

## Wycombe District Council

### 1. Background

1.1. The Council approved the 2019/20 treasury management strategy at its meeting on 21<sup>st</sup> February 2019. The general policy objective for this Council is the prudent investment of its treasury balances. 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.

1.2. The Council has adopted and complied with the CIPFA Code of Practice on Treasury Management and CIPFA Prudential Code for Capital Finance during the year. The minimum reporting requirements were that the Council should receive the following reports:

- An annual treasury strategy in advance of the year to the full Council.
- A mid-year (minimum) treasury update report to Audit Committee.
- An annual review following the end of the year describing the activity compared to the strategy (this report).

1.3. 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.

1.4. The Treasury Management Annual Report covers the following:

- Capital expenditure and Financing
- Capital Financing Requirements (CFR)
- Affordability Indicators
- Borrowing and CFR
- Authorised Limits and Operational Boundary
- Treasury Management outturn
- Treasury Investments
- Interest Rates Exposure

### 2. The Council's Capital Expenditure and Financing

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:

2018/19 Actual £m	Capital Expenditure and Funding	2019/20	
		Revised Budget £m	Actual £m
<b>15.538</b>	<b>Capital Expenditure</b>	<b>51.745</b>	<b>17.015</b>
	<b>Financed in year</b>		
0.000	Capital Receipt	24.511	0.000
3.467	Capital Grants and Contributions	15.748	6.169
12.071	Earmarked Reserve	11.486	10.846
<b>0.000</b>	<b>Net Borrowing for the year</b>	<b>0.000</b>	<b>0.000</b>

### 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 2019/20 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 MRP policy is required to be approved by Council annually and this was approved for 2019/20 on 21st February 2019 by Council.

2.5. The Council's CFR for the year is shown in the table below, and represents a key prudential indicator.

2018/19 Actual £m	Capital Financing Requirement (CFR)	2019/20	
		Approved £m	Actual £m
<b>5.879</b>	<b>CFR as at 1 April</b>	<b>3.943</b>	<b>4.889</b>
-0.990	Less Minimum Revenue Provision	-0.952	-0.952
<b>4.889</b>	<b>CFR as at 31 March</b>	<b>2.991</b>	<b>3.937</b>

2.6. **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.

2018/19 Actual	Affordability	2019/20	
		Approved	Actual
1.23%	Ratio of financing cost to net Revenue stream	0.80%	-0.95%

2.7. The investment income was £236k higher than budget due to healthy cash balances and higher returns and the interest on finance lease was lower which has resulted into a negative ratio on financing cost.

### 3. Borrowing

3.1. Wycombe District 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. This is in compliance with the strategy set at the beginning of 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 (2018/19) plus the estimates of any additional capital financing requirement for the current (2019/20) 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.

2018/19 Actual £m	Borrowing and the CFR	2019/20	
		Approved £m	Actual £m
1.627	Gross Debt	0.790	0.861
4.889	CFR 31st March	2.991	3.937
<b>-3.262</b>	<b>Over / (Under) borrowing</b>	<b>-2.201</b>	<b>-3.076</b>

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.

2018/19 Actual £m	Authorised Limit & Operational Boundary for External Debt	2019/20	
		Approved £m	Actual £m
0.000	<b>Authorised Limit for external debt</b>		
	Borrowing	9.000	0.000
1.627	Other long term liabilities	0.000	0.861
<b>1.627</b>	<b>Total</b>	<b>9.000</b>	<b>0.861</b>
	<b>Operational Boundary for external debt</b>		
0.000	Borrowing	3.000	0.000
1.627	Other long term liabilities (Finance Lease)	1.000	0.861
1.627	<b>Total</b>	4.000	0.861

#### 4. Treasury Position

4.1. The Wycombe District Council's investment policy, 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. The minimum credit criteria applied for investments during the year are summarised below:-

- Sovereign rating : AA
- Money Market Funds : AAA
- Investments over a year : Long Term rating : A+
- Investments under a year : Long Term rating UK : A-
- Investments under a year : Long Term rating Foreign : A

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

4.3. The treasury outturn position is summarised below:-

	Budget	Outturn	Variance	
	£m	£m	£m	%
Minimum Revenue Provision	0.957	0.952	-0.005	-0.52%
Investment Income	-0.929	-1.165	-0.236	25.40%
<b>Total</b>	<b>0.028</b>	<b>-0.213</b>	<b>-0.241</b>	<b>-860.71%</b>

4.4. The favourable variance of £236k is due to higher return and healthy cash balances resulting from delays in capital programme spend.

4.5. The treasury investments average rate of return at 1.50% was higher compared 3 month LIBOR rate of 0.76%.

4.6. The Treasury investment position is summarised in the table below.

As at March 2019		Treasury Investments	As at March 2020	
£m	%		£m	%
		<b>Specified Investments (up to 1 year)</b>		
39.55	50%	Banks & Building Societies	30.08	40%
0.000	0%	Local Authorities	22.50	30%
15.00	19%	Money Market Funds	7.50	10%
		<b>Non-Specified Investments (longer than 1 year)</b>		
13.00	16%	Local Authorities	0.00	0%
4.98	6%	Gilt	0.00	0%
7.50	9%	Property Fund	15.00	20%
<b>80.03</b>	<b>100%</b>	<b>Total Investments as at March</b>	<b>75.08</b>	<b>100%</b>

4.7. The Council invested a further £7.5m in the CCLA Pooled Property Fund on 30th September 2019 increasing the investment to £15m. The net yield on the £15m investment for the CCLA Local Authorities Property Fund for the year to March 2020 is 4.11%.

## 5. The Interest rates

5.1. The indicators below are set to control the Council's exposure to interest rate risk.

2018/19 Actual £m	Interest rate exposure - Borrowing & Investments	2019/20	
		Approved £m	Actual £m
0.000	Upper limit for fixed interest rate exposure	3.000	0.000
0.000	Upper limit for variable interest rate exposure	0.000	0.000
5.000	Upper limit for principal sums invested over 364 days	20.000	0.000