

Treasury Management Performance 2018/19

Cabinet

Date: 5th June 2019

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Director of Finance

Wards: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 This report sets out the Treasury Management performance for 2018/19.
- 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 2018/19 Treasury Management performance as detailed at paragraphs 3.1 to 3.21 and the Prudential Indicators shown at Appendix 2.

3. Detail

Treasury Management Performance 2018/19

- 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. Further detail is provided at Appendix 1.
 - Borrowing
- 3.3 The Council's Treasury Management Strategy sets out that the Council's long-term borrowing is currently lower than its underlying need to borrow to finance its capital investment, and that this position will be kept under review. Given the low long-term interest rates available to the Council, particularly in March 2019, a total of £30m of new long-term borrowing was undertaken. These comprise six loans of £5m each with varying maturities between 2028 and 2069 and interest rates ranging from 1.96% to 2.27%.

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- 3.4 A number of long-term loans totalling £11.501m matured during the year. These were running at an average rate of 1.74%. Total long-term debt has therefore increased from £307.8m to £326.3 over the year. The average maturity period on all existing long-term debt, including the new £30m of loans, is 18.1 years and the average rate on all long-term debt over the year was 3.35% (17/18 18.5 years/3.48%)
- 3.5 Short-term borrowing as at 31st March 2019 was £15.0m at an average of 0.90% (17/18 £8.0m/0.48%). The increased short term borrowing rate reflects the increase in bank base rate in August 2018. 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 2018/19 was 3.25%. (2017/18 3.34%)

Investments

- 3.7 During 2018/19 there was an average daily investment balance of £48 million (17/18 £56m) 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 2019 of £45.7m was a decrease from £48.0m at 31st March 2018. 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 £0.887m was earned in 2018/19 on all investments (cash and LAPF) at an average rate of 1.84%. (2017/18 1.67%). The investment benchmark used by the Council (the 3 month London Interbank Offer Rate) was 0.8% for 2018/19.
- 3.9 The LAPF returned 4.24% in 2018/19 and the valuation of the fund increased from £14.97m to £15.2m over the year to March 2019. The other investments had an average balance of £33m returning an average rate of 0.75%.
- 3.10 The Prudential Code also sets out that authorities report their Non Treasury Investments which includes loans, shares and investment property. These are set out in Appendix 1.

Prudential Indicators (PIs)

- 3.11 In order to demonstrate that local authorities have fulfilled the objectives of the Cipfa 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

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financial position, they are merely a statement of fact. Further detail is provided in Appendix 2.

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 yet taken place.
- 3.14 Part of the Council's treasury activity 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 bodies (such as the Government, through the PWLB or the money markets), or utilising temporary cash resources within the Council until that borrowing takes place.
- 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 existing cash balances and working capital as a short-term measure.
- 3.16 The table below shows the CFR and actual borrowing positions for March 2018 and March 2019 plus the original estimate for March 2019 presented as part of the Treasury Strategy to Cabinet last year:

CFR and BORROWING POSITION	31-Mar-18 Actual £m	31-Mar-19 Actual £m	Change £m
CFR General Fund (£m)	£348.23	£368.78	£20.55
CFR HRA (£m)	£114.02	£109.02	(£5.00)
Total CFR incl PFI liabilities	£462.25	£477.80	£15.55
Gross borrowing position	£307.76	£326.25	£18.49
PFI Liability	£51.28	£49.56	(£1.72)
Under / over funding of CFR	£103.21	£101.99	(£1.22)

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial 07769 281641, or Email iburbidge@swindon.gov.uk.

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- 3.17 This table shows an under-borrowed position of £101.99m i.e. there is a requirement for a further £102m of long-term borrowing to finance capital expenditure already incurred. This relates fully to the general fund as the HRA is fully funded.
- 3.18 As set out in the Capital Outturn report elsewhere on this agenda, the Council incurred general fund capital expenditure of £51.7m in 2018/19. This has been funded from S106 (£5.3m), CIL receipts (£1.3m), capital grant (£19.0m) and capital receipts (£2.3m) plus £23.8m of borrowing. The £23.8m was further reduced by £1.5m of MRP (a revenue provision for repayment of debt) and a reduction of £1.7m in the PFI liability leaving an increase in the General Fund CFR of £20.6m as shown in the table above.
- 3.19 The HRA made an MRP repayment of £5m reducing its CFR to £109m.
- 3.20 Appendix 2 contains detailed CFR calculations for both the General Fund and the HRA.

Compliance with Treasury Limits

- 3.21 During the 2018/19 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, as noted in the table below.

TREASURY LIMITS	2018/19 £m
Authorised limit	£495.06
Maximum gross borrowing position during the year incl. PFI	£375.81
Operational boundary	£490.06
Average gross borrowing position	£309.70

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 report contains full details of the treasury activity undertaken during the year.
- 5.2 The 2019/20 budget has assumed a similar level of investment balances and interest will be achieved in 2019/20
- 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

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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.

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 Interim Director of Law (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

- 8.1 Appendix 1 – Treasury Portfolio

- 8.2 Appendix 2 – 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 2019.