

Meeting: **Audit Committee**

Date: 18th June 2019

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Outturn 2018/19

Is the decision a key decision? No

When does the decision need to be implemented?

Executive Lead Contact Details:

Supporting Officer Contact Details: Pete Truman, Principal Accountant, 01803 207302, pete.truman@torbay.gov.uk

1. Proposal and Introduction

- 1.1 This report informs Members of the performance of the Treasury Management function in supporting the provision of Council services in 2018/19 through management of cash flow, debt and investment operations and the effective control of the associated risks.

- 1.2 The headline points of the report are:
 - New borrowing of £33 million taken to fund the Capital Investment Fund and Capital Plan
 - Capital Financing Requirement fully funded at year end
 - Reduction in the overall average borrowing rate to 3.29%
 - Annual investment rate achieved exceeded the market benchmark

2. Reason for Proposal

- 2.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual outturn report reviewing treasury management activities and the actual prudential and treasury indicators for 2018/19.

- 2.2 This report also meets the requirements of the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

3. Recommendation(s) / Proposed Decision

3.1 That the Treasury Management decisions made during 2018/19, as detailed in the submitted report be noted; and

3.2 That the performance against the approved Prudential and Treasury Indicators as set out in Appendix 1 to this report be noted.

4. Background Information

4.1 Treasury Management is defined by the 2017 Code of Practice as:

“The management of the authority’s borrowing, investments and cash flows, it’s 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”.

4.2 During 2018/19 the minimum reporting requirements were that full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 7th February 2018)
- A mid-year review report (Council 18th October 2018)
- An annual report following the year describing the activity compared to the strategy (this report)

4.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the policies previously approved by Members.

4.4 The Council confirms that it has complied with the requirement under the Code to give prior scrutiny to the above strategy and mid-year treasury management reports by the Audit Committee before they were reported to full Council. Training for the new Members of the Council elected in May 2019 will be scheduled for the summer of 2019.

4.6 Treasury Management strategies were planned and implemented in conjunction with the Council’s appointed advisors, Link Asset Services although the Council officers were the final arbiters of the recommended approach.

4.7 This report covers:

- Treasury Position at year end;
- Borrowing strategy and control of interest rate risk;
- Borrowing Outturn for 2018/19;
- Investment Outturn for 2018/19;
- Revenue Budget Performance;
- Reporting Arrangements and Management Evaluation
- Non-Treasury Management Investments

5. Overall Treasury Position as at 31 March 2019

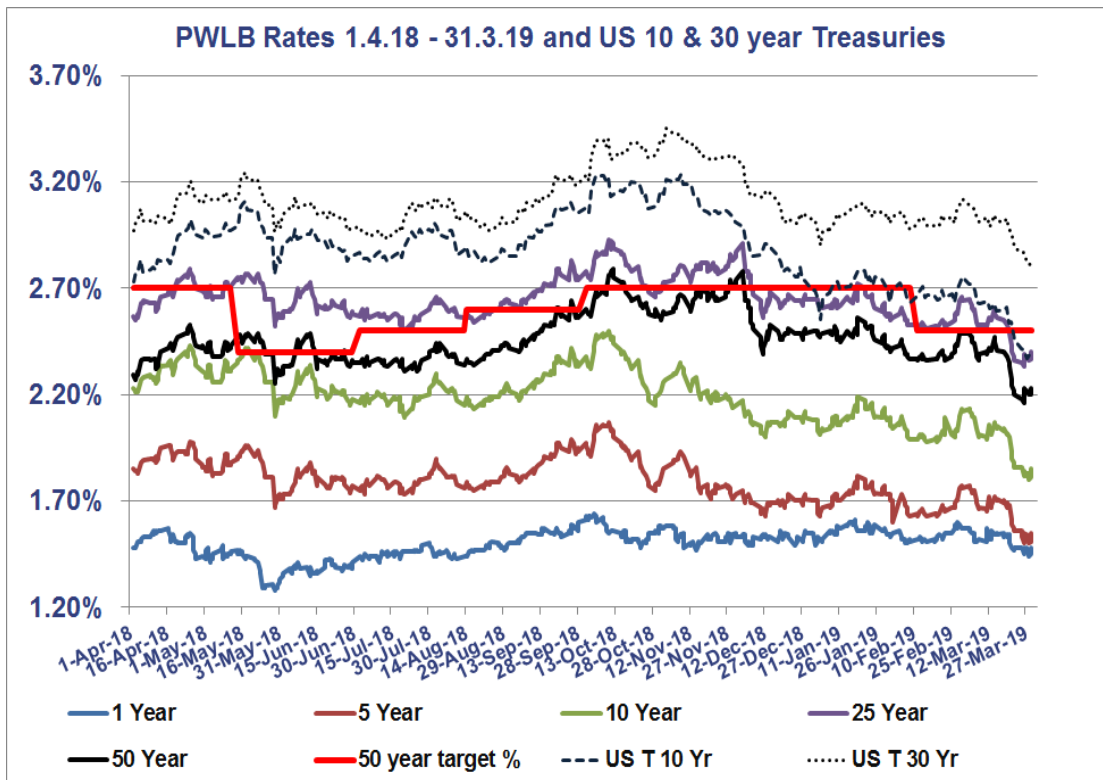
5.1 At the beginning and the end of 2018/19 the Council's treasury position was as follows:

TABLE 1	31 March 2018 Principal	Rate/Return	Average Life yrs	31 March 2019 Principal	Rate/Return	Average Life yrs
Borrowing	£272.4m	3.40%	31.0 years	£302.9m	3.29%	29.5 years
Other long term liabilities	£18.9m	5.14%	17.9 years	£18.2m	5.14%	16.9 years
Total debt	£291.3m	4.04%	30.2 years	£321.1m	3.39%	28.9 years
Capital Financing Requirement	£279.5m			£320.7m		
Over* borrowing	£11.8m			£0.4m		
Total investments	£64.7m	0.83%		£58.1m	1.09%	
Net debt	£226.6m	3.16%		£263.0m	3.05%	

*A purchase from the Investment Fund was completed in April 2018 for £11M.

6 Borrowing strategy and control of interest rate risk

- 6.1 During 2018/19, the Council aimed to achieve 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. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.
- 6.2 However, this strategy had to be kept under review to avoid a situation of the Council incurring higher borrowing costs in the future impacting upon the General Fund and the affordability of approved capital schemes.
- 6.3 The primary strategy in para 6.1 was predicated on Interest rate forecasts expecting only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. The actual path of borrowing rates, during the year is illustrated in the table below



- 6.4 In line with the primary strategy borrowing amounts through the year were limited to cover funding needs after applying available internal cash to capital expenditure. Timing of borrowing was generally delayed until certainty of outlay (i.e. exchange of contracts on Investment Fund acquisitions)
- 6.5 At the end of the year a raft of new loans was taken to take advantage of the sharp fall in rates and fully fund the Capital Financing Requirement at year end, thus protecting the affordability of capital schemes over the longer term.
- 6.6 Length of borrowing was weighted towards 25 years on average, ensuring an even maturity structure to avoid the risks of the Council having to repay a high concentration of loans at one time in the future. There was also some borrowing at both the very short and long ends to take of advantages in the yield curve and provide potential opportunities for debt rescheduling in the future when rate levels eventually rise.

7. Borrowing Outturn 2018/19

- 7.1 Loans were drawn to fund unfinanced capital expenditure and maturing debt worth £2.6million and are summarised below:

Lender	Principal	Type	Average Interest Rate	Average Maturity
PWLB	£33m	Fixed interest rate	2.32%	25 years

- 7.2 As a result of the new loans the borrowing portfolio (excluding other long term liabilities) has increased to £302.9 million and the average rate of interest paid across all loans in 2018/19 was 3.30%. The average rate of the borrowing portfolio at 31st March was 3.29%.
- 7.3 All borrowing was transacted with the Public Works Loan Board (PWLB) as lender of first resort due to attractive rates and ease of accessibility. Officers monitored other forms of borrowing but none provided any advantage over PWLB levels in terms of low rate and ease of transacting.
- 7.4 The Council is eligible for a discounted "Certainty Rate" on the normal PWLB levels by submitting its capital spending plans to central government. Officers also identified the suitability of a potential Harbour related scheme to a bidding process for a further discounted "Infrastructure Rate". A strong application was prepared by the Head of Tor Bay Harbour Authority and submitted by the Head of Finance before the bid deadline at end of March 2019. The result of the bid is expected this month.
- 7.5 No rescheduling of the borrowing portfolio was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8. Investment Outturn 2018/19

- 8.1 The Council's investment policy is governed by MHCLG investment guidance, which was been implemented in the annual investment strategy approved by Council on 7th February 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 additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).
- 8.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. A proportion of long term deals maturing during the year were re-invested for a period of one year to provide some protection to yield levels. Other deposits were limited to a duration of six months and extensive use made of well performing money market funds to ensure availability of cash for capital financing purposes.
- 8.3 **Performance Analysis** - Detailed below is the result of the investments undertaken by in 2018/19. The Council's investment returns remain well in excess of the market benchmark while still maintaining availability of funds for internal borrowing

	Average Investment Principal	Rate of Return for year (gross of fees)	Rate of Return for year (net of fees)	Market Benchmark/ Target Return	Link Benchmarking Club*		
					Torbay	Peer LA	English Unitaries
Internally Managed	£55.3M	0.76%	0.76%	0.51%	0.86%	0.95%	0.94%
CCLA Property Fund	£5.0M	4.78%	4.21%				
Combined	£60.3M	1.09%	1.05%	0.51%			

* Current in-house investments at end of March 2019

- 8.4 No further investment was made in the CCLA Property Fund, despite the high return due to uncertainty of funds in the longer term and changes to accounting treatment in future years.
- 8.5 In interest terms, the treasury strategy and decisions implemented contributed an additional £325,000 (after fees) to the General Fund over and above what would have been attained from the benchmark return.
- 8.6 A list of those institutions with which the in-house team invested funds during the year is provided at Appendix 2. No institutions with which investments were made showed any difficulty in repaying investments and interest in full during the year.

9 Revenue Budget Performance

- 9.1 The effect of the decisions outlined in this report on the approved revenue budget is summarised in the table below.

	Revised Budget 2018/19	Actual 2018/19	Variation
	£M	£M	£M
Investment Income	(0.4)	(0.7)	(0.3)
Interest Paid on Borrowing	9.5	9.4	(0.1)
Net Position (Interest)	9.1	8.7	(0.4)
Minimum Revenue Provision (MRP)	4.5	4.1	(0.4)
MRP re: PFI	0.6	0.6	0
Net Position (Other)	5.1	4.7	(0.4)
Net Position Overall	14.2	13.4	(0.8)

- 9.2 The position was regularly reported to OSB and Council throughout the year as part of the budget monitoring reports to Members

10 Reporting Arrangements and Management Evaluation

10.1 The management and evaluation arrangements identified in the annual strategy and followed for 2018/19 were as follows:

- Monthly monitoring report to the Mayor as Executive Lead for Finance, Chief Finance Officer and Group Leaders
- Regular meeting of the Treasury Manager and Finance Manager to review previous months performance and plan following months activities
- Regular meetings with the Council's treasury advisors
- Membership and participation in Link Asset Services Investment Benchmarking Club

11 Non-Treasury Management Investments

11.1 Appendix 3 sets out the current activities being undertaken by Torbay Council primarily to generate a financial return e.g. Investment Properties. Governance of these activities is incorporated into the CIPFA Code of Practice for Treasury Management.

Appendices

Appendix 1: Prudential and Treasury Indicators 2018/19

Appendix 2: Counterparties with which funds have been deposited in 2018/19

Appendix 3: Non-Treasury Management Investments

Background Documents

[Treasury Management Strategy 2018/19](#)

[Treasury Management Mid-Year Review 2018/19](#)