

## SOUTH BUCKS DC

### 1. Background

1.1. The Council approved the 2019/20 treasury management strategy at its meeting on 28<sup>th</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 Resources Policy Advisory Group.
- 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 and Resources Policy Advisory Group 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>5.335</b>	<b>Capital Expenditure</b>	<b>9.553</b>	<b>8.735</b>
	<b>Financed in year</b>		
0.395	Capital Receipt	0.000	0.000
0.565	Capital Grants and Contributions	0.655	0.655
0.000	Revenue Contribution to Capital Outlay (RCCO)	0.000	0.000
1.391	Internal Borrowing	0.000	7.360
2.984	Earmarked Reserve	0.720	0.720
<b>0.000</b>	<b>Net Borrowing for the year</b>	<b>8.178</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 28<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>0.000</b>	<b>CFR as at 1 April</b>	<b>0.000</b>	<b>0.000</b>
0.000	Less Minimum Revenue Provision	0.000	0.000
0.000	Add Net Borrowing	8.178	0.000
<b>0.000</b>	<b>CFR as at 31 March</b>	<b>8.178</b>	<b>0.000</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
-2.58%	Ratio of financing cost to net Revenue stream	1.31%	-3.09%
£0.85	Incremental Impact on Council Tax Band D	£0.43	£1.02

2.7 The reduction between the outturn and what was original planned reflects the decision to internally finance expenditure, thus not incurring any interest costs. In addition the actual figures include Consilio interest payments on investment loans to the company.

### 3. Borrowing

3.1. The Council did not undertake any borrowing for capital expenditure nor did it borrow in advance of need. This is in compliance with the strategy set at the beginning of the year. The only borrowing undertaken related to providing finance for its wholly owned property company, Consilio, to undertake investments. The table below sets out the borrowing maturity profile of these borrowings.

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
100%	100%	5.478	5 years and within 10 years	100%	100%	24.878
0%	0%	0.000	10 years and above	0%	0%	0.000

3.2. It had been the intention to undertake external borrowing during 2019/20 to part finance the Capital Programme, 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.

3.3. **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
5.478	Gross Debt	19.400	19.400
0.000	CFR 31st March	8.178	0.000
<b>5.478</b>	<b>Over / (Under) borrowing</b>	<b>11.222</b>	<b>19.400</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 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
	<b>Authorised Limit for external debt</b>		
5.478	Borrowing	45.000	24.878
3.051	Other long term liabilities	2.930	2.930
<b>8.529</b>	<b>Total</b>	<b>47.930</b>	<b>27.808</b>
	<b>Operational Boundary for external debt</b>		
5.478	Borrowing	40.000	24.878
3.051	Other long term liabilities (Finance Lease)	2.930	2.930
3.051	<b>Total</b>	42.930	2.930

As at March 19			South Bucks Debt Portfolio	As at March 20		
Principal £m	Average Interest %	Average Life Yrs		Principal £m	Average Interest %	Average Life Yrs
			Fixed Rate funding			
5.478	2.09%	10	PWLB	24.878	1.66%	10
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
5.478	0.00%		<b>Total Debt</b>	24.878	0.00%	
<b>12.041</b>	<b>0.79%</b>		<b>Total Investments</b>	<b>24.878</b>	<b>2.61%</b>	
<b>-6.563</b>			<b>Net Debt</b>	<b>0.000</b>		

#### 4. Treasury Position

4.1. 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

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.

South Bucks DC	Budget	Outturn	Variance	
	£m	£m	£m	%
Cost of Borrowing	0.00	0.25	0.25	n/a
Minimum Revenue Provision	0.00	0.00	0.00	0.00%
Investment Income	-0.10	-0.49	-0.39	389.00%
<b>Total</b>	<b>-0.10</b>	<b>-0.24</b>	<b>-0.14</b>	<b>36.45%</b>

4.4. The interest costs for the year were greater than budgeted as they relate to cost of financing investments in Consilio and these are not anticipated in advance as any costs will be less than the interest payments made in respect of the financing of the support to Consilio. Investment income exceeded budget on account of the payments from Consilio for financing made available.

4.5. 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>		
0.00	0%	Banks & Building Societies	0.00	0%
0.000	0%	Local Authorities	0.00	0%
6.00	91%	Money Market Funds	0.00	0%
		<b>Non-Specified Investments (longer than 1 year)</b>		
0.00	0%	Local Authorities	0.00	0%
0.56	9%	Gilt	0.00	0%
0.00	0%	Property Fund	0.00	0%
<b>6.56</b>	<b>100%</b>	<b>Total Investments as at March</b>	<b>0.00</b>	<b>0%</b>

4.6. 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.

## 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
5.478	Upper limit for fixed interest rate exposure	45.000	24.878
0.000	Upper limit for variable interest rate exposure	0.000	0.000
0.000	Upper limit for principal sums invested over 364 days	14.000	0.000