

**EXECUTIVE BOARD**  
**DATE: 29<sup>TH</sup> JULY 2019**

# **ANNUAL TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT 2018-19**

## **1. Introduction**

The Treasury Management Policy and Strategy for 2018-19 was approved by Council on 21<sup>st</sup> February 2018. Section B 1.1(2) stated that a year end annual report would be produced.

This 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) and outlines the Treasury Management activities in the 2018-19 financial year.

## **2. Investments**

One of the primary activities of the Treasury Management operation is the investment of surplus cash for which the Authority is responsible. As well as the Authority's own cash the County Council invests School Funds, Trust Funds and other Funds, with any interest derived from these investments being passed over to the relevant Fund.

All surplus money is invested daily with the approved counterparties either via brokers on the Money Markets or direct. The security of the investments is the main priority, appropriate liquidity should be maintained and returns on the investments a final consideration. It continues to be difficult to invest these funds as the market continues to be insecure and as a consequence appropriate counterparties are limited.

For 2018-19 investments to individual counterparties were limited to:

	Maximum to Lend £m
<b>Upper Limit</b> Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term or AA-, Aa3 or AA- long term	10
<b>Middle Limit</b> Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term	7
<b>UK Banks Part Nationalised</b> Included as investment counterparties, as long as they continue to have appropriate UK Government support	7
Any one Local Authority	10
Any one AAA Rated Money Market Fund	5
Debt Management Office	40

The total investments at 1st April 2018 and 31st March 2019 are shown in the following table:

Investments	01.04.18				31.03.19			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks and 100% Wholly Owned Subsidiaries	19.00	0.58	19.58	45	23.00	0.57	23.57	42
Building Societies	0.00	0.00	0.00	0	0.00	0.00	0.00	0
Money Market Funds	10.00	0.00	10.00	23	15.00	0.00	15.00	27
DMADF (DMO)	0.00	0.00	0.00	0	0.00	2.50	2.50	4
Local Authorities	0.00	14.00	14.00	32	0.00	15.00	15.00	27
<b>TOTAL</b>	<b>29.00</b>	<b>14.58</b>	<b>43.58</b>	<b>100</b>	<b>38.00</b>	<b>18.07</b>	<b>56.07</b>	<b>100</b>

An analysis of the daily cash schedules indicates that the minimum balance lent over the twelve month period was £32.57m and the maximum balance lent was £94.48m. The average balance for the year was £62.96m.

The total investments made by the Council and repaid to the Council (the turnover) amounted to £1,196.11m. This averaged approximately £22.94m per week or £3.28m per day. A summary of the turnover is shown below:

	£m
Total Investments 1st April 2018	43.58
Investments made during the year	604.30
Sub Total	647.88
Investments Repaid during the year	(591.81)
<b>Total Investments 31st March 2019</b>	<b>56.07</b>

The main aim of the Treasury Management Strategy is to manage the cash flows of the Council and the risks associated with this activity. Lending on the money market secures an optimum rate of return, allows for diversification of investments and consequently reduction of risk, which is of paramount importance in today's financial markets.

The benchmark return for the money market is the "7 day LIBID rate". For 2018-19 the Council has compared its performance against this "7 day LIBID rate". The average "7 day LIBID rate" was 0.51% whereas the actual rate the Council earned was 0.68%, an out performance of 0.17%.

This outperformance can be quantified as £105k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for 2018-19 amounted to £0.417m, which was more than the estimated figure of £0.300m. The Bank of England Official Rate was raised from 0.5% to 0.75% on 2nd August 2018 which resulted in an increase in investment returns.

The income from investments is used by the Authority to reduce the net overall costs to the Council taxpayer.

### **3. Update on the investments with Kaupthing Singer & Friedlander (KSF)**

The latest position with the Council's investments with KSF was reported in the Treasury Management and Prudential Indicator Reports to Executive Board during the year.

In August 2018 the Council received a seventeenth dividend from the Administrators. This equated to 0.25p in the £ and amounted to £10k principal.

As at 31<sup>st</sup> March 2019 the sum of £3.43m principal and £210k interest had been received from the Administrators, which equates to 85.75% of the claim submitted. Further dividends are expected to be paid in 2019-20 and 2020-21. The Administrators estimate total dividends payable to non-preferential creditors at 86.75%.

#### 4. Security, Liquidity and Yield (SLY)

Within the Treasury Management Strategy Statement for 2018-19, the Council's investment priorities are:

- Security of Capital
- Liquidity and
- Yield

The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is still considered appropriate to keep investments short term to cover cash flow requirements.

Attached at Appendix 1 is a list of the individual investments (excluding the £0.57m in KSF) held as at the 31<sup>st</sup> March 2019 together with their credit ratings, historic risk of default and the risk weighting attached to each investment.

#### 5. Borrowing

As Members are aware the Authority has a substantial capital investment programme. For 2018-19 actual capital expenditure was £66.32m. This was financed from:

	£m
Borrowing	13.92
Grants and Contributions	26.26
Usable Capital Receipts Applied	4.23
Revenue and Reserves	21.91
<b>Total</b>	<b>66.32</b>

Under the Treasury Management Strategy it was resolved:

- To borrow to meet the funding requirements of the Authority, after allowing for capital grants, capital receipts and capital contributions, and to stay within the Prudential Indicators to ensure affordability, prudence and sustainability.
- To borrow when interest rates are at their most advantageous, after considering cash flow requirements.

The following loans were borrowed during 2018-19 to fund the capital programme:

<b>Loan Reference</b>	<b>Amount (£m)</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Period</b>	<b>Maturity Date</b>
507942	2.00	2.59%	25th October 2018	15yrs	28th March 2034
507943	3.00	2.72%	25th October 2018	30yrs	28th March 2049
508360	2.00	2.46%	14th January 2019	49yrs	28th March 2068
508361	5.00	2.46%	14th January 2019	50yrs	28th September 2068
508995	2.00	1.63%	28th March 2019	7yrs	28th March 2026
508996	2.00	2.01%	28th March 2019	13yrs	28th March 2032
508997	2.00	2.27%	28th March 2019	32yrs	28th September 2051
508998	2.00	2.16%	28th March 2019	49yrs	28th September 2068
<b>Total</b>	<b>20.00</b>				

The weighted average interest rate of these new loans was 2.36% which compares favourably with the weighted average rate of the respective loan periods throughout the year.

The total loans outstanding at 1<sup>st</sup> April 2018 and 31<sup>st</sup> March 2019 were:

<b>Loans</b>	<b>Balance at 01.04.18 £m</b>	<b>Balance at 31.03.19 £m</b>	<b>Net Increase/ (Net Decrease) £m</b>
Public Works Loan Board (PWLB)	392.11	405.42	13.31
Market Loan	3.00	3.00	0.00
Salix, Invest-to-Save, HILS & TCL	4.74	4.40	(0.34)
<b>Total</b>	<b>399.85</b>	<b>412.82</b>	<b>12.97</b>

The total external interest paid in 2018-19 amounted to £17.45m, which compares favourably with the budget of £19.39m. The savings have arisen due to under borrowing on the capital programme and borrowing at lower than anticipated interest rates.

## 6. Treasury Management Prudential Indicators

Under the requirements of the Prudential Code of Practice for Capital Finance in Local Authorities, the Council are required to set a number of treasury management prudential indicators for the year 2018-19. The indicators set and the performance against those indicators is shown below:

6.1 The estimated and actual interest exposure limits as at 31<sup>st</sup> March 2019 were:

	Estimate 31.03.19 £m			Actual 31.03.19 £m		
	Fixed Interest Rate	Variable Interest Rate	Total	Fixed Interest Rate	Variable Interest Rate	Total
Borrowed	420.00	3.00	423.00	409.82	3.00	412.82
Invested	(20.00)	(30.00)	(50.00)	(18.07)	(38.00)	(56.07)
<b>Net</b>	<b>400.00</b>	<b>(27.00)</b>	<b>373.00</b>	<b>391.75</b>	<b>(35.00)</b>	<b>356.75</b>
Proportion of Total Net Borrowing	107%	(7%)	100%	110%	(10%)	100%
<b>Limit</b>	<b>125%</b>	<b>5%</b>				

6.2 Maximum principal sums invested > 365 days

	2018-2019 Limit £m	2018-2019 Actual £m
Maximum principal sums invested > 365 days	10	NIL

6.3 Interest rate exposure limits

	2018-2019 Limit £m	2018-2019 Actual £m
Limits on fixed interest rates based on net debt	467.00	391.75
Limits on variable interest rates based on net debt	47.00	(35.00)

6.4 The upper and lower limits set for the maturity structure of borrowing along with the actual maturity structure as at 31<sup>st</sup> March 2019.

	<b>Estimated Upper Limit 2018-2019 %</b>	<b>Estimated Lower Limit 2018-2019 %</b>	<b>Actual 31.03.19 %</b>
Under 12 months	15	0	1.28
12 months to 2 years	25	0	3.10
2 years to 5 years	50	0	6.28
5 years to 10 years	50	0	9.88
10 years to 20 years	50	0	18.66
20 years to 30 years	50	0	19.33
30 years to 40 years	50	0	24.59
40 years and above	50	0	16.88
<b>Total</b>			<b>100.00</b>

Details of the above maturity structure are shown below:

<b>Loan Maturities</b>	<b>PWLB Debt £m</b>	<b>Average Interest Rate %</b>	<b>Market Loans/ Invest to Save/Salix/ HILS/TCL £m</b>	<b>Average Rate %</b>	<b>Total Debt Outstanding £m</b>
Before 1st April 2020	5.00	8.09	0.29	0	5.29
1st April 2020 to 31st March 2021	12.04	6.74	0.75	0	12.79
1st April 2021 to 31st March 2024	25.93	5.50	0.00	0	25.93
1st April 2024 to 31st March 2029	40.79	4.43	0	0	40.79
1st April 2029 to 31st March 2039	73.66	4.36	3.36	0	77.02
1st April 2039 to 31st March 2049	79.80	4.01	0	0	79.80
1st April 2049 to 31st March 2059	98.50	5.19	3.00	4.72	101.50
After March 2059	69.70	2.53	0	0	69.70
<b>Total as at 31.03.19</b>	<b>405.42</b>		<b>7.40</b>		<b>412.82</b>

## **7. Prudential Indicators**

## 7.1 Affordability

### 7.1.1 Actual and estimated ratio of financing costs to net revenue stream.

<b>Ratio of Financing Costs to Revenue Stream</b>		
	<b>2018-2019 Estimate</b>	<b>2018-2019 Actual</b>
	<b>%</b>	<b>%</b>
Non-HRA	5.15	4.80
HRA	34.39	33.20

The indicator shows the proportion of income taken up by capital financing costs.

## 7.2 Prudence

### 7.2.1 The Capital Financing Requirement (CFR).

	<b>31.03.19 Estimate</b>	<b>31.03.19 Actual</b>
	<b>£m</b>	<b>£m</b>
Non-HRA	271	266
HRA	142	144
HRAS	74	74
<b>Total</b>	<b>487</b>	<b>484</b>

The Capital Financing Requirement reflects the underlying need to borrow for capital purposes.

### 7.2.2 Gross Borrowing against the Capital Finance Requirement indicator.

To ensure that borrowing levels are prudent over the medium term the Council's external borrowing must only be for a capital purpose. Gross borrowing must not exceed the CFR for 2018-19 plus the expected changes to the CFR over 2019-20 and 2020-21 but can in the short term due to cash flows. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

£m	2018-2019 Estimate	2018-2019 Actual
Debt at 1 <sup>st</sup> April 2018	413	400
Expected Change in Debt	18	13
<b>Gross debt at 31<sup>st</sup> March 2019</b>	<b>431</b>	<b>413</b>
<b>CFR</b>	<b>487</b>	<b>484</b>
<b>Under / (Over) borrowing</b>	<b>56</b>	<b>71</b>

The Section 151 Officer reports that the authority had no difficulty meeting this requirement in 2018-19.

### 7.2.3 The Authorised Limit and Operational Boundary.

The Authorised Limit is the “Affordable Borrowing Limit” required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2018-19 the Council has maintained gross borrowing within its Authorised Limit.

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.

The actual financing costs as a proportion of net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2018-2019 £m
Authorised Limit	536.00
Gross borrowing	412.82
Operational Boundary	487.00
Average gross borrowing position	398.55
Financing costs as a proportion of net revenue stream	7.82%

## **8. Leasing**

No finance leases were negotiated during the year.

## **9. Rescheduling**

No rescheduling was undertaken during the year.

## **10. Conclusion**

This report demonstrates compliance with the reporting requirements of the CIPFA Treasury Management Code of Practice.

## **11. Recommendations**

It is recommended that this report be received by the Executive Board.