

**Meeting: Audit Committee
Council**

**Date: 25th September 2019
24th October 2019**

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Mid-Year Review 2019/20

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 2019/20. 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 The key points in the Treasury Management review are as follows:

- New borrowing of £32million taken in year to date (as at early September 2019)
- Substantial increases approved to the Capital Plan for the Torbay Economic Growth Fund (£100k) and Investment & Regeneration Fund (increased by £100k) but with spending assumed in later years
- Re-profiling of capital expenditure reducing the overall borrowing need in 2019/20 but no change to the approved borrowing limits
- Total borrowing currently over-borrowed ahead of completion of Investment Fund acquisitions. Primary strategy of internal borrowing remains in place.
- Revised interest rate forecast with delayed rise in Bank Rate.
- Investment performance exceeding the Benchmark

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.

3. Recommendation(s) / Proposed Decision

Audit Committee

- 3.1 that the Audit Committee provide any comments and/or recommendations on the Treasury Management decisions made during the first part of 2019/20.

Council

- 3.2 that the Treasury Management decisions made during the first part of 2019/20 as detailed in this report be noted.

4. Background Information

- 4.1 The original Treasury Management Strategy for 2019/20 was approved by Council on 7th February 2019.

- 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 This report is in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised 2017).

- 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 Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council’s capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- Review of the Council’s Borrowing strategy 2019/20;
- Debt Rescheduling Opportunities 2019/20;
- Review of the Council Investments 2019/20;
- Revenue Budget 2019/20 Performance
- Non-Treasury Investments

5. Economic and Interest Rate Update

- 5.1 The revised forecasts (as at August 2019) from the Council’s treasury advisors, Link Asset Services are detailed in the table below.

Link Asset Services Interest Rate View											
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

5.2 It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its last meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies.

5.3 The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.

5.4 An economic update by Link Asset Services is provided at Appendix 1 to this report

6 Treasury Management Strategy Statement and Annual Investment Strategy Update

6.1 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

7 The Council's Capital Position (Prudential Indicators)

This following section is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

7.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure at Q1 (draft) 2019/20	2019/20 Original Estimate £m	Current Position £m	2019/20 Revised Estimate £m
Services	60	13	49
Commercial Activities/non-financial investments	31	15	30
Total capital expenditure	91	28	79

7.2 In July 2019 Council approved a capital provision of £100k for the creation of the Torbay Economic Growth Fund and an increase in the Investment and Regeneration Fund by £100k to £300k. The spend for these items has been profiled to future years and therefore not included in the above. However, actual spend and associated borrowing are likely to be fluid so above estimates will be adjusted in the event of any advance to the spend profile.

7.3 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure at Q1 (draft) 2019/20	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Total capital expenditure	91	79
Financed by:		
Capital receipts	2	1
Capital grants	10	15
Capital contributions	2	2
Capital reserves	1	2
Revenue	2	0
Borrowing requirement	74	59

7.4 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The following tables show the CFR, which is the underlying external need to incur borrowing for a capital purpose, and the level at which that borrowing is not normally expected to exceed which is termed the Operational Boundary.

	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Total CFR	411	375
Net movement in CFR	66	55

	2019/20 Original Estimate £m	Current Position £m	2019/20 Revised Estimate £m
Prudential Indicator – the Operational Boundary for external debt			
Borrowing	450	334	450
Other long term liabilities*	20	18	20
Total debt (year end position)	470	352	470

* On balance sheet PFI schemes and finance leases etc.

7.5 Borrowing levels are currently well within the Operational Boundary which was set in February prior to the approvals for the Torbay Economic Growth Fund and Investment & Regeneration Fund. Should expenditure be applied earlier than anticipated it is acceptable for the Operational Boundary to be exceeded for a temporary period (until approval of the next Treasury Management Strategy Statement) provided that the Authorised Limit (para 7.8 below) is not breached.

7.6 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose*. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

7.7 At the time of writing, the Borrowing activity estimates are as set out in the table below. However, these may be impacted by any reprofiling of capital spend outlined in para 7.2 above.

	2019/20 Original Estimate £m	Current Position £m	2019/20 Revised Estimate £m
Borrowing	285	334	357
Other long term liabilities*	18	18	18
Total debt	302	350	375
CFR* (year end position)	411		375

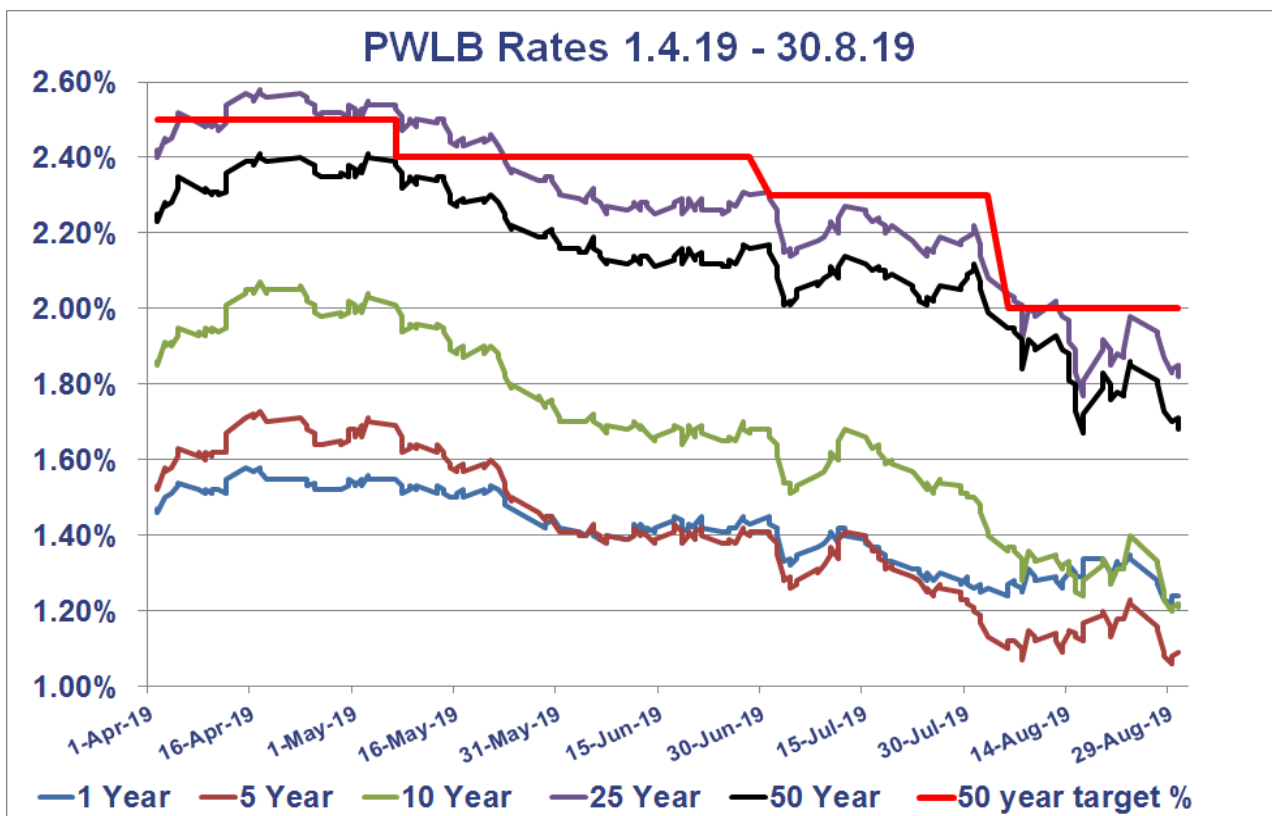
* Includes on balance sheet PFI schemes and finance leases etc.

7.8 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2019/20 Original Indicator	Current Position	2019/20 Revised Indicator
Borrowing	500	334	500
Other long term liabilities*	20	18	20
Total	520		520

8 Borrowing Portfolio 2019/20

8.1 The graph below illustrates the downward path of borrowing rates through the first part of the year, driven by political and economic uncertainties and with parliamentary turmoil driving levels to exceptionally low levels at the end of August.



8.2 The Head of Finance has approved new loans at successive low points along this downward path to fund. New borrowing taken during the first part of the year (as at early September) is summarised in the table below.

Total	£32 million
Lender	Public Works Loan Board
Average rate	2.00%
Average term	39 years

- 8.3 In light of the advantageous rate environment the CFO has suspended the primary strategy of using internal cash resources to fund capital, in order to maximise a prudent level of borrowing at the prevailing low rates and ensuring affordability of the approved Capital Plan.
- 8.4 Overall borrowing stands at £334.5 million and at the point of this report is around £17M over-borrowed to the Capital Financing Requirement. The expected completion of two Investment & Regeneration Fund schemes in the next few weeks will see borrowing revert to an under-borrowed position.
- 8.5 The aim of utilising internal cash to fund part of the requirement in the short term remains the primary strategy but should borrowing rates continue at current levels the Head of Finance will continue to maximise external borrowing to a prudent level in line with actual and committed capital spend.
- 8.6 The lender of first resort remains the Public Works Loan Board and no alternative instruments offered any advantage to warrant consideration this year. The Council remains eligible to the discounted Certainty Rate (20 basis points below standard published PWLB levels) and the application to continue eligibility for the coming year has been successfully lodged.

9 Debt Rescheduling

- 9.1 Debt rescheduling opportunities have been prohibitive in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

10 Investment Portfolio 2019/20

- 10.1 In line with the primary strategy, cash has generally 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 around 0.75%.
- 10.2 Cash levels at the time of this report exceed £80million which reflect the normal elevated levels during the first few months of the financial year but which are higher than normal due to new borrowing pending completion of capital schemes. A fall in cash balances is expected down to around £50million by end of September from capital spend and should reduce further by year end.
- 10.2 The increase in cash levels and the forecast delay in interest rate rises prompted a shift to locking a proportion of cash into longer term deposits (i.e. up to 1 year) at an average rate of 1.13%
- 10.3 At the commencement of the year, £15 million of core cash was held within one-year term deposits and the CCLA Property Fund. The term deposits, averaging 1.03%, all mature in 2019.
- 10.4 The CCLA Property Fund continues to perform adequately with a Q1 return of 4.59%. The impact of new financial reporting standards (IFRS9) and the recent MHCLG consultation on a temporary override is a key consideration on future levels held in the Fund.

10.5 At the end of August 2019 the overall investment performance stood at 1.05% against the market benchmark rate of 0.57%.

10.6 Counterparties with which funds were deposited (April 2019 – August 2019):

Banks

Goldman Sachs International Bank
Lloyds Bank
Nat West Bank
Santander UK
Svenska Handelsbanken
Bank of Scotland

Other Approved Institutions

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

Local Authorities

Lancashire County Council
Slough Borough Council
PCC of Northumbria
Moray Council
Mid Suffolk District Council

10.7 The Head of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the period of this report.

11 Revenue Budget Performance

11.1 The net revenue budget for treasury management is projected to be underspent after additional interest payable on new borrowing, increased interest received on higher cash balances and adjustments to MRP.

As at end August 2019	Revised Budget 2019/20	Projected Outturn 2019/20	Variation
	£M	£M	£M
Investment Income	(0.4)	(0.7)	(0.3)
Interest Paid on Borrowing	10.0	10.4	0.4
Net Position (Interest)	9.6	9.7	0.1
Minimum Revenue Provision	5.0	4.5	(0.5)
Net Position (Other)	5.0	4.5	(0.5)
Net Position Overall	14.6	14.2	(0.4)

12 Non- Treasury Investments

12.1 The revised Code of Practice issued in December 2017 increased the scope to incorporate governance of Non-Treasury Investments (NTIs) following the increase in commercial activities by Local Authorities.

12.2 In line with this guidance the current activities being undertaken by Torbay Council are set out at Appendix 2.

Appendices

Appendix 1: Economic Update

Appendix 2: Non-Treasury Investments

Background Documents

[Treasury Management Strategy 2019/2020](#)