

**Meeting: Audit Committee  
Council**

**Date: 25<sup>th</sup> September 2018  
18<sup>th</sup> October 2018**

**Wards Affected: All Wards in Torbay**

**Report Title: Treasury Management Mid-Year Review 2018/19**

**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 2018/19. 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 £10million taken in year to date (as at end August 2018)
- Re-profiling of capital expenditure to future years reducing the overall borrowing need in 2018/19
- Total borrowing currently in line with the Capital Financing Requirement – under borrowing position anticipated by year end
- Increase in Bank Rate by 0.25% to 0.75% in August 2018
- Forward renewal of core cash investments in one year duration deposits

## **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 2018/19

#### Council

- 3.2 that the Treasury Management decisions made during the first part of 2018/19 as detailed in this report be noted.

### 4. Background Information

- 4.1 The original Treasury Management Strategy for 2018/19 was approved by Council on 8<sup>th</sup> February 2018.

- 4.2 The Council defines its treasury management activities 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”.***

- 4.3 The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management was adopted by the Council on 25<sup>th</sup> March 2010. A full revision of the Code was published in December 2017 with new requirements in respect of Non-Treasury Investments (NTI’s) to be implemented from 1<sup>st</sup> April 2019 (see section 11 and Appendix 2). NTI’s for the Council is likely to include guarantees, loans to organisations and investment properties.

- 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 2018/19;
- Minimum Revenue Provision Policy Statement 2018/19;
- Revenue Budget Performance
- Compliance with Prudential Limits for 2018/19
- CIPFA Code of Practice for Treasury Management and MHCLG Guidance

### 5. Economic and Interest Rate Update

- 5.1 The Bank of England raised the official Bank Rate by 0.25% to 0.75% in August 2018. This was slightly earlier than anticipated in the Treasury Management Strategy 2018/19 although forward forecasts remain little changed.

- 5.2 The revised forecasts (as at August 2018) from the Council’s treasury advisors, Link Asset Services are detailed in the table below. The expectations for borrowing rates continue to be for a gradual increase.

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

\* PWLB forecasts are shown at the discounted "Certainty Rate" which the Council is eligible for.

5.3 An economic update is provided at Appendix 1 to this report

## 6. Borrowing Portfolio 2018/19

6.1 New borrowing taken during the first part of the year is summarised in the table below.

Total Loans	£10 million
Lender	Public Works Loan Board
Average rate	2.53%
Average term	29 years

6.2 Along with funding already held the current year borrowing has been applied to capital spending, predominantly on three new Investment Fund acquisitions. Overall borrowing stands at £280.2 million and is currently below the Capital Financing Requirement. The balance is being funded by internally borrowing against the Council's cash resources, in line with the approved strategy.

6.3 The intention is to maintain the under-borrowed position for the remainder of the financing requirement during the rest of the year. The latest version of the Capital Plan indicates a reduction in planned spend (funded by borrowing) from £115M to £59M as a result of a number of regeneration, housing and Investment Fund schemes being re-profiled to future years.

6.4 Timing of further new borrowing will be driven by liquidity needs of capital spending but due regard will be given to any possibility of significant increases in borrowing rate levels which could risk the affordability of capital spending plans. In the event of a shift upward in the rate environment the Chief Finance Officer will vary the focus of the strategy to lock into cheaper funding.

6.5 Assuming the forecast trend of a steady increase in rates remains it will likely prompt a review of the internal borrowing target in the 2019/20 strategy.

## 7. Investment Portfolio 2018/19

7.1 In line with the primary strategy, 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 around 0.5%.

- 7.2 Following the reduction in planned capital spending in the year focus changed to locking out cash to gain an increase in return. Deals of six month duration have been transacted at a level of 0.81%-0.85%.
- 7.3 Currently, £15 million of core cash is held within longer term deposits and the CCLA Property Fund. The term deposits, averaging 1.72%, all mature later in 2018. One of these deposits has been forward renewed for one year at 1.05% and a further one year deposit with new money has also been transacted at the same rate. The one year duration should enable deals to track the forecast rise in investment rates.
- 7.4 The CCLA Property Fund is performing adequately with a Q1 return of around 4.65%. 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.
- 7.5 At the end of August 2018 the overall investment performance stood at 0.89% against the market benchmark rate of 0.36%
- 7.6 Counterparties with which funds were deposited (April 2018 – August 2018):

**Banks**

Goldman Sachs International Bank  
 Lloyds Bank  
 Nat West 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

- 7.7 The Chief Finance Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the period of this report.

**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 2018/19 MRP policy is required. However in light of the 2018/19 budget position the Chief Finance Officer will review the MRP policy in line with statutory guidance relating to asset lives to establish whether in year savings can be generated. Any changes will be implemented in consultation with the external auditor.

## 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.

As at end August 2018	Revised Budget 2018/19	Projected Outturn 2018/19	Variation
	£M	£M	£M
Investment Income	(0.4)	(0.5)	(0.1)
Interest Paid on Borrowing	9.2	9.4	0.2
<b>Net Position (Interest)</b>	<b>8.8</b>	<b>8.9</b>	<b>0.1</b>
Minimum Revenue Provision	4.5	4.5	0.0
<b>Net Position (Other)</b>	<b>4.5</b>	<b>4.5</b>	<b>0.0</b>
<b>Net Position Overall</b>	<b>13.3</b>	<b>13.4</b>	<b>0.1</b>

## 10 Compliance with Prudential Limits for 2018/19

- 10.1 Performance of the Treasury Management function against the approved Prudential and Treasury Indicators is provided in the following table.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2018/19 LIMIT	As at 31/08/18
	£M	£M
<b>Authorised limit for external debt -</b>		
borrowing	500	280
other long term liabilities	20	20
TOTAL	520	300
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.		
<b>Borrowing Levels are within the Authorised Limit – no action required</b>		
<b>Operational boundary for external debt -</b>		
borrowing	450	280
other long term liabilities	20	20
TOTAL	470	300
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.		
<b>Borrowing Levels are within the Operational Boundary – no action required</b>		

<b>£M</b>	<b>2017/18 Actual</b>	<b>2018/19 Revised</b>	<b>2019/20 Revised</b>	<b>2020/21 Revised</b>
Net Revenue Stream	£110m	£112m	£112m	£112m
<b>Financing Costs</b>				
Interest Paid & MRP as at 31/03/18	£11m	£14m	£14m	£14m
Interest paid & MRP on new debt	0	0	£2m	£4m
Interest Received	(£1m)	(£1m)	(£1m)	(£1m)
Sub Total	£10m	£13m	£15m	£17m
<b>Percentage of Financing Costs to Net Revenue Stream</b>	<b>9%</b>	<b>12%</b>	<b>13%</b>	<b>15%</b>
<i>Financing costs excludes income from Investment Property portfolio which is included within the Net Revenue Stream.</i>				
<i>Gross Rental Income (as at Sept 18)</i>	£(5.5)m	£(8.6)m	£(10.5)m	£(10.5)m
<i>Percentage of Financing Costs to Net Revenue Stream including Investment Property Gross Rental Income</i>	4%	4%	4%	6%

## **11 CIPFA Code of Practice for Treasury Management and MHCLG Guidance**

- 11.1 The definition of an investment covers all of the financial assets of the Council, which includes non- financial assets that the Council holds primarily to generate a financial return e.g. investment properties. These non- financial assets are not managed as part of normal treasury management process or delegations.
- 11.2 In response to this and the increase in commercial activities by Local authorities, CIPFA have issued a revised Code of Practice for Treasury Management in Public Services (December 2017) which increased the scope of the Code to incorporate governance of Non-Treasury Investments (NTIs) .
- 11.2 Additions to the Council's Treasury Management Practices have yet to be completed pending receipt of the applicable guidance from CIPFA, due autumn 2018. However, ahead of this guidance Appendix 2 sets out the current activities being undertaken by Torbay Council which are expected will fall within this new category of Non Treasury Investments and for which Audit Committee will be the responsible scrutiny body.
- 11.3 The new guidance will also be reviewed to ascertain whether certain Treasury Indicators, omitted from the Treasury Management Strategy 2018/19 on the interpretation of the new Code should in fact be re-instated. (If so these will be reported for approval in the Treasury Management Strategy for 2019/20.)

## **Appendices**

Appendix 1: Economic Commentary

Appendix 2: Non-Treasury Investments

## **Background Documents**

[Treasury Management Strategy 2018/19](#)