

<b>Report To:</b>	<b>CABINET</b>	<b>Date:</b>	<b>14th JUNE 2018</b>
<b>Heading:</b>	<b>COUNCIL'S TREASURY MANAGEMENT AND BORROWING ACTIVITIES</b>		
<b>Portfolio Holder:</b>	<b>COUNCILLOR ROBERT SEARS-PICCAVEY- CABINET MEMBER (INWARD)</b>		
<b>Ward/s:</b>			
<b>Key Decision:</b>	<b>YES</b>		
<b>Subject to Call-In:</b>	<b>YES</b>		

### **Purpose of Report**

To receive a report on the position of the Council with regard to Treasury Management and Borrowing.

This report gives Members 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.

It sets out the performance in 2017/18 against the prudential indicators, which were 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 endorse the performance as outlined in the report.**

### **Reasons for Recommendation(s)**

To meet the requirements of the Council's Financial Regulations (C.29).

### **Alternative Options Considered**

None.

## Detailed Information

### TREASURY MANAGEMENT - ANNUAL REPORT 2017/18

#### 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. The CIPFA Code of Practice on Local Authority Accounting requires the balance sheet values for Financial Instruments, including loans to be included at fair value. In accordance with the CIPFA Code loans and other financial instruments are included in the balance sheet at fair value. However, the figures included in this report are at face value in order to show what the actual pound sterling values are.

#### 2. Borrowing

The borrowing activities undertaken during the year are summarised below:

Type of Loan	Amount Outstanding 01.04.17 £000	Borrowed £000	Repaid £000	Amount Outstanding 31.03.18 £000
Long Term Loans				
- PWLB	29,949	0	701	29,248
- Mortgage Loan	45,500	0	0	45,500
- Temporary Loan	0	7,000	0	7,000
<b>Total External Debt</b>	<b>75,449</b>	<b>7,000</b>	<b>701</b>	<b>81,748</b>

The table represents the actual transactions undertaken and therefore will differ to that shown in the statement of accounts due to the differences in notional valuation.

The Council borrowed £7m at the end of 2017/18 to cover short-term cashflow requirements caused by reduced Council Tax receipts in February and March 2018. This will be repaid during 2018/19.

#### 3. Prudential Borrowing Limits

One of the requirements of the CIPFA Prudential Code is to report performance against a range of performance 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. For 2017/18 these were set by Cabinet on 23rd March 2017. The comparison of out-turn to those targets is 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, the total amount of interest paid compared to estimate figures and the average rate of interest paid on external loans. An analysis of interest payments compared to the revised estimates is given below:

4.2

	<b>Revised Estimate</b>	<b>Actual</b>
	<b>£000</b>	<b>£000</b>
PWLB	1,301	1,295
Mortgage Loans	2,035	2,035
Temporary Loan	0	7
<b>Total</b>	<b>3,336</b>	<b>3,337</b>

Actual Interest Payments are in line with the revised estimates.

4.3 External Borrowing Rate - the average borrowing rate of all non-temporary loans was 4.43% as forecast at the revised estimate stage.

#### 5. Investments

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

	<b>Temporary Advances</b>
	<b>£000</b>
Balance at 1.04.17	19,054
New Investments	115,229
Repayments	126,161
Balance at 31.03.18	8,122
<b>Annual Return</b>	<b>0.35%</b>

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

<b>Revised Estimates</b>	<b>Actual</b>	<b>Variance</b>
<b>£000</b>	<b>£000</b>	<b>£'000</b>
<b>52</b>	<b>68</b>	<b>16</b>

The favourable position to budget (£16k) is largely due to the 0.25% increase in the Bank of England Base Rate in November 2017

5.3 During 2017/18 the base rate started at 0.25% and ended the year at 0.50%.

## **Implications**

### **Corporate Plan:**

The reporting of the position with regard to insurance indirectly supports all of the Council's main objectives through contributing to business efficiency and effectiveness.

### **Legal:**

The reporting of the Council's Treasury Management and Borrowing Activities ensures compliance with the Council's Financial Regulations and the CIPFA best practice.

### **Finance:**

<b>Budget Area</b>	<b>Implication</b>
General Fund – Revenue Budget	N/A
General Fund – Capital Programme	N/A
Housing Revenue Account – Revenue Budget	N/A
Housing Revenue Account – Capital Programme	N/A

### **Risk:**

<b>Risk</b>	<b>Mitigation</b>
The Council could be at risk of making investments with counterparties which may fail or collapse.	The Council follows the investment guidance provided by Link Asset Services in order to ensure its investments are as secure as possible.

### **Human Resources:**

No Human Resources Implications.

### **Equalities:**

*(to be completed by the author)*

### **Other Implications:**

*(if applicable)*

### **Reason(s) for Urgency**

*(if applicable)*

**Reason(s) for Exemption**

*(if applicable)*

**Background Papers**

*(if applicable)*

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## **APPENDIX 1 PRUDENTIAL INDICATORS OUT-TURN 2017/18**

### **1. Prudential Indicators of Affordability**

#### **a) Ratio of financing costs to net revenue stream 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.

2017/18	Target %	Actual %
Housing Revenue Account	15	15
General Fund	11	9

The variance to target on the General Fund is primarily due to the net revenue stream being more than originally expected. The revenue stream forecasts are set a year in advance. The actual revenue stream may change in year. Any changes to this will impact on the actual ratio.

#### **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.

2017/18	Target £	Actual £
Housing Revenue Account (52 Weeks)	0.00	0.00
General Fund (Band D)	5.32	27.10*

\*The target indicators went to Cabinet 23<sup>rd</sup> March 2017. After the indicators were set the Capital Programme was increased by £15m to fund the purchase of Investment Properties. The expected 2018/19 income from these Investment Properties is expected to exceed by £0.4m the capital financing costs associated with their purchase so the overall impact for residents is favourable.

#### **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.

31 <sup>st</sup> March 2018	Target £m	Actual £m
Housing Revenue Account	80	80
General Fund	22	37

The variance for the General Fund is due to the purchase of £15m Investment Properties and relates to timing differences from when the Prudential Indicators was set. Again, as net income from these properties exceed debt costs; this is favourable for the Council / residents.

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

2017/18	Target £m	Actual £m
Housing Revenue Account	0.0	0.0
General Fund	3.9	19.1

The variance for the General Fund is largely due to the £15m purchase of Investment Properties. Again the variance is due to timing differences as described in b) and c) above.

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.

2017/18	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 limit takes into account the total capital financing requirement plus future borrowing requirements.

2017/18	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. The Council minimises the risk of interest rate exposure by having the majority of its borrowing at Fixed Rates. The risk of borrowing at variable rates is that these rates will rise when the Bank of England interest rate rises. Currently Bank of England rates are at near low therefore any future changes are likely to be upwards.

Principal Outstanding 2017/18	Target £000	Actual £000
At Fixed Rates	120,000	56,248
At Variable rates	48,000	25,500

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

The Council is required to set both upper and lower limits for the maturity structure of its borrowing. As this indicator relates only to fixed rate debt it is therefore a measure of the longer term risk of exposure to interest rate fluctuations.

Maturity	Lower Limit £000	Upper Limit £000	Actual 31 <sup>st</sup> March 2018 £000
Less than 12 months	0	20,000	12,000
12 months to 24 months	0	25,000	7,012
24 months to 5 years	0	25,000	12,500
5 years to 10 years	0	50,000	8,541
10 year and over	10	100,000	41,695

**Principal sums invested for more than 364 days**

2017/18	Limit £m	Actual £m
Upper Limit	5	5