

## CHILTERN DC

### 1. Background

- 1.1. The Council approved the 2019/20 treasury management strategy at its meeting on 26<sup>th</sup> February 2019. The general policy objective for this Council is the prudent investment of its treasury balances, and the cost effective borrowing to finance long term investment in the Council's assets. 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 the Cabinet.
  - 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 Cabinet 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
  - Maturity Structure of Borrowing
  - Borrowing and CFR
  - Authorised Limits and Operational Boundary
  - Interest Rate Exposure
  - 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>8.059</b>	<b>Capital Expenditure</b>	<b>7.030</b>	<b>6.260</b>
	<b>Financed in year</b>		
1.080	Capital Receipt	0.000	0.000
0.531	Capital Grants and Contributions	0.905	0.905
0.000	Revenue Contribution to Capital Outlay (RCCO)	0.000	0.000
0.000	Internal Borrowing	0.000	4.203
0.889	Earmarked Reserve	0.943	0.943
<b>5.559</b>	<b>Net Borrowing for the year</b>	<b>5.182</b>	<b>0.209</b>

### 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 26<sup>th</sup> 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>4.884</b>	<b>CFR as at 1 April</b>	<b>10.443</b>	<b>10.443</b>
0.000	Less Minimum Revenue Provision	-0.270	-0.270
5.559	Add Net Borrowing	5.182	0.209
<b>10.443</b>	<b>CFR as at 31 March</b>	<b>15.355</b>	<b>10.382</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.

2.7. The variance between the outturn and what was original planned reflects the decision to internally finance the expenditure on the Chiltern Life Style Centre, thus not incurring any interest costs.

2018/19 Actual	Affordability	2019/20	
		Approved	Actual
4.92%	Ratio of financing cost to net Revenue stream	4.55%	0.85%
£2.21	Incremental Impact on Council Tax Band D	£2.05	£0.38

### 3. Borrowing

3.1. The Council did not undertake any new external borrowing in 2019/20. It applied the residue of the funds from external borrowing in previous years in respect of the Amersham Multi Storey Car Park to finance the completion of that project.

3.2. It had been the intention to undertake external borrowing during 2019/20 in respect of the Chiltern Life Style Project, but at the request of the Shadow Authority's s151 Officer the expenditure incurred in the year was financed by use of available cash resources (Internal Borrowing), in order to allow the new Council maximum flexibility on how it finances its Capital Programme going forward. As the Council's external borrowing is recent and related to a specific asset the issue of debt rescheduling was not relevant. The table below sets out the borrowing maturity profile.

2018/19 Actuals			Maturity Structure of Borrowing	2019/20 Approved Limit		
Upper Limit	Lower Limit	£m		Upper Limit	Lower Limit	£m
0%	0%	0.000	Under 12 months	0%	0%	0.000
0%	0%	0.000	12 months and within 24 months	0%	0%	0.000
0%	0%	0.000	24 months and within 5 years	0%	0%	0.000
0%	0%	0.000	5 years and within 10 years	0%	0%	0.000
100%	100%	10.570	10 years and above	100%	100%	10.410

### 4. Gross Borrowing and the CFR

4.1. 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
10.570	Gross Debt	15.592	10.410
10.443	CFR 31st March	15.355	10.382
<b>0.127</b>	<b>Over / (Under) borrowing</b>	<b>0.237</b>	<b>0.028</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 tables below show the net treasury position and the actual borrowing against limits.

As at March 19			Chiltern Debt Portfolio	As at March 20		
Principal £m	Average Interest %	Average Life Yrs		Principal £m	Average Interest %	Average Life Yrs
			Fixed Rate funding			
10.570	2.70%	39	PWLB	10.410	2.70%	38
0.000	0.00%	0	Market	0.000	0.00%	0
			Variable Rate funding			
0.000	0.00%	0	PWLB	0.000	0.00%	0
0.000	0.00%	0	Market	0.000	0.00%	0
10.570	0.00%		<b>Total Debt</b>	10.410	0.00%	
<b>18.000</b>	<b>0.91%</b>		<b>Total Investments</b>	<b>0.000</b>	<b>0.00%</b>	
<b>-7.430</b>			<b>Net Debt</b>	<b>10.410</b>		

2018/19 Actuals	Maturity Structure of Borrowing	2019/20 Approved Limit
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Upper Limit	Lower Limit	£m		Upper Limit	Lower Limit	£m
0%	0%	0.000	Under 12 months	0%	0%	0.000
0%	0%	0.000	12 months and within 24 months	0%	0%	0.000
0%	0%	0.000	24 months and within 5 years	0%	0%	0.000
0%	0%	0.000	5 years and within 10 years	0%	0%	0.000
100%	100%	10.570	10 years and above	100%	100%	10.410

## 5. Treasury Position

5.1. The 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

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

5.3. The treasury outturn position is summarised below.

Chiltern DC	Budget	Outturn	Variance	
	£m	£m	£m	%
Cost of Borrowing	0.56	0.28	-0.28	-49.38%
Minimum Revenue Provision	0.27	0.27	0.00	0.00%
Investment Income	0.04	0.19	0.15	367.50%
<b>Total</b>	<b>0.87</b>	<b>0.74</b>	<b>-0.13</b>	<b>-14.93%</b>

5.4. The interest costs for the year were less than originally estimated as a result of the decision to internally finance the Chiltern Life Style expenditure. Interest income was higher than estimated as the authority's cashflow was more consistently positive than anticipated, and the original estimate was deliberately prudent.

5.5. 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>		
10.00	56%	Banks & Building Societies	0.00	0%
0.000	0%	Local Authorities	0.00	0%
8.00	44%	Money Market Funds	0.00	0%
		<b>Non-Specified Investments (longer than 1 year)</b>		
0.00	0%	Local Authorities	0.00	0%
0.00	0%	Gilt	0.00	0%
0.00	0%	Property Fund	0.00	0%
<b>18.00</b>	<b>100%</b>	<b>Total Investments as at March</b>	<b>0.00</b>	<b>0%</b>

5.6. At the end of the year all investments had been liquidated in order to give the new Council the maximum flexibility on treasury management matters and make the establishment of a consolidated treasury management system easier.

## 6. The Interest rates

6.1. 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
10.570	Upper limit for fixed interest rate exposure	40.000	10.400
0.000	Upper limit for variable interest rate exposure	0.000	0.000
0.000	Upper limit for principal sums invested over 364 days	10.000	0.000