

**Meeting: Audit Committee  
Council**

**Date: 28 September 2017  
19 October 2017**

**Wards Affected: All Wards in Torbay**

**Report Title: Treasury Management Mid-Year Review 2017/18**

**Is the decision a key decision? No**

**When does the decision need to be implemented? Immediate**

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## **1. Proposal and Introduction**

- 1.1 This report provides Members with a review of Treasury Management activities during the first part of 2017/18. The Treasury function aims to support the provision of all Council services through management of the Council's cash flow and debt & investment operations.
- 1.2 In light of the significant increases in the Capital Plan arising from the Transformation Programme a revised Treasury Management Strategy for 2017/18 is appended to the report for approval by Council.
- 1.3 Due to the significant and material changes in the Council's borrowing requirement from the Council approved schemes and also from the potential changes to both the Prudential Code and the Treasury Management Code of Practice, the Chief Finance Officer will report to Audit Committee and then full Council on the risk and the management of that risk at a future meeting.
- 1.4 The key points in the Treasury Management review are as follows:
  - New borrowing of £39M taken in year to date
  - Substantial growth in the Capital Financing Requirement going forward
  - Use of existing cash resources as internal borrowing to initially fund capital transactions
  - Borrowing now a higher priority than investment returns
  - Council approved in September 2017 increases in both 2017/18 Operational limit and Authorised Limit for borrowing and long term liabilities.

## **2. Reason for Proposal**

- 2.1 The preparation of a mid-year review on the performance of the treasury management function forms part of the minimum formal reporting arrangements required by the CIPFA Code of Practice for Treasury Management.
- 2.2 The significant increase in approved borrowing levels required a reassessment of the Council's approved strategy.

## **3. Recommendation(s) / Proposed Decision**

### **Audit Committee**

- 3.1 **That the Audit Committee provide any comments and/or recommendations on:**
  - **Treasury Management decisions made during the first part of 2017/18;**
  - **the Revised Treasury Management Strategy for 2017/18; and**
  - **the revised Prudential and Treasury Indicators 2017/18.**

### **Council**

- 3.2 **that the Treasury Management decisions made during the first part of 2017/18 as detailed in this report be noted;**
- 3.3 **That the Revised Treasury Management Strategy for 2017/18 (incorporating the Revised Annual Investment Strategy 2017/18) be approved;**
- 3.4 **that the revised Prudential and Treasury Indicators as set out in Appendix 4 of the Revised Treasury Management Strategy 2017/18 be approved.**

## **4. Background Information**

4.1 The original Treasury Management Strategy for 2017/18 was approved by Council on 9<sup>th</sup> February 2017.

4.2 The Council defines its treasury management activities as:

***“The management of the authority’s 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”.***

4.3 The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Council on 25<sup>th</sup> March 2010.

4.4 This mid-year review has been prepared in compliance with the CIPFA Code of Practice and covers the following:

- Economic and Interest Rate update;
- Review of the Council’s Borrowing strategy;
- Review of the Council Investments 2017/18;
- Minimum Revenue Provision Policy Statement 2017/18;

- Revenue Budget Performance
- Compliance with Prudential Limits for 2017/18.

## 5. Economic and Interest Rate Update

- 5.1 There has been little change in the low level of investment offer rates during the first part of the year. Borrowing rates have been volatile and general levels are forecast to rise gradually.
- 5.2 An economic forecast and revised interest rate forecast are incorporated within the Revised Treasury Management Strategy 2017/18.

## 6. Borrowing Portfolio 2017/18

- 6.1 New borrowing taken during the first part of the year is summarised in the table below. Amounts were limited to levels sufficient to cover cash requirements for individual capital transactions.

Total Loans	£39 million
Lender	Public Works Loan Board
Average rate	2.35%
Average term	36 years

- 6.2 Internal borrowing using existing cash resources was also applied to delay the impact of interest rate costs and to reduce the exposure of cash to negligible investment rates.

## 7. Investment Portfolio 2017/18

- 7.1 At the start of the year the Council had £15 million of core cash deposited longer term with average return of 1.72% in line with approved strategy.
- 7.2 Remaining cash has been kept in short term and instant access facilities to be available to fund revenue and capital outlay. Extensive use has been made of money market funds averaging 0.35%. Only two fixed deposits were transacted during the period, both for six months duration at rates of 0.70% and 0.55%
- 7.3 An update on the use of the Funding Circle peer to peer lending platform has been included within the Revised Treasury Management Strategy 2017/18.
- 7.4 At the end of August 2017 the overall investment performance stood at 0.69% against the market benchmark rate of 0.11%
- 7.5 Counterparties with which funds were deposited (April 2017 – August 2017):

### **Banks**

Goldman Sachs International Bank  
 Lloyds Bank  
 National Westminster Bank  
 Santander UK  
 Svenska Handelsbanken

### **Other Approved Institutions**

Public Sector Deposit Fund  
 Goldman Sachs Sterling Fund  
 Aberdeen Asset Management  
 Funding Circle

## Local Authorities

Lancashire County Council  
Newcastle City Council  
Nottinghamshire Police and Crime  
Commissioner

### 8 Minimum Revenue Provision (MRP) policy statement

- 8.1 The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.
- 8.2 No update to the approved 2017/18 MRP policy is required. However in relation to Investment Property funded by borrowing, the Chief Finance Officer will assess each asset at the end of each year within the Investment Portfolio for whether an MRP, VRP or contribution to the capital funding reserve is required.

### 9 Revenue Budget Performance

- 9.1 The revenue budget for treasury management is still in balance. Within the year the budget for interest payments has been increased to reflect the costs of new borrowing offset by rental income from the new properties.

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	Revised Budget 2017/18	Projected Outturn 2017/18	Variation
	£M	£M	£M
Investment Income	(0.8)	(0.8)	0.0
Interest Paid on Borrowing	7.0	7.0	0.0
<b>Net Position (Interest)</b>	<b>6.2</b>	<b>6.2</b>	<b>0.0</b>
Minimum Revenue Provision	3.1	3.1	0.0
<b>Net Position (Other)</b>	<b>3.1</b>	<b>3.1</b>	<b>0.0</b>
<b>Net Position Overall</b>	<b>9.3</b>	<b>9.3</b>	<b>0.0</b>

#### Compliance with Prudential Limits for 2017/18

- 10.1 Council approved in September 2017, as a result of increased levels of borrowing (and likely) future borrowing based on Council approvals, increases in both 2017/18 Operational limit and Authorised Limit for borrowing and long term liabilities.
- 10.2 Performance of the Treasury Management function against the approved Prudential and Treasury Indicators is provided in the following tables.

<b>TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>	<b>2017/18 REVISED LIMIT</b>	<b>As at 31/08/17</b>
	<b>£M</b>	<b>£M</b>
<b>Authorised limit for external debt -</b>		
borrowing	310	192
other long term liabilities	20	20
TOTAL	330	218
<p>This is the Statutory “affordable borrowing limit” required under section 3(1) of the Local Government Act 2003. Impending breach would require the Council to take avoiding action.</p> <p><b>Borrowing Levels are within the Authorised Limit – no action required</b></p>		
<b>Operational boundary for external debt -</b>		
borrowing	290	192
other long term liabilities	40	20
TOTAL	310	218
<p>This is the most likely, but not worst case scenario for day-to-day cash management purposes. This indicator provides an early warning for a potential breach in the Authorised Limit. Occasional breach of this limit is not serious but sustained breach would indicate that prudential boundaries the Council has set may be exceeded, requiring immediate Council action.</p> <p><b>Borrowing Levels are within the (revised) Operational Boundary – no action required</b></p>		
<b>TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>	<b>2017/18 LIMIT</b>	<b>As at 31/08/17</b>
<b>Limit for fixed interest rate exposure</b>		
	<b>%</b>	<b>%</b>
Debt	100	100
Investments	80	36
<b>Limit for variable rate exposure</b>		
Debt	30	0
Investments	85	63

The Code requires the Council to set ranges on its exposure to the effects of changes on interest rates. Fixed rate borrowing and investments can contribute to reducing the uncertainty surrounding future interest rates. However, a degree of use of variable interest rates on part of the treasury management portfolio may benefit performance. The limit for fixed rate exposure has been set to allow for the Council's entire debt to be locked in at low fixed rates. The actual proportion reflects a rising level of "locking out" funds at fixed rates prior to the anticipated fall in base rate.

The limit for variable rate exposure reflects the Council's use of notice accounts for liquidity of the investment portfolio and the external Fund manager holding

**Rate exposures are within the approved limits – no action required.**

	<b>2017/18 REVISED LIMIT £M</b>	<b>As at 31/08/17 £M</b>
<b>Upper limit for total principal sums invested for over 364 days (per maturity date)</b>	35	15

The purpose of this indicator is to contain the Council's exposure to the possibility of losses that might arise as a result of it having to seek early repayment or redemption of principal sums invested.

**The position above represents around 30% of the total portfolio held in longer term investments.**

<b>Maturity structure of fixed rate borrowing during 2017/18</b>	<b>Upper limit</b>	<b>lower limit</b>	<b>As at 31/08/17</b>
Up to 10 years	50%	5%	21%
10 to 20 years	50%	5%	18%
20 to 30 years	60%	10%	16%
30 to 40 years	50%	10%	20%
Over 40 years	50%	0%	25%

The Prudential Code is designed to assist authorities avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time.

## **11 Total Council Borrowing and Risk**

11.1 Due to the significant and material changes in the Council's borrowing requirement from the Council approved schemes the Chief Finance Officer will report to Audit Committee and then full Council on the risk and the management of that risk at a future meeting.

11.2 It is important that all members understand the impact and risk/reward on both the Council's revenue budget and its balance sheet from the increased levels of borrowing. The Council's borrowing at the start of 2016/17 was £138m and had risen by mid August 2017 to £192m. If all the previously Council approved schemes to be funded from borrowing are completed then the Council's overall capital financing requirement could increase to over £400m. This will also increased the ongoing (fixed) revenue costs to the Council of the interest and repayment

(principal) costs each year. These increased (fixed) costs and liabilities will need to be considered in light of any rental income and the value of the assets being purchased.

- 11.3 In addition CIPFA are currently consulting on updates to both the Prudential Code and the Treasury Management Code of Practice to reflect the national increase in Councils use/purchase of “non treasury investments”. Audit Committee will need to consider these changes and may choose to recommend increased levels of scrutiny and due diligence in relation to “non treasury investments”.
- 11.4 Audit Committee have responsibilities for the overview of the Council’s Treasury Management activities including borrowing, therefore it is important that the Audit Committee are able to review and provide its views to full Council on this issue in due course.

## **Appendices**

Appendix 1: Revised Treasury Management Strategy 2017/18

## **Background Documents**

Treasury Management Strategy 2017/18