

Treasury Management Performance 2017/18

Cabinet

Date: 13th June 2018

Author: Cabinet Member for Finance
Corporate Director, Resources and Growth

Wards: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 This report sets out the Treasury Management performance for 2017/18.
- 1.2 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

2. Recommendations

Cabinet is recommended to:

- 2.1 Note the 2017/18 Treasury Management performance as detailed at paragraphs 3.1 to 3.17 and Prudential Indicators shown at Appendix 1.

3. Detail

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- 3.1 The Council is involved in two types of treasury activity:
 - 3.1.1 Borrowing, both long term (for more than 1 year) for capital expenditure purposes and borrowing (for less than 1 year) for temporary cash flow purposes and
 - 3.1.2 Lending, for investment of surplus cash relating to reserves and for cash flow purposes.
- 3.2 The activity and performance in respect of each of these two activities is summarised in the sections below.
 - Borrowing
- 3.3 In 2017/18, three new long-term loans (greater than one year) were taken out, each loan was for £10m, (interest rates are shown in brackets) and mature in July 2026 (1.89%), August 2067 (2.31%) and September 2064 (2.3%).
- 3.4 A number of long-term loans totalling £1.501m matured during the year. These were running at an average rate of 3.77%. Total long-term debt has therefore increased from £279.3m to 307.8 over the year. The average maturity period on all existing long-term debt is 18.5 years and the average rate on all long-term debt over the year was 3.48%

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- 3.5 Short-term borrowing as at 31st March 2018 was £8.0m. This figure fluctuates daily and reflects the Council's daily cash flow requirements which are dependent on the timings of receipts and payments.
- 3.6 The average rate the Council paid on all external debt (both long term and short term) over the whole of 2017/18 was 3.41%. This is an increase of 0.06% on the average for the previous financial year.

Investments

- 3.7 During 2017/18 there was an *average* daily investment balance of £56 million which was a mixture of internally managed cash investments and an externally managed property fund (Local Authority Property Fund or "LAPF"). The balance at 31st March 2018 of £48m was an increase from £44m at the same date of the previous year. This balance is comprised of working capital (where we hold cash temporarily as a result of timing differences between receipts and payments) as well as general reserve balances which are more stable.
- 3.8 In total, interest of £0.971m was earned in 2017/18 on all investments (cash and LAPF) at an average rate of 1.67%. The average investment rate achieved in 2016/17 was 1.53%.
- 3.9 The average balance in the property fund during 2017/18 was £15m with an average return of 4.53%. The other investments had an average balance of £41m returning an average rate of 0.63%. This rate exceeded the 3-month LIBOR (London Interbank Offer Rate) rate of 0.41% which is our benchmark rate.
- 3.10 Swindon is part of a bench marking group where performance is compared between 22 English Unitary Authorities. The report for the month of March 2018 showed that Swindon's average rate of return was 0.68% compared with the benchmarking group average of 0.65%.
- 3.11 The Council's debt and investment position as at 31 March 2018 is summarised in the table below:

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Analysis of Debt and Investments

Debt & Investments	31/03/2017		31/03/2018	
	£'000	Av. Rate (%)	£'000	Av. Rate (%)
Long Term Debt PWLB	239,256	3.54%	267,755	3.39%
Long Term Debt Market	40,000	3.59%	40,000	3.59%
Total Long Term Debt	279,256	3.55%	307,755	3.42%
<i>Of which HRA</i>	<i>125,532</i>		<i>114,015</i>	
<i>Of which GF</i>	<i>153,724</i>		<i>193,740</i>	
Short-term Borrowing	19,000	0.38%	8,000	0.48%
Total Debt	298,256	3.35%	315,755	3.34%
Investments	(44,000)	1.53%	(48,000)	1.67%
Net Borrowing Position	254,256		267,755	

Capital Financing Requirement

- 3.12 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- 3.12.1 Financed immediately through the use of capital or revenue resources (such as capital receipts, capital grants or revenue contributions), which has no resultant impact on the Council's borrowing need, or
 - 3.12.2 If insufficient funding is available, or a decision is taken not to apply other funding, the capital expenditure will give rise to a **borrowing requirement** to ultimately fund the expenditure.
- 3.13 The Council's underlying borrowing requirement is measured through the **Capital Financing Requirement** ("CFR") and is simply the total ultimate borrowing requirement, regardless of whether that borrowing has actually taken place or not
- 3.14 Part of the Council's treasury activities is to address the funding requirements for this borrowing need and the treasury management team 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

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bodies (such as the Government, through the PWLB or the money markets), or utilising temporary cash resources within the Council.

- 3.15 The CFR (the ultimate borrowing requirement) is always higher than the actual level of borrowing, the difference being termed “internal borrowing” which represents the temporary funding of capital spend from cash balances and working capital as a short-term measure.
- 3.16 The CFR has increased from £458.3m to £462.2m over the year. This is a net increase of £3.9m. The general fund capital expenditure of £38.8m, was funded from S106 (£3.2m), CIL receipts (£1.1m), grant (£20.8m) and capital receipts (£3.4m) and £10.3m of notional borrowing. The £10.3m was further reduced by £1.4m of MRP contributions and £5m of HRA long term loan repayment leaving a net increase in borrowing of £3.9m
- 3.17 The table below compares the CFR with the long-term debt position (split between the General fund and the Housing Revenue Account). This **excludes** Public Finance Initiative (PFI) liabilities of £51.28m, which are, technically, part of the CFR calculation.

Capital Financing Requirement “CFR”

	General Fund £'000	Housing Revenue Account £'000	Total £'000
Actual Long Term Debt	193,740	114,015	307,755
CFR (Total borrowing requirement)	322,256	114,015	436,271
Further borrowing requirement	128,516	-	128,516

Prudential Indicators (PIs)

- 3.18 In order to demonstrate that local authorities have fulfilled the objectives of the Prudential Code, the code sets out a basket of indicators that must be prepared and used. It should be noted that the prudential indicators are not for comparison between authorities, but are a means to support and record local decision-making. The PIs do not in themselves indicate either a good or bad financial position, they are merely a statement of fact. Further detail is provided underneath each of the PIs on the appendix itself at Appendix 1.

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Compliance with Treasury Limits

- 3.19 During the 2017/18 Financial Year all Treasury activity was carried out within the Council's Treasury limits and Prudential Indicators as set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement.

4. Alternative Options

- 4.1 Any alternative options for specific areas are set out within the report.

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 The 2017/18 budget anticipated borrowing of £313m would be required in 2017/18. This compares with an actual year end borrowing position of £316m (inclusive of £8m of short term borrowing). The 2018/19 budget anticipates new borrowing of £16m, which would take total borrowing to £332m, this assumes that the borrowing is taken for the full financial year.
- 5.2 The average investment for the year was £56m this compares with an average of £68m from 2016/17. The 2018/19 budget has assumed that a similar level of interest will be achieved as that in 2017/18.
- 5.3 The Director of Finance (Section 151 officer) has put in place provisions to reduce the dependency on internal borrowing that will take advantage of the historically low long term interest rates, thus protecting the Council from a sudden peak in borrowing costs. This process is in line with the Treasury Management Strategy approved by the Council.

Legal and Human Rights Implications

- 5.4 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.5 There are no such direct implications.

Diversity Impact Assessment (DIA)

- 1.1 A Diversity Impact Assessment (DIA) has not been done as this report does not make any new recommendations that would have a detrimental impact on services.

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Risk Management

5.6 There are no direct risks arising from this report.

6. Consultees

6.1 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

7.1 None

8. Appendices

8.1 Appendix 1 – Prudential Indicators

9. Key Decision/Decision in Cabinet Work Programme

9.1 This is not a Key Decision and is included in the Cabinet Work Programme for June 2018.