Agenda item 9

Cabinet – 17 July 2019

Treasury Management Annual Report 2018/19

Portfolio: Councillor Bird, Leader of the Council

Related portfolios: N/A

Service: Finance

Wards: All

Key decision: No

Forward plan: Yes

1. Aim

1.1 The council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and prudential and treasury indicator performance. The Treasury Management annual report at Appendix A provides Cabinet with these details, and 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).

2. Summary

2.1. This report sets out the council's 2018/19 year end position for treasury management activities (Appendix A) and a summary of performance against set targets.

2.2. Despite difficult market conditions with low interest rates investment income overachieved against budget by £1.173m, and the council saw in year savings of £247k with ongoing savings of £273k until 2065 as a result of early repayment of debt, which contributed to savings targets for 2018/19 and future years.

3. Recommendations

3.1 To note and forward to council, for consideration and noting (in line with the requirements of the Treasury Management Code of Practice (2017)), the annual report for treasury management activities 2018/19 including prudential and local indicators (Appendix A).

4. Report detail - know

Context

4.1 The following key points of interest have been extracted from the report at Appendix A:

- The annual report meets the requirement of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

- Capital expenditure was £57.073m of which £19.340m will be funded from approved borrowing (Table 2, Appendix A).

- The council repaid £7m of long term debt which resulted in a £247k saving in interest costs in 2018/19, plus ongoing annual savings of £273k until 2065, which contributed to savings targets for 2018/19 and future years.

- The banking environment has continued to be one of low interest returns with some improved confidence in counter party risk. An expected increase in interest rates materialised in August 2018, when the base rate increased from 0.50% to 0.75%.

- Despite this situation the authority has continued to identify appropriate new areas of investment opportunity that has led to a significant impact on average investment performance which increased from 1.32% in 2017/18 to 1.37% in 2018/19. An overachievement of investment income was delivered of £1.173m as a result of the average rate achieved across all investments being higher than budgeted for in the 2018/19 budget setting exercise. This has taken considerable effort and negotiation from the treasury team to secure favourable rates when considering investment options, and through the review and identification of new opportunities for investment.

Council Corporate Plan priorities

4.2 Sound financial management of the council's cash balances supports the delivery of council priorities within council's available resources.

Risk management

4.3 Treasury management activity takes place within a robust risk management environment, which enables the council to effectively maximise investment income and minimise interest payments without undue or inappropriate exposure to financial risk. It is recognised that the management of risk is as important as maximisation of performance and it is essential that the council has the right balance of risk and reward when making investment decisions. This is supported by treasury management policies which seek to manage the risk of adverse fluctuations in interest rates and safeguard the financial interests of the council.

4.4 Brexit continues to provide uncertainty for interest rates and within the financial markets and is expected to continue until at least the 31/10/19 deadline.

Financial implications

4.5 Treasury management activity forms part of the council's financial framework and supports delivery of the medium term financial strategy. The review of treasury management performance and activity is reviewed through both the treasury management annual report and the mid-year performance review report.

Legal implications

4.6 The council is required to have regard to the Prudential Code under the duties outlined by the Local Government Act 2003. One requirement of the Prudential Code is that the council should comply with the CIPFA Code of Practice for Treasury Management. The council adopted the original treasury management code in 1992 and further revisions to the Code in 2002, 2010 and 2017.

Procurement Implications/Social Value

4.7 None directly relating to this report.

Property implications

4.8 None directly relating to this report.

Health and wellbeing implications

4.9 None directly relating to this report.

Staffing implications

4.10 None directly relating to this report.

Reducing Inequalities

4.11 None directly relating to this report.

Consultation

4.12 The report has been approved by the finance treasury management panel, an internal governance arrangement comprising the S151 Officer, Head of Finance (Deputy S151 Officer) and Corporate Finance Manager.

5. Decide

5.1 In line with the Treasury Management Code of Practice (2017) there are a number of reports that are required to be produced and reported publicly each year. The Treasury Management Annual Report forms one of these requirements and as such is being reported to Cabinet for noting and forwarding onto Council for consideration.

6. Respond

6.1 This report is not seeking approval of a decision, in line with the Treasury Management Code of Practice (2017) it is required to be reported for noting and forwarding to Council for consideration.

7. Review

7.1 In line with Treasury Management Code of Practice (2017) this is a backward looking document looking at performance over the previous year and a further report on performance will be provided each year in line with the requirements of the Code.

Background papers

Various financial working papers

Mid-Year review of treasury management policy statement 2018/19 – Cabinet 12/12/18

Corporate budget plan and treasury management and investment strategy 2018/19 – Council 28/02/18

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19 June 2019

Councillor M Bird
Leader of the Council

9 July 2019

Appendix A

Annual Treasury Management Report 2018/19

Walsall Council
June 2019

Annual Treasury Management Report 2018/19

Purpose

This council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and prudential and treasury indicator performance. This document reports this position for the 2018/19 financial year. The 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).

During 2018/19 the following reports were produced:

- an annual treasury strategy in advance of the year (Council 28/02/2018)
- a mid-year (minimum) treasury update report (Cabinet 12/12/2018)
- an annual review of treasury management policies (Council 28/02/2019)
- an annual report following the year describing the activity compared to the strategy (Council 16/07/2018)

In addition, this council's treasury management panel has received regular treasury management update reports during the year.

The regulatory environment places an onus on members for the review and scrutiny of treasury management policy and activities. This report is 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.

This council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports before they were reported to the full Council. In order to support members' scrutiny role member training on treasury management issues has been available to all members via the e-Learning platform throughout 2018/19.

1. Introduction and background

To set the context of the treasury management environment it is first necessary to provide a review of the economy and interest rates.

In 2018/19 the challenging investment environment of previous years' continued, namely low investment returns, although levels of counterparty risk has continued to subside. The interest rate forecast at the start of the year was that the low interest rate environment would continue throughout 2018/19. An economic summary is given at the beginning of the borrowing and investment sections.

2. The Council's Capital Expenditure and Financing 2018/19

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.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed. The amount to be funded from borrowing for 2018/19 is £19.340m. It shows a reduction in capital expenditure funded from grants mainly due to Growth Fund Projects, for which Walsall is the accountable body for all the Black Country Districts.

Table 1	2017/18 Actual £m	2018/19 Original £m	2018/19 Actual £m
Total capital expenditure	**75.498**	**98.630**	**57.073**
Resourced by:			
• Capital receipts	2.226	1.500	1.977
• Capital grants	52.034	68.060	33.507
• Capital Reserves and Revenue	2.934	2.098	2.249
• Borrowing	18.304	26.972	19.340
	75.498	**98.630**	**57.073**

3. The Council's Overall Borrowing Need

The council's underlying need to borrow for capital expenditure is termed the capital financing requirement (CFR). This figure is a gauge of the council's debt position. The CFR results from the capital activity of the council and which resources have been used to pay for the capital spend. It represents the 2018/19 capital expenditure funded by borrowing (see table 1), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the council.

Reducing the CFR – the council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The council is required to make an annual revenue charge, called the minimum revenue provision (MRP) to reduce the CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a voluntary revenue provision (VRP).

In 2014/15 the MRP policy was reviewed, updated and approved by Council. Following a further review in 2015/16 Council on 26th February 2016 amended the implementation date of these changes from 1st April 2014 to 1st April 2008. The effect of this was a smoothing of the MRP charge. Rather than having a high MRP charge in initial years that reduces over time, the council will now pay a charge that is more consistent throughout a shorter time period. This will result in a lower MRP charge up to 2035/36 and then a higher MRP charge from 2036/37 to 2064/65. Overall the initial lower MRP charge is offset by the later higher MRP charge, although this increase will be lower in real terms because money loses value over time. The policy change supported the strategy of maintaining the level of current capital financing costs as a proportion of council tax revenue. A further outcome of the review of the MRP policy was a restatement of the Capital Financing Requirement (CFR) as at 31st March 2015. This was due to the review also highlighting the opportunity to apply consistently accounting practices from 2008 to 2015.

The council's CFR for the year 2018/19 is shown in Table 2, and represents a key prudential indicator (PrI4). It includes Private Finance Initiative (PFI) and leasing schemes from the balance sheet which increase the council's borrowing need – although no borrowing is normally required against these schemes as a borrowing facility is included in the contract (if applicable). It shows that in 2018/19 the council's CFR has increased by £6.079m from £351.593m to £357.672m.

Table 2 CFR (£m)	31 March 2018 Actual £m	31 March 2019 Actual £m
Opening balance	**335.150**	**351.593**
Add capital expenditure funded from approved borrowing (as above)	18.304	19.340
Add adjustment to CFR	0.148	(2.000)
Less MRP	(2.009)	(11.261)
Closing balance	**351.593**	**357.672**

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term the council's external borrowing, net of investments, must only be for a capital purpose, or to fund expected in year cash-flow requirements. This essentially means that the council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR. Table 3 below highlights the council's net borrowing position (£140.893m) against the CFR excluding PFIs and Finance leases (£347.724m) because the debt liability for these are not in the net borrowing position of the council. The council has complied with this prudential indicator.

Table 3	31 March 2018 Actual £m	31 March 2019 Actual £m
Gross Borrowing	**325.112**	**308.034**
Net borrowing position	**170.424**	**140.893**
CFR – excluding PFIs and Finance Leases	**343.537**	**347.724**
Long term Assets	**599.491**	**600.646**
Net Borrowing % of Long term Assets	**28%**	**24%**

Another measure of prudency is the proportion of net to fixed assets. Table 3 shows that the net borrowing position of the council as at 31/03/2019 is £140.893m which represents 24% of the value of the council's long term assets which are valued on the council's balance sheet at that date (by comparison, the average position for our statistical neighbours was 26% at 31/03/2018 – this data is not currently available for 31/03/2019).

Other key Prudential Indicators are shown in Table 4 below:

Table 4 Prudential and Borrowing Limits	2017/18 £m	2018/19 £m
1. Authorised limit	**362.390**	**442.096**
2. Maximum gross borrowing in year	**329.211**	**349.318**
3. Operational boundary	**329.445**	**401.905**
4. Average gross borrowing	**293.104**	**316.573**
5. Financing costs as proportion of net revenue stream	**8.75%**	**4.46%**

1. **The authorised limit** - the authorised limit is the "affordable borrowing limit" set by the council as required by section 3 of the Local Government Act 2003. The council does not have the power to borrow above this level without the prior approval of full Council. Table 4 demonstrates that during 2018/19 the council's maximum gross borrowing was within its authorised limit.

2. **Maximum Gross borrowing** – is the peak level of borrowing in year.

3. **The operational boundary** – the operational boundary is the expected borrowing position of the council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. In 2018/19 the council's average borrowing position was less than the operational boundary.

4. **Average Gross Borrowing** – is an estimate of the borrowing level in the year, see Table 6 for analysis of Borrowing.

5. **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. Net revenue stream is defined as Net Council Tax Requirement + Standard Spending Assessment (previously Formula Grant).

4. Prudential Indicators

The following tables show performance against statutorily required prudential and local indicators.

Table 5 – Prudential Indicators		Actual 2017-18	Target 2018-19	Position 31-Mar-19	Variance to target	
		£m	£m	£m	£m	%
PrI 1	Capital Expenditure	75.49	98.63	57.07	(41.56)	(42%)
PrI 2	Ratio of financing costs to net revenue stream	8.75%	4.50%	4.46%	0.00	(1%)
PrI 3	Estimates of the incremental impact of new capital investment decisions on Council Tax	£12.90	£24.14	£24.14	0.00	0%
PrI 4	Capital Financing Requirement	351.59	367.66	357.66	(10.00)	(3%)
PrI 5	Authorised Limit for external debt	362.39	442.09	442.09	0.00	0%
PrI 6	Operational Limit for external debt	329.24	401.90	401.90	0.00	0%

Ref	Prudential Indicator	Actual 2017/18	Target 2018-19	Position 31-Mar-19
		£m	£m	£m
PrI 7	Gross Borrowing exceeds capital financing requirement	No	No	No
PrI 8	Authority has adopted CIPFA Code of Practice for Treasury Management	Yes	Yes	Yes
PrI 9	Total principle sums invested for longer than 365 days must not exceed	14.0	25.0	15.0

Ref	Prudential Indicator	Upper Limit	Lower Limit	Actual 2017/18	Position 31-Mar-19
PrI 10	Fixed Interest Rate Exposure	95%	40%	**94%**	**94%**
PrI 11	Variable Interest Rate Exposure	45%	0%	**6%**	**6%**
PrI 12	***Maturity Structure of Borrowing:***				
	Under 12 months	25%	0%	**26%**	**13%**
	12 months and within 24 months	25%	0%	**12%**	**5%**
	24 months and within 5 years	40%	0%	**21%**	**26%**
	5 years and within 10 years	50%	5%	**11%**	**8%**
	10 years and above	85%	30%	**29%**	**48%**

PRL 5 (authorised limit for external debt) and PRL 6 (operational limit for external debt) were approved by Council on the 28/02/2018 and the CIPFA Code of Practice only allows these limits to be changed by Council and therefore the actual limit and the target remain the same. The actual debt position for the Council as at 31/03/2019 is £302.753m.

Key variances are because of the following reasons:-

<u>Prl 1 Total capital expenditure - variation of £57.1m</u>
The £98.630m target for 2018/19 is based on the figure for the 2018/19 capital programme reported in the budget report presented to full Council on the 28th February 2018. The actual spend for 2018/19 is lower than the target due to amendments to the original capital programme agreed during the year, mainly in relation to the Growth Deal and Basic Need projects, of which spend will now be incurred in 2019/20.

<u>Prl 2 Estimates of the ratio of financing costs to the net revenue stream variation of -1%</u>
Walsall's ratio of capital financing to total revenue costs is low, which demonstrated good performance. This is favourable against target due to savings made on interest costs in the year.

<u>Prl 12 Maturity Structure of Borrowing</u>
For the purpose of the maturity profile indicator the next call date on a LOBO loan is assumed; as it is the right of the lender to require repayment. However due to the low interest rate environment it is unlikely that in the medium term that any of the LOBO's will be called.

5. Treasury Position at 31st March 2019

The council's debt and investment position is organised by the treasury management team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the council's treasury management practices. At the beginning and the end of 2018/19 the council's treasury position was as shown below in Table 6:

Table 6 Loans and Investments	Opening Balance £m	Average Rate At 31/03/18 %	Movement in Year £m	Closing Balance £m	Average Rate At 31/03/19 %
PWLB loans	113.492	4.06%	62.038	175.530	3.48%
Market Loans	102.000	4.64%	(7.000)	95.000	4.38%
Bonds	0.033	1.97%	(0.031)	0.002	1.97%
Total Borrowing over 12 months excluding WMCC debt	**215.525**	**4.33%**	**55.007**	**270.532**	**3.80%**
Temporary Loans	91.461	0.66%	(70.500)	20.961	0.87%
Total borrowing excluding WMCC debt	**306.986**	**3.24%**	**(15.493)**	**291.493**	**3.58%**
WMCC Debt	18.126	6.24%	(1.585)	16.541	5.62%
Gross Borrowing	**325.112**	**3.42%**	**(17.078)**	**308.034**	**3.69%**
Waste Disposal & Cannock Chase Debtor	(5.794)	6.24%	0.513	(5.281)	5.62%
Borrowing	**319.318**	**3.36%**	**(16.565)**	**302.753**	**3.66%**
CFR less PFI finance & leases	343.537		4.187	347.724	
Under Borrowing	24.219		(12.378)	44.971	
Debt as % of CFR	**93%**			**87%**	
Call Accounts	15.394	0.19%	8.966	24.360	0.55%
Short Term Investments	99.500	1.13%	3.000	102.500	1.09%
Long Term Investments	34.000	2.40%	1.000	35.000	1.37%
Total Investments	**148.894**	**1.32%**	12.966	**161.860**	**1.37%**
Net Borrowing Position	**170.424**		(29.531)	**140.893**	

The under borrowing position the council has represents additional external borrowing the council could choose to take if required, however this has currently been financed by internal borrowing – utilising the council's accumulated cash reserves rather than taking out new external borrowing. This position will continue to be monitored and additional external borrowing may be undertaken if required for cash flow purposes.

6. The Borrowing Strategy for 2018/19 and Economic Context

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. As investment returns were low the cost to the council by funding capital expenditure using cash balances contributed to lowering interest payable.

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.

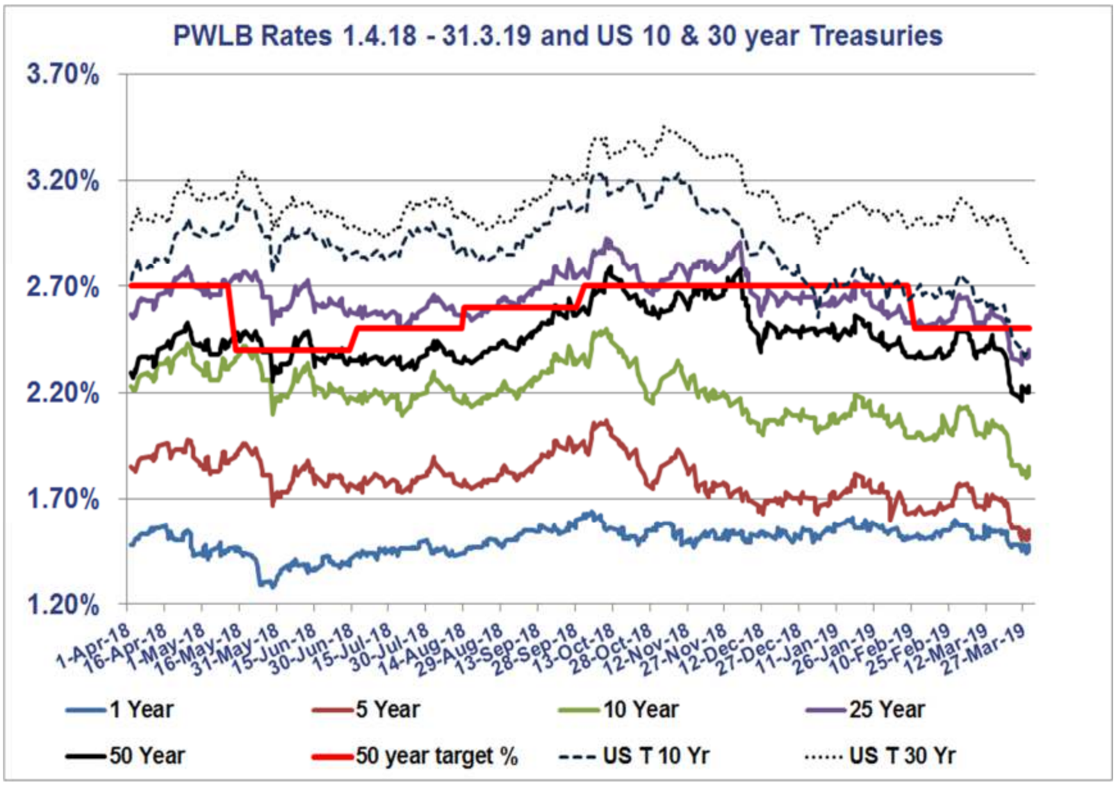
7. Borrowing Outturn for 2018/19

PWLB certainty maturity borrowing rates
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.

During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarter 1, 2.8% in quarter 2, 2.7% in quarter 3, and 2.50% in quarter 4.

The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



The council's long term borrowing (over 12 months in length) has increased in the year from £216m to £271m, to support the capital programme and unwind some of the authorities under borrowed position.

8. Investments in 2018/19 and Economic Context

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 02/08/18. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

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 02/08/2018 where cash balances were sufficient to allow this.

Investment rates were little changed during August to October but rose sharply after the MPC meeting of 01/11/2018 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.

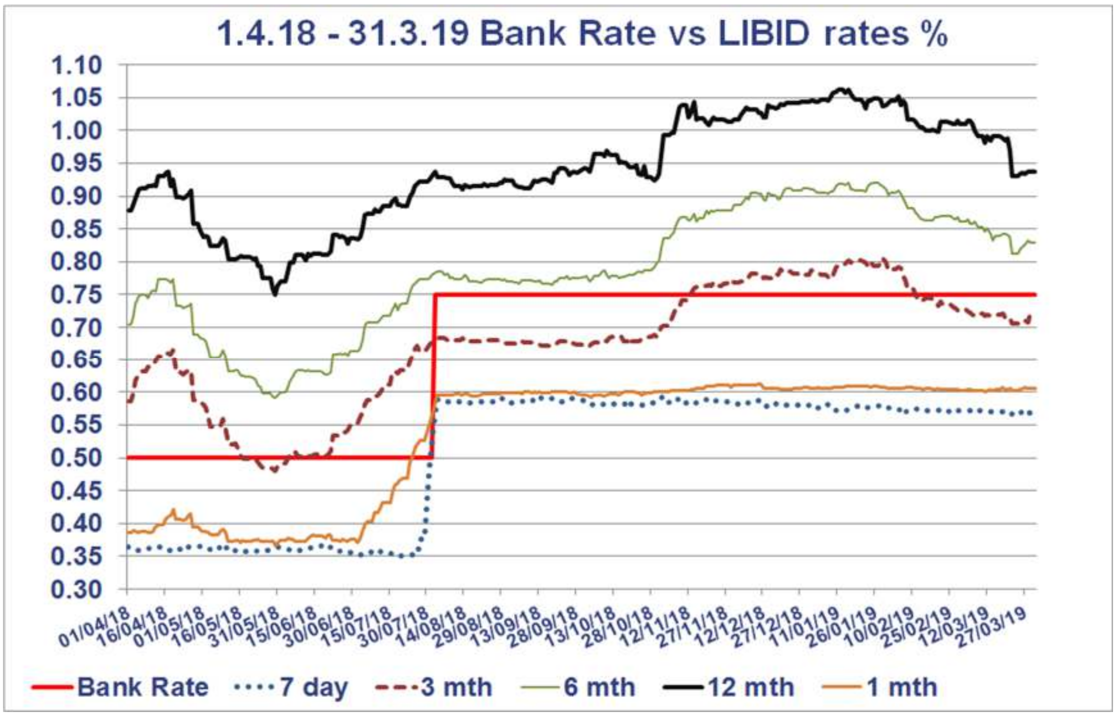


Table 8 details the authority's investments by call, short and long term. The 7 day rate above (average of 0.50% across the year) is a fair comparator for at-call and the 12 month LIBID (average of 0.94% across the year) for short term investments.

Resources – the council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations.

Investment Policy – the council's investment policy is governed by central Government guidance, which was implemented in the Annual Investment Strategy approved by Council on 28/02/2018. This policy set out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by KPMG survey of Building Societies and an analysis of Common Equity Tier (CET1) levels. The investment activity during the year conformed to the approved Strategy, and the council had no liquidity difficulties.

At the end of 2018/19 Walsall's investment balance was £12.966m higher than that at the start of the year. Table 7 below shows an age profile of the investments.

Table 7: Changes in Investments during 2018/19	Opening Balance £m	Closing Balance £m	Movement in Year £m
At Call accounts	15.394	24.360	8.966
Between 31 days and 365 days	99.500	102.500	3.000
Over 365 days	34.000	35.000	1.000
Total	**148.894**	**161.860**	**12.966**

Investments held by the council - the council maintained an average balance of £135m of internally managed funds. The internally managed funds earned an average rate of return of 1.37%. A comparable performance indicator is the average 12-month LIBID rate (which was 0.94%).

Recognising the continuation of the stresses on the world banking system, enhanced priority has continued to be given to security and liquidity. To reduce counterparty risk to the maximum possible extent the investment portfolio was spread across a range of appropriately credit rated / analysed institutions. Table 8 shows the outturn on investment income in 2018/19.

Table 8 Investments Interest – Gross Income	2018/19 Approved Cash Limit £m	Outturn at 31 March 2019 £m	Over /(under) achieved cash limit £m	% Target Rate	% Average Rate achieved
Call Account investments	0.030	0.162	0.132	0.20%	0.55%
Short Term Investments	0.483	1.269	0.786	0.70%	1.09%
Long Term Investments	1.011	1.266	0.255	1.05%	1.37%
Total	**1.524**	**2.697**	**1.173**	**0.75%**	**1.37%**

9. Performance Measurement

One of the key requirements in the CIPFA Code of Practice on Treasury Management is the formal introduction of performance measurements relating to investments, debt and capital financing activities. Table 9 below shows that Walsall has consistently achieved a higher average return on it's investments and has reduced it's average rate it pays for its borrowing. The figures for 2011/12 to 2014/15 are derived from the the CIPFA treasury management benchmarking club. For 2015/16 onwards, as a number of authorities no longer participate in this benchmarking exercise, the figures set out are based on a review of reports issued by the authorities statistical neighbours. Comparative figures for 2018/19 are not yet available.

Table 9 Comparison of Walsall with other councils Average Interest Rates	Walsall Rate Received %	Average Rate Received %	Walsall Rate Paid %	Average Rate Paid %
2011/12	1.80	1.20	4.53	4.53
2012/13	2.14	1.11	4.47	4.52
2013/14	1.29	0.85	4.51	4.26
2014/15	1.09	0.77	4.61	4.14
2015/16	1.08	0.76	4.54	4.18
2016/17	0.86	0.76	3.99	4.34
2017/18	1.32	0.73	3.42	4.06
2018/19	1.37		3.83	

Council approved the following local performance indicators, the majority of which were complied with during the year. Table 10 provides the indicators for March 2019.

Table 10 - Local Indicators		Actual 2017/18	Target 2018/19	Position 31-Mar-19	Variance to target	
		£m	£m	£m	value	%
L1	Full compliance with Prudential Code.	YES	YES	YES	N/A	N/A
L2	Average length of debt. (Years)	13.14	Lower Limit 15 Years, Upper Limit 25 Years	18.37	N/A	N/A
L3a	Net borrowing costs as % of net council tax requirement.	17.61%	7.67%	6.54%	(1.13%)	(14.73%)
3b	Net borrowing costs as % of Tax Revenue.	4.57%	4.76%	4.06%	(0.70%)	(14.71%)
L4	Net actual debt vs. operational debt.	99.66%	85.00%	75.20%	(9.80%)	(11.53%)
L5	Average interest rate of external debt outstanding excluding OLA.	3.26%	3.76%	3.69%	(0.07%)	(1.86%)
L6	Average interest rate of external debt outstanding including OLA.	3.42%	3.91%	3.83%	(0.08%)	(2.05%)
L7	Gearing effect of 1% increase in interest rate.	3.47%	5.00%	3.89%	(1.11%)	(22.20%)
L8	Average interest rate received on STI vs. 7 day LIBID rate.	0.76%	0.50%	0.77%	0.27%	54.00%
L9	Average interest rate received:					
L9a	At Call investments.	0.23%	0.20%	0.55%	0.35%	175.00%
L9b	Short Term Investments.	1.06%	0.70%	1.09%	0.39%	55.71%
L9c	Long Term Investments.	1.85%	1.05%	1.37%	0.32%	30.48%
L10	Average interest rate on all ST investments (ST and At Call).	0.65%	0.65%	0.98%	0.33%	50.76%
L11	Average rate on all investments.	1.32%	1.00%	1.37%	0.37%	37.00%
L12	% daily bank balances within target range.	100%	99%	100%	1.00%	1.01%

Key variances are because of the following reasons:-

L3b - Net borrowing costs as % of Tax Revenue (variance of -14.71%). The target figure of 4.76% represents an upper limit of affordable net borrowing costs as a percentage of tax revenues for the authority. The actual level of net borrowing costs is currently less than the upper limit, which in the main is linked to the work undertaken by the service to seek to secure favourable rates on investments and reduced costs on borrowing, thus reducing the overall bet borrowing costs.

L8, L9, L10 & L11 – Interest Rates received – all 7 of the indicators within L8, L9, L10 and L11 are currently being exceeded. This is in the main due to the ongoing negotiations being undertaken by the service to secure favourable rates when considering investment options, and through the review and identification of new and appropriate opportunities for investment.

10. The Economy and Interest Rates During 2018/19

UK. After weak **economic growth** of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4.

After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in **wage inflation** which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for **CPI inflation** itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in **household spending power** is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit. The Conservative minority government was unable to muster a majority in the Commons over its Brexit deal. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were to happen, then it increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

EUROZONE. The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the EZ and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4; it is likely to be only 0.1 - 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The ECB completely ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019", but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of targeted longer-term refinancing operations (TLTROs); this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.
JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overdone.