Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**	**Date:**	**22 JULY 2019**
Heading:	**COUNCIL'S TREASURY MANAGEMENT AND BORROWING ACTIVITIES 2018/19**		
Portfolio Holder:	**CLLR MARTIN- CABINET MEMBER FOR FINANCE & RESOURCES**		
Ward/s:			
Key Decision:	**NO**		
Subject to Call-In:	**NO**		

Purpose of Report

This report provides Members with information on the activities which the Council carries out to manage both its funding and its cash flow, with the aim of minimising the risks to which the Council is exposed when borrowing and lending monies.

It sets out the performance in 2018/19 against the prudential indicators, which were previously agreed by Members in order to ensure that borrowing and lending are controlled within reasonable limits, in line with good practice.

Recommendation(s)

Members are requested to:

i) Note the performance as outlined in the report.

Reasons for Recommendation(s)

To meet the requirements of the Council's Financial Regulations (C.30).

Alternative Options Considered

None.

Detailed Information

TREASURY MANAGEMENT - ANNUAL REPORT 2018/19

1. Introduction

The Treasury Management Policy Statement includes a requirement for the production of an Annual Report on the Treasury Management activities undertaken during the year. This requirement is also incorporated in the Council's Financial Regulations and is considered as good practice in the CIPFA Code of Practice for Treasury Management.

2. Borrowing

The borrowing activities undertaken during the year are summarised below:

Type of Loan	Amount Outstanding 01.04.18 £000	Borrowed £000	Repaid £000	Amount Outstanding 31.03.19 £000
Long Term Loans				
- PWLB	29,248	12,000	0	41,248
- Mortgage Loan	45,500	0	(5,000)	40,500
- Temporary Loan	0	4,000	(4,000)	0
Total External Debt	**74,748**	**16,000**	**(9,000)**	**81,748**

The table represents the actual transactions undertaken and therefore will differ to those shown in the statement of accounts due to the differences between face value and fair value.

3. Prudential Borrowing Limits

One of the requirements of the CIPFA Prudential Code is to report performance against a range of indicators to Members. Underpinning the Prudential system for borrowing is the fundamental objective that any investment in assets needs to be both affordable and remain within sustainable limits. To this end the Council sets its own targets, boundaries or limits against which it monitors actual performance, which for 2018/19 were set by Council on 5th March 2018. The comparison of out-turn to those targets are set out in Appendix 1 to this report.

4. Loan Interest Payments

4.1 There are two measures of performance used for assessing the Council’s borrowing activities. These are the total amount of interest paid compared to estimated figures and the average rate of interest paid on external loans. An analysis of interest payments compared to the revised estimates is given below:

	Revised Estimate	Actual	Variance
	£000	**£000**	**£000**
PWLB	1,344	1,277	(67)
Mortgage Loans	1,966	1,966	0
Temporary Loan	0	27	27
Total	**3,310**	**3,270**	**40**

The reason for the variances above are as follows:

a) PWLB – the Council repaid a Mortgage loan on 17th July 2018. This was expected to be refinanced immediately by a PWLB loan. The 2018/19 PWLB interest payable budget was therefore increased by £90k. The loan was not re-financed until March 2019. The Authority borrowed a further £7m on top of the £5m refinancing to fund Capital Expenditure. This resulted in additional PWLB interest of £24k instead of the £90k originally estimated.

b) Temporary Loan - the Council decided to use temporary borrowing rather than longer term borrowing to fund some of its day to day activities. Temporary borrowing is the cheapest method of borrowing externally.

5. Investments

5.1 Cash flow surpluses are placed in investment accounts or in short-term money market deals. The movement in external investments during the year is given below:

	Temporary Advances £000
Balance at 1.04.18	8,122
New Investments	135,032
Repayments	(135,722)
Balance at 31.03.19	7,432
Annual Return	**0.37%**

5.2 Overall Investment Income return achieved compared to the revised budget is as follows:

Revised Estimates £000	Actual £000
13	**52**

5.3 The above figures demonstrate that investments are an important element of the Council's budget. Relatively small movements in interest rates can have a significant impact on the income received. The main reason for the better than expected investment income was due to the 0.25% rise in interest rates on 2nd August 2018.

5.4 During 2018/19, the base rate started at 0.50% and ended the year at 0.75%.

Implications

Corporate Plan:

The reporting of the Council's Treasury Management and Borrowing Activities ensures compliance with the Council's Financial Regulations and the CIPFA best practice. The Council's effective treasury management activities support delivery of the Corporate Plan objectives.

Legal:

The recommendations contained in the report ensure compliance with Financial Regulation C.30.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	No direct financial implications arising from this report.dier
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
None Identified	N/A

Human Resources:
No adverse Human Resources implications identified.

Equalities:
No adverse Equality implications.

Other Implications:

Reason(s) for Urgency

Reason(s) for Exemption

Background Papers

Report Author and Contact Officer

Pete Hudson, Corporate Finance Manager
01623 457362
p.hudson@ashfield.gov.uk

APPENDIX 1 PRUDENTIAL INDICATORS OUT-TURN 2018/19

1. Prudential Indicators of Affordability

a) **Ratio of financing costs to net revenue stream for the next three years split between the Housing Revenue Account and the General Fund**

The Council is required to calculate an estimated ratio of its financing costs divided by its net revenue stream for both the General Fund and the Housing Revenue Account.

2018/19	Target %	Actual %
Housing Revenue Account	14.50	14.33
General Fund	11.19	2.37

The variance to target on the General Fund is primarily due to a prior year adjustment of £1.2m to Minimum Revenue Provision (MRP). MRP had been overprovided in previous years. The benefit of this has been factored into the 2019/20 Revenue Budget and Medium Term Financial Strategy (MTFS).

b) **Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels**

Authorities are required to estimate the impact on the Council Tax (General Fund) and Rent levels (Housing Revenue Account) of the capital programme including the non-financing costs.

2018/19	Target £	Actual £
Housing Revenue Account (52 Weeks)	0.00	0.00
General Fund (Band D)	1.72	13.11

The target indicators went to Cabinet 5th March 2018. After the indicators were set, the Capital Programme was increased by £10m to fund the purchase of Investment Properties as approved by Council in-year. The expected income from these Investment Properties exceeds the capital financing costs associated with their purchase.

c) **Net borrowing and the Capital Financing Requirement split between the General Fund and the Housing Revenue Account**

In order to ensure that in the medium term borrowing is only undertaken for capital purposes local authorities are required to ensure that net external borrowing does not exceed, except in the short term, the total of their capital financing requirement. In broad terms the capital financing requirement reflects an authorities need to borrow for capital purposes and is a measure of the assets contained on the balance sheet which have as yet not been fully financed, i.e. there is still some debt outstanding.

31st March 2019	Target £m	Actual £m
Housing Revenue Account	80	80
General Fund	37	45

The main reason for the variance for the General Fund is due to the increase to the Capital Programme of £10m for Investment Properties as discussed in b) above. Only £8.8m of the approved additional £10m was spent in the year on Investment Properties and the vehicle replacement programme was underspent by £0.6m as a result of vehicle purchases being put on hold during a transport review.

d) **Estimates of capital expenditure split between the General Fund and the Housing Revenue Account**

2018/19	Target £m	Revised Capital Programme £m	Actual £m
Housing Revenue Account	9.3	7.4	5.9
General Fund	4.3	14.0	10.7

The main reasons for the differences between the Housing Revenue Account (HRA) and the General Fund (GF) are as follows:

i) HRA - Delays to works on Council dwellings due to planned works being refused by tenants or structural issues being identified which have slowed progress. These works (and funding) are re-programmed into the 2019/20 works schedule.

ii) GF – Underspends on Investment Properties and Vehicles. The Council only acquires Investment Properties where they can be purchased at an appropriate price and vehicles purchases were put 'on-hold' pending the outcome of the Transport Review.

e) **Authorised Limit of external debt**

The Council is required to set an authorised limit for its total external debt, gross of investments and includes the need to borrow on a short-term basis to cover for temporary shortfalls in cash flow. The Authorised limit is set at a level which is approximately £10m above the Capital Financing Requirement.

2018/19	Authorised Limit £m	Actual Borrowing £m
Borrowing	130	82

f) **Operational Boundary**

The operational boundary is based on the most likely or prudent but not worst-case scenario in relation to cash flow. The reason for the difference between the Operational and Actual Borrowing is due to the Authority using internal reserves e.g. the HRA to fund Capital Expenditure rather than borrowing.

2018/19	Operational Boundary £m	Actual Borrowing £m
Borrowing	120	82

2. Prudential Indicators for Prudence

a) **Interest rate exposure**
This indicator gives the following maximum levels of exposure to fixed and variable interest rate payments. Fixed Interest loans charge the same amount of interest from the start of the loan until the loan is repaid. The interest payable for Variable Rate loans may change from the inception date to the maturity date. The Target for Fixed Rate loans is set at the same level as the Authorised Limit whereas the Target for Variable Rate loans is set an amounts which is 40% of the Authorised Limit.

Principal Outstanding 2018/19	Target £000	Actual £000
At Fixed Rates	130,000	56,248
At Variable rates	52,000	25,500

b) **Maturity Structure of fixed rate borrowing**

The Council has numerous fixed rate loans. It is prudent to ensure that these loans do not mature at the same time. Therefore, the Council has set Lower and Upper limits for the Maturity of its Fixed Rate loans.

Maturity	Lower Limit £000	Upper Limit £000	Actual 31st March 2019 £000
Less than 12 months	0	20,000	7,012
12 months to 24 months	0	20,000	0
24 months to 5 years	0	25,000	6,227
5 years to 10 years	0	50,000	5,155
10 year and over	10	100,000	37,854

Principal sums invested for more than 364 days

The below represents the maximum amount the Authority can invest with any institution. This is to reduce the potential exposure to the Authority should any institution become insolvent.

2018/19	Limit £m	Actual £m
Upper Limit	5	0