	Investment Returns	Average Rate of Return	Benchmark Return *
Internally Managed	£223M	£2.5	£43k	0.62%	0.51%

** Benchmark = 7 day LIBID 0.51%*

No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.