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| Report For:   | Cabinet                  |
| Meeting Date: | Cabinet 11 November 2019 |
| Part:         | Part 1 - Open            |



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| <b>Title of Report:</b>  | <b>TREASURY MANAGEMENT MID-YEAR REPORT (2019/20)</b>   |
| <b>Cabinet Member:<br/>Officer Contact:<br/>Direct Dial:<br/>Email:</b>  | Cllr David Watson<br>David Skinner<br>01494 421322<br>david.skinner@wycombe.gov.uk   |
| <b>Wards affected:</b>   | All  |
| <b>Reason for the Decision:</b>  | To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended and other relevant guidance.<br><br>The Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy.   |
| <b>Proposed Decision:</b>  | That the treasury management mid-year report for 2019/20, covering the period 1 April 2019 to 30 September 2019 be considered and noted.   |
| <b>Sustainable Community Strategy/Council Priorities – Implications:</b> | Treasury Management activities play a significant role in supporting the delivery of the Council’s services and corporate priorities.<br><br>Risk: The key financial risks relating to the treasury activity are set out in the main body of the report.<br><br>Equalities: Not applicable<br><br>Health and Safety: Not applicable  |
| <b>Monitoring Officer/ Section 151 (s151) Officer Comments:</b>          | <b>Monitoring Officer:</b> The reports meet the relevant criteria for effective financial management pursuant to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (under Part 1 of the Local Government Act 2003) as amended and other relevant guidance<br><br><b>Section 151 (s151) Officer:</b> This is a Section 151 Officer report and all the financial implications are included in the Report |
| <b>Consultees:</b>   | Not applicable for this Report   |

|                           |   |
|---------------------------|---|
| <b>Options:</b>           | Not applicable for this Report  |
| <b>Next Steps:</b>        | Consideration and noting by the Cabinet on Monday 11th November 2019 of all Treasury activities within the half-year to 30 September 2019 as set-out within this Report   |
| <b>Background Papers:</b> | Treasury Management Strategy approved by Council in February 2019   |
| <b>Abbreviations:</b>     | <ul style="list-style-type: none"> <li>- s151 Officer – the Council’s Section 151 Officer and appropriate individual charged with overseeing the Council’s governance obligations. This is Head of Finance and Commercial;</li> <li>- CIPFA – the Chartered Institute of Public Finance and Accountancy;</li> <li>- CFR – Capital Financing Requirement;</li> <li>- Treasury Management Strategy Statement (TMSS);</li> <li>- London Interbank Bid Rate (LIBID);</li> <li>- London Interbank Offered Rate (LIBOR);</li> <li>- Brexit – the United Kingdom’s exit from the European Union (EU). This is currently scheduled to occur on Thursday 31 October 2019.</li> </ul> |

**Appendices to this Report are:**

Appendix A – Finance Department Paper on UK Banks

Appendix B – Economics and Interest Rates Data (as at 30 September 2019) supplied by Link Asset Services

## **Executive Summary**

The primary purpose of this Report is to meet the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011).

This is a mid-year summary of Treasury Management activities. The Report documents progress made during the 2019/20 financial year against the Strategy approved by Council on 13 February 2019.

It is recommended that the Committee considers and notes the Report. This Report will be considered by the Cabinet on 13 November 2019.

## **Background**

1. The Council operates a balanced budget. This broadly means that the total cash raised during a financial year will meet cash expenditure. A primary objective of the Council's Treasury Management function is to ensure that cash flow requirements are adequately planned, with surplus funds invested in low-risk counter-parties only. A key concern is that these investments offer adequate liquidity in preference to the acquisition of any financial return.
2. A secondary role of the Treasury Management function is the funding of the Council's capital plans. These plans provide a guide to the borrowing needs of the Council, essentially longer-term cash flow planning to ensure that the Council is able to meet its capital spending commitments. The monitoring of cash over longer periods may involve the arrangement of short-term or long-term loans, and on occasion debt previously drawn may be restructured to meet the Council's risk or cost objectives.
3. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) has been adopted by this Council.
4. Treasury Management is defined as:  
"The management of the Local Authority's investments and cash flows, its 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."
5. The primary requirements of the CIPFA Code are as follows:
  - a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities;
  - b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
  - c. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy for the forthcoming financial year, a mid-year Treasury Report and an Annual Report (Stewardship Report) summarising activities during the previous year;
  - d. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of treasury management decisions;

- e. Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. For this Council, the delegated body is the Audit Committee.
6. The purpose of this Report is to satisfy the mid-year reporting requirements and the Report covers the following elements for the 2019/20 financial year:
- A review of the Treasury Management Strategy Statement (TMSS) (Paragraph 7);
  - The Council's Capital Position and Prudential Indicators (Paragraphs 8 to 11);
  - A review of the Council's Investment Portfolio & Review of Investment Strategy (Paragraphs 12 to 16);
  - A review of the Council's Borrowing Strategy and Debt Rescheduling (Paragraphs 17 to 19);
  - Other updates (Paragraphs 20 to 21);
  - Paper on UK Banks (Appendix A);
  - Economics and Interest Rate Data (as at 30 September 2019) supplied by Link Asset Services (Appendix B).

### **Treasury Management Strategy Statement**

7. The TMSS was approved by full Council on 13 February 2019. There are no policy changes to the TMSS; the details in this Report update the position in light of the updated economic outlook and all budgetary changes already approved.

### **The Council's Capital Position**

8. This part of the Report provides an update on:
- The Council's capital expenditure and funding plans;
  - The impact of any changes in capital expenditure plans on the Prudential Indicators and the underlying need to borrow; and
  - Compliance with the limits in place for borrowing activities.

## Capital Expenditure and Funding

9. The Table below illustrates the forecast outturn as at Quarter 2 for capital expenditure and the expected financing arrangements for this same capital expenditure:

| 2019/20                                   | Approved Programme<br>(February 2019 Council)<br>£000 | Revised Programme<br>£000 | Forecast Outturn<br>£000 |
|---|---|---------------------------|--------------------------|
| <b>Capital Expenditure:</b>               |   |                           |                          |
| Community                                 | 3,825   | 4,217                     | 4,376                    |
| Economic Development and Regeneration     | 25,245  | 8,850                     | 8,760                    |
| Housing                                   | 7,300   | 4,898                     | 5,356                    |
| Environment                               | 2,130   | 2,130                     | 2,130                    |
| Planning                                  | 11,266  | 5,919                     | 5,740                    |
| Digital Development and Customer Services | 1,671   | 1,388                     | 1,388                    |
| Finance and Resources                     | 308   | 308                       | 308                      |
| <b>Total</b>                              | <b>51,745</b>   | <b>27,710</b>             | <b>28,058</b>            |
| <b>Financed by:</b>                       |   |                           |                          |
| Capital receipts                          | 24,511  | 4,627                     | 5,291                    |
| Grants and contributions                  | 15,748  | 9,653                     | 9,337                    |
| Revenue                                   | 11,486  | 13,430                    | 13,430                   |
| <b>Total</b>                              | <b>51,745</b>   | <b>27,710</b>             | <b>28,058</b>            |

The £24m reduction from the Budget agreed at September 2019 Cabinet reflects the re-profiling of Budgets into 2020/21 and later years. There is a strong focus on delivery of the programme in 2019/20 supported by a rigorous programme management process. The re-profiling of some budgets on larger Schemes takes account of the degree of complexity and detailed work required on planning, legal and procurement activities on the more complex Schemes.

## Prudential Indicators

10. The Table on the next page discloses the following:

- **Capital Financing Requirement (CFR)** – The CFR measures the extent to which capital expenditure has not yet been financed from either Revenue or Capital resources. This indicator is essentially a measure of indebtedness and therefore a guide as to the Council's underlying borrowing needs. Any capital expenditure which has not immediately been financed or paid for will increase the CFR;
- **Authorised Limit for External Debt** – This is the limit prescribed by Section 3(1) of the Local Government Act 2003 and represents the maximum level of borrowing that the Council may incur. This sum reflects the amount of external debt which, while not desired, could be afforded by the Council in the short-term. It should be noted that this commitment may not be sustainable over a longer period;

- **Operational Boundary** – This is the limit that indicates the level of external debt that the Council should not normally expect to exceed. This threshold is based upon current debt plus anticipated net financing needs in respect of forthcoming financial years.

| Capital Financing Requirements | 2019/20      | 2019/20      | 2019/20      |
|--------------------------------|--------------|--------------|--------------|
|                                | Approved     | Revised      | Forecast     |
|                                | £m           | £m           | £m           |
| Gross Projected Debt           | 0.790        | 0.790        | 0.790        |
| CFR (31 March)                 | 3.943        | 3.943        | 3.943        |
| <b>Under Borrowing</b>         | <b>3.153</b> | <b>3.153</b> | <b>3.153</b> |

| Borrowing and Investment Limits                          | 2019/20  | 2019/20  | 2019/20  |
|--|----------|----------|----------|
|  | Approved | Revised  | Forecast |
|  | £m       | £m       | £m       |
| <b>Authorised limit for external debt</b>                |          |          |          |
| Borrowings and other long-term liabilities               | 9        | 9        | 9        |
| <b>Operational boundary for external debt</b>            |          |          |          |
| Borrowings   | 3        | 3        | 3        |
| Other long-term liabilities                              | 1        | 1        | 1        |
| <b>Total</b>   | <b>4</b> | <b>4</b> | <b>4</b> |
| <b>Upper limit for fixed interest rate exposure</b>      |          |          |          |
| Net Principal Amount (fixed rate borrowing)              | 3        | 3        | 0        |
| <b>Upper limit for variable interest rate exposure</b>   |          |          |          |
| Net Principal Amount (variable rate borrowing)           | 0        | 0        | 0        |
| Upper limit for Principal Amounts invested over 364 days | 20       | 20       | 20       |

### Compliance with Limits for Borrowing Activities

11. The first key control governing the Council's Treasury Management activities is a Prudential Indicator to ensure that over the medium-term, net borrowing will be undertaken for capital funding purposes only. Gross external borrowing should not, except in the short-term, exceed the total CFR amount in the preceding year together with the estimates of any additional CFR for 2019/20 and the preceding two financial years.
12. The s151 Officer reports that no difficulties are envisaged for the current year or future financial years in order for the Council to comply with this Prudential Indicator. This assessment takes into account current commitments, existing programmes and the proposals in the Budget Report.

### Investment Portfolio

13. As at 30 September 2019, the Council had no external borrowing. Treasury Investments were £88.3m and have earned an average rate of return of 1.51%. The Treasury position is summarised in the Table on the next page:

|   | As at September 19 |             | As at March 19 |             |
|---|--------------------|-------------|----------------|-------------|
|   | £m                 | %           | £m             | %           |
| <b>Specified Investments (up to one year)</b>           |                    |             |                |             |
| Banks and Building Societies                            | 34.2               | 39%         | 29.1           | 40%         |
| Local Authorities                                       | 23.0               | 26%         | 26.0           | 36%         |
| Money Market Funds                                      | 11.1               | 13%         | 4.8            | 7%          |
| <b>Non-Specified Investments (longer than one year)</b> |                    |             |                |             |
| Local Authorities                                       | 5.0                | 6%          | 5.0            | 7%          |
| Property Fund   | 15.0               | 16%         | 7.5            | 10%         |
| <b>Total Investments</b>                                | <b>88.3</b>        | <b>100%</b> | <b>72.4</b>    | <b>100%</b> |

14. The Council's budgeted investment return for 2019/20 is £929k. Performance for the year to date is in line with the budget. The average return on investment during the first six months in 2019/20 is 1.51% compared to the 3 month LIBOR rate of 0.79% (as at 30 September 2019) and as summarised in the Table below:

| Returns                 | Sep-19 | Mar-19 |
|-------------------------|--------|--------|
| Benchmark-7 day LIBID   | 0.57%  | 0.51%  |
| Benchmark-3 month LIBOR | 0.79%  | 0.80%  |
| Actual                  | 1.51%  | 1.13%  |

**London Interbank Bid Rate (LIBID)** – The rate at which a bank is willing to borrow from other banks;

**London Interbank Offered Rate (LIBOR)** – This is the average of interest rate estimates by the leading banks in London that these institutions would be charged if borrowing was undertaken from other banks.

15. The Council originally invested £7.5m in the CCLA Property Fund in December 2017 with a further sum of £7.5m invested during this financial year on 27 September 2019. This is in line with the approved treasury management strategy and approved by the Chief Executive, the Cabinet Member for Finance & Resources and the Leader. The dividend due from this investment is paid quarterly in arrears net of management charges and the returns arising as at Qtr1 in 2019/20 are highlighted in the Table below which details the returns since the investment was initiated:

| Period              | Net Dividend | % Net Yield on Original Investment of £7.5m | % Net Yield on Net Investments (less costs) of £7.0m | % Net Yield on Bid Value of Investments £7.3m (June 2019) |
|---------------------|--------------|---|--|---|
| 2017/18 (4 months)  | 105,626.44   | 4.23%                                       | 4.51%  | 4.51%   |
| 2018/19 (12 months) | 310,569.72   | 4.14%                                       | 4.42%  | 4.34%   |
| 2019/20 (Quarter 1) | 74,684.17    | 3.98%                                       | 4.25%  | 4.16%   |

16. The Council's operational Treasury Management activities have complied with the Treasury Management Strategy and there have been no instances of counter-party breaches during the six months to September 2019.
17. The daily limit on the Council's primary banking facility (the NatWest SIBA Account) was exceeded on eight occasions during the half-year to September 2019. These breaches resulted from shortage of financially-viable deals available from approved counter parties meeting the credit criteria on the business days.

### **Review of Investment Strategy**

18. In accordance with the Code, it is the Council's priority to ensure the security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's overall appetite for risk. The prevailing climate within the external investment market continues to be very challenging, with UK interest rate levels continuing to remain comparatively low against previous decades. Rates offered by the leading financial institutions have remained largely consistent with the 0.75% Bank of England Rate. Due to the fact that increases in the Bank of England Rate are likely to be gradual and are unlikely to return to the levels noted in previous decades, investment returns for the Council are likely to remain low during the medium-term.

### **Review of Borrowing Strategy and Debt Rescheduling**

19. The Council had no external borrowing in place at the end of the last financial year (to 31 March 2019) and has taken out no new borrowing during the six months to 30 September 2019.
20. With low interest rates in place and taking into account counter-party risks, the Council's overall strategy continues to be centred around the utilisation of internal borrowing in order to assist in financing the Capital Programme.
21. As the Council remains debt-free, there are no debt rescheduling opportunities to consider at the present time.

### **Other Updates**

#### **22. UK Banks**

The supplementary paper itemised within Appendix A outlines in detail the effects of Fitch Ratings' action to place all UK Banks on 'negative watch' in light of the ongoing Brexit negotiations. In summary, this development should have no significant operational impact upon the Council's Treasury Management activities.

#### **23. Economics and Interest Rates Data (as at 30 September 2019) supplied by Link Asset Services**

Link Asset Services are the Council's Treasury Management advisers and have provided Economics and Interest Rates data as at 30 September 2019. This incorporates an Economics Update and an Interest Rate Forecast.