Report For:	Audit Committee
Meeting Date:	Audit 30 May 2019
Part:	Part 1 - Open
If Part 2, reason:	Choose a reason

WYCOMBE DISTRICT COUNCIL

SUMMARY

Title of Report:	**Treasury Management Annual Report 2018/19 and Prudential Indicators**
Officer Contact: Direct Dial: Email:	**David Skinner** 01494 421322 **David.Skinner**@wycombe.gov.uk
Ward(s) affected:	**All**
Reason for the Decision:	The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
Proposed Decision/Recommendation:	The Committee is asked to: 1. Review and note the outturn position for treasury management activities for 2018/19; and 2. Refer this report to the Cabinet for noting.
Sustainable Community Strategy/Council Priorities - Implications	The Council meets the requirements of the CIPFA Code of Practice for Treasury Management and Prudential Code for Capital Finance in Local Authorities Risk: The key financial risks relating to the treasury activity are set out in the main body of the report. Equalities: n/a Health & Safety: n/a
Monitoring Officer/ S.151 Officer Comments	**Monitoring Officer:** The report addresses the statutory obligations placed upon the Council. **S.151 Officer:** This is a Section 151 Officer report and all the financial implications are included in the report.
Consultees:	N/A

Options:	N/A
Next Steps:	This paper will be presented to the June Cabinet.
Background Papers:	1. Treasury Management strategy 2018/19 approved by the Council on 22nd February 2018. 2. CIPFA Code of Practice on Treasury Management. 3. CIPFA Prudential Code for Capital Finance in Local Authorities.
Abbreviations:	**CIPFA –** Chartered Institute of Public Finance Accountancy **CFR –** Capital Financing Requirement **CCLA –** Churches, Charities & Local Authorities **LIBID –** London Inter Bank Bid **LIBOR –** London Inter-bank Offered Rate **MPC –** Monetary Policy Committee

1. Background

1.1. As part of the Code the Council approved the Treasury Management Strategy for 2018/19 along with a series of prudential indicators and measure its performance against them. These indicators and performance are detailed within the main body of the report.

1.2. In accordance with Central Government Guidance on Local Government Investments, and the CIPFA Treasury Management Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector.

1.3. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.4. During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year Council 22nd February 2018.
- A mid-year (minimum) treasury update report Audit Committee 1st November 2018.
- An annual review following the end of the year describing the activity compared to the strategy (this report).

1.5. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council.

1.6. The Treasury Management Annual Report covers three main areas summarised below:

Capital activity (section 2)

- Capital expenditure and Financing;
- Capital Financing Requirements (CFR); and
- Affordability Indicators

Borrowing (section 3)

Treasury (section 4)

- Overall treasury position; and
- Summary of Interest Rates.

Economy and Interest Rates (section 5)

2. The Council's Capital Expenditure and Financing 2018/19

2.1. The Council undertakes capital expenditure on long-term assets. These can be financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.) or if insufficient financing is available from those sources or a decision is taken not to use those resources, the expenditure will give rise to a borrowing need.

2.2. The capital expenditure statement forms one of the required prudential indicators. The table below shows how capital expenditure was financed:

2017/18 Actual £m	Capital Expenditure and Funding	2018/19 Revised Budget £m	2018/19 Actual £m
11.785	**Capital Expenditure**	**21.552**	**15.538**
	Funding		
-6.739	Capital Receipt	0.000	0.000
-5.046	Capital Grants and Contributions	7.252	3.467
0.000	Development Fund Reserve	14.300	12.071
-11.785	**Total Funding**	**21.552**	**15.538**

Capital Financing Requirements

2.3 The Council's underlying need to borrow for Capital Expenditure is called the Capital Financing Requirement (CFR). It represents the cumulative 2018/19 and previous years' net capital expenditure which has not yet been funded by revenue or other resources, but has been paid for by borrowing either externally or by borrowing from internal existing cash balances.

2.4 The CFR is reduced each year by a statutory revenue charge called the Minimum Revenue Provision (MRP). This CFR can also be reduced by the application of additional capital resources such as capital receipts or charging more than the statutory revenue charge (MRP), through a Voluntary Revenue Provision (VRP).

2.5 The MRP policy is required to be approved by Council annually and this was approved for 2018/19 on 22nd February 2018 by Council.

2.6 The Council's CFR for the year is shown in the table overleaf, and represents a key prudential indicator. It includes the waste contract embedded lease for vehicles and bins on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included within the contract.

2017/18 Actual £m	Capital Financing Requirement (CFR)	2018/19 Budget £m	2018/19 Actual £m
6.862	**CFR as at 1 April**	5.885	**5.870**
-0.992	Minimum Revenue Provision	-0.991	-0.991
5.870	**CFR as at 31 March**	**4.894**	**4.879**

2.7 **Affordability** - Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. This financing costs excludes revenue reserves set aside to fund the Capital Expenditure.

2017/18	**Table 3**	**2018/19**
Actual		**Actual**
3.44%	Ratio of financing cost	1.23%
0.00	No additional Borrowing, therefore Incremental Impact on Council Tax is '0'	0.00

2.8 The reduction between years is mainly due to higher investment income resulting from better returns and the increase in net revenue stream (i.e. Budget requirement which is funded by RSG, NHB, Business Rates and Council Tax).

3. Borrowing

3.1. The Council did not undertake any borrowing nor did it borrow in advance of need. Council does not have any borrowing and therefore did not reschedule any debt during the year.

3.2. **Gross Borrowing and the CFR -** in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator as detailed in the table below**.**

2017/18	**Borrowing V CFR**	**2018/19**	
£m		**Budget £m**	**Actual £m**
2.390	Gross Projected Debt	1.606	1.627
5.870	CFR 31st March	4.894	4.879
3.480	**Under borrowing**	**3.288**	**3.252**

3.3 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.

3.4 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

3.5 The table below provides the actual borrowing against the limits set.

2017/18 Actual £m	Authorised Limit & Operational Boundary for External Debt	2018/19 set Limits £m	2018/19 Actual £m
	Authorised Limit for external debt		
2.390	Borrowing and other long term liabilities	10.000	1.627
	Operational Boundary for external debt		
0.000	Borrowing	3.000	0.000
2.390	Other long term liabilities (Finance Lease)	5.000	1.627
2.390	**Total**	8.000	1.627
6.000	Upper limit for principal sums invested over 364 days	40.000	5.000

4. **Treasury Position**

4.1. The Council's investment policy, approved by Council in February 2018, sets out the approach for choosing investment counterparties. It is based on a system of credit ratings provided by the three main credit rating agencies, and supplemented by additional market data (such as rating outlooks, credit default swaps and bank share prices) provided by Link Asset Services, the Council's treasury advisors.

4.2. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

4.3. The Council on 9th October 2017 approved the use of property investments, direct and indirect, to achieve improvements in Treasury Yields, up to a maximum investment value of £15.000m. The Council invested £7.500m in the CCLA Property Fund on 1st December 2017. The net yield on the £7.5m investment for the CCLA Local Authorities Property Fund for the year to March 2019 is 4.14%.

4.4. The Council's investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established through member reporting. As at 31 March 2019, the Council did not have any external borrowing.

4.5. The investment income outturn is £861k against the budget of £539k, resulting in a favourable variance of £322k as summarised in the table below:-

	Budget		Actual		Variance	
	£m	%	£m	%	£m	%
Average Investment Balance	48.000	0.60%	68.740	0.86%	- 20.740	0.26%
Property Fund	7.500	4.00%	7.500	4.14%	-	0.14%
Average Investments & Return	**55.500**	**0.97%**	**76.240**	**1.13%**	**- 20.740**	**0.16%**
Investment Income Budget	**0.539**		**0.861**		**- 0.322**	

4.6. The favourable variance on investment income budget of £0.322m is due to higher average annual return of 1.13% compared to a budgeted average annual return of 0.97%. Additionally, there were delays in capital programme spend which resulted in the average cash of £20.740m higher than budgeted for.

4.7. The treasury investments average rate of return at 1.13% was higher compared to the 7 day London Interbank Bid Rate (LIBID) of 0.51% and 3 month LIBOR rate of 0.80%. The Treasury position is summarised in the table below.

As at March 2018			As at March 2019	
£m	%		£m	%
		Specified Investments (up to 1 year)		
39.55	50%	Banks & Building Socities	29.15	40%
0.000	0%	Local Authorities	26.00	36%
15.00	19%	Money Market Funds	4.80	7%
		Non-Specified Investments (longer than 1 year)		
13.00	16%	Local Authorities	5.00	7%
4.98	6%	Gilt	0.00	0%
7.50	9%	Property Fund	7.50	10%
80.03	**100%**	**Total Investments as at March**	**72.45**	**100%**

5. The Interest rates

5.1. The Council receives independent external advice from Link Asset Services as professional financial advisers. The independent view of the external adviser on interest rates is detailed below.

5.2. Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year. The average annual investment return of 0.97% was set for the Council's Treasury portfolio.

5.3. It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

5.4. Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

5.5. Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.