Appendix A.

TREASURY MANAGEMENT ANNUAL REPORT 2018-19

1 OVERVIEW OF STRATEGY

1.1 What is Treasury Management?

1.1.1 Treasury management is the term used to describe the way a Council manages the cash it needs to meet both its day-to-day running costs and borrowing for capital expenditure. The treasury management function for a Council will make the arrangements to borrow and invest money either over the short or the longer term in order to ensure that it has money available when it needs it.

1.1.2 CIPFA defines treasury management as"…the management of the organisation'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".

1.2 What framework or rules do we need to follow?

1.2.1 In making arrangements for treasury management, a Council is required to follow CIPFA's Treasury Management Code. The Code aims to help ensure that Councils manage the significant risks associated with the function while also ensuring the Council receives value for money.

1.2.2 The Council approved a Strategy in February 2018 (report 06/2018) which covered;

- borrowing strategy, including capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time); and
- the treasury management strategy (strategy guidelines for choosing and placing investments, the principles to be used to determine the maximum periods for which funds can be committed, what specified and non specified investments will be considered how the investments and borrowings are to be organised) including treasury indicators.

1.2.3 Councils need to prove that they are complying with the Prudential Code and this is done through a series of prudential indicators that are set locally and approved at the same time as the Council sets its budget for the following year.

2 TREASURY PERFORMANCE

2.1 How much did we have to invest during 2018/19?

2.1.1 The Council receives lots of income from council tax, business rates and central government. The majority of council tax and business rates payments are received between April and January, with expenditure being fairly static throughout the year.

2.1.2 At any point of time in the year, the Council had between £30m - £40m available to invest. The table below shows the level of investments held during the year, the average level of investments during the year was £35.785m.

2017/18 Actual £000	2018/19 Quarter 1 as at 30-Jun-18 £000	2018/19 Quarter 2 as at 30-Sep-18 £000	2018/19 Quarter 3 as at 31-Dec-18 £000	2018/19 Quarter 4 as at 31-Mar-19 £000
30,001	31,976	34,603	36,787	34,505

2.2 Did we achieve our investment objectives? Did we invest in line within approved rules?

2.2.1 Like us as individuals, the Council will invest surplus money in various ways to get a return on balances thus generating extra income. As per our overall objectives, we ensure that these surplus balances are managed in a way to maximise the income potential whilst having regard to security risk.

2.2.2 The Council's investment strategy primary objectives, in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time – losing any funds like in the case of Icelandic banks would be very significant in this financial climate;
- adequate liquidity – the Council does not want to run short of money so it cannot pay its bills or does not have money available to make investments in capital expenditure;
- Maximising the investment return – this is clearly important but the Council does not want to maximise returns at the expense of the first two objectives.

2.2.3 All of the Council's investments during the financial year were made with approved institutions within the agreed limits contained within the Treasury Management Strategy 2018/19 (06/2018). These limits are:

- £5m for a maximum of 3 years for institutions within the upper limit of the credit ratings;
- £5m for a maximum of 364 days for institutions within the middle limit of credit ratings; other local authorities and Money Market Funds;

- £1m for a maximum of 6 months those institutions without a credit rating, normally certain Building Societies whose operation does not require a credit rating.

2.2.4 Following the principles set out in paragraph 2.2.2, the Council made investment returns as shown below.

	Original Estimate 2018/19 £000	Revised Estimate 2018/19 Q2 £000	Actuals 2018/19 £000
Investment Income	194	224	296
Other Interest Received *	16	16	16
Total	**210**	**240**	**312**

* The Council also receives interest from sources other than investments. A Housing Association has been recharged £12k for the principal and interest of loans that the Council has made to it, the final payment will be in 2051/52. In 2018/19 £4k was received from the sale of buses.

2.3 How did the Council investments perform?

2.3.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. An example of a performance indicator often used for the investment treasury function is internal returns above the 6 month LIBOR rate (the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another). The Council monitored performance against the LIBOR rate during 2018/19 and the results are shown below.

	2017/18	2018/19 (Q2)	2018/19 (Q4)
RCC Returns (%)	0.66	0.75	0.83
LIBOR (%)	0.49	0.90	0.91

2.3.2 The average rate achieved is an improvement on the performance from 2017/18, however the rate is lower than LIBOR. One of the main reasons was that the Council investment strategy was geared towards a rate rise in November that did not materialise. The Council did change its approach when it became aware that the rate rise was not materialising and this is reflected in the increase in rate from Q2. A further reason the investment rate being below LIBOR was due to the Council holding some shorter term investments (which achieve lower returns) so that it could respond should a Commercial investment opportunity have materialised. In terms of the budgetary performance the Council outperformed the budget by c£100k. The rate of returned achieved by the Council is in line with other council's performance.

3 PRUDENTIAL (BORROWING AND DEBT) INDICATORS

3.1 Why do we borrow?

3.1.1 Council's borrow to fund capital expenditure or refinance/reschedule existing borrowings e.g. replace one loan with one at a lower rate.

3.1.2 Effectively, the Council works out its capital expenditure plans and then calculates how much it needs to borrow having considered whether it should fund capital expenditure using other options.

3.2 What was our Capital Expenditure and how did we fund it?

3.2.1 The Council's capital expenditure during 2018/19 was £4.479m. The outturn report (79/2019) contains detailed analysis of the capital programme and financing.

3.2.2 The £4.479m was financed as per the table below. The financing need represents an increase in borrowing requirements.

	2017/18 Actual*	**2018/19 Revised Estimate****	**2018/19 Actual*****
	£000	**£000**	**£000**
Capital Expenditure	**4,199**	**23,223**	**4,479**
Financed by:			
Capital Receipts/s106	341	1,488	394
Capital Grants & Contributions	3,858	9,098	3,931
Revenue Contributions	0	25	154
Net financing need for the year	**0**	**12,612**	**0**

*Audited Statement of Accounts 2017/18
** Revised Estimate per Mid-Year Treasury Report (197/2018)
*** Note 20 - Statement of Accounts 2018/19 (unaudited) and outturn report (79/2019).

3.3 What was the Council's borrowing need (the Capital Financing Requirement)?

3.3.1 Any unsupported borrowing in a given year is added to the Council's Capital Financing Requirement. There is no unsupported borrowing for 2018/19.

3.3.2 The Council's Capital Financing Requirement (CFR) is simply the total capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The CFR is reduced every year as the Council incurs a 'borrowing charge' in the Revenue Account which reduces it (this is called Minimum Revenue Provision).

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

	2017/18 Actual* £000	2018/19 Revised Estimate** £000	2018/19 Actual*** £000
CFR – 1 April	**22,756**	**21,859**	**21,859**
Movement in Year - CFR	(897)	11,999	(613)
CFR – 31 March	**21,859**	**33,858**	**21,246**
Movement in CFR Represented by			
Net financing need for the year (from table at para 3.2.2)	0	12,613	0
MRP	(897)	(614)	(613)
Voluntary Revenue Provision (VRP)	-	-	-
Movement in CFR	**(897)**	**11,999**	**(613)**

* Audited Statement of Accounts 2017/18
** Revised Estimate per Mid-Year Treasury Report (197/2018)
*** Note 20 - Statement of Accounts 2018/19 (unaudited) and outturn report (79/2019).

3.4 What is the current level of debt and how might it change?

3.4.1 The Council currently has loans outstanding of £22.436m of which £21.386m are long term loans with the Public Works Loans Board (PWLB). The remainder comprises a Salix Loan of £420k repayable in 2020 and a Local Enterprise Partnership loan (LEP) of £630k, which matures in 2023. The Salix and LEP loans are shown in the accounts at concessionary rates which increases year on year until the final year where the full value is recognised. Details of the outstanding loans can be found in the table in paragraph 3.4.3.

3.4.2 All PWLB loans have been borrowed on a maturity basis. Interest payments will be made every six months on equal instalments throughout the term of the loan, with the principal being repaid on the maturity date.

3.4.3 The overall debt position is monitored continuously and advice provided by Link Asset Services to identify opportunities for the repayment or restructuring of debt. No such opportunities were identified as cost effective in the year. Repayment of debt is subject to either a premium or dividend equating to the difference in interest payable for the remainder of the term of the loan and that which could be earned by the lender on a new loan for the same period. The debt position at the 31 March 2019 compared to the previous year is shown in the following table:

3.5

	31 March 2018		31 March 2019	
	Principal	**Average rate**	**Principal**	**Average rate**
Long Term Debt Public Works Loan Board (all fixed rate debt)	£21.386m	4.83%	£21.386m	4.83%
Local Enterprise Partnership (LEP)	£0.572m*	0.00%	£0.583m*	0.00%
Salix Loan	£0.361m*	0.00%	£0.281m*	0.00%
Total long term debt (all fixed rate debt)	£22.319m		£22.250m	
Operational Boundary	£23.000m		£28.000m	
Capital Financing Requirement	£21.858m		£21.246m	
Over/(under) borrowing	(£0.461m)		(£1.004m)	
Total investments	(£30.001m)	0.66%	(£34.505m)	0.83%
Net borrowing position	**(£7.682m)**		**(£12.255m)**	
* The Council has not increased its LEP loan but the actual loan (£630k over 10 years) is shown in the accounts at a concessionary rate which increases year on year until the final year where the full value is recognised. The Salix (£420k over 5 Years) is also shown in the accounts at a concessionary rate until the final year where the full value is recognised, this loan is repaid in instalments and not on maturity.				

hat borrowing limits did we set and how did we comply?

3.5.1 The Council cannot simply borrow indefinitely. There are a number of prudential indicators to ensure the Council operates its activities within well-defined limits. The indicators focus on two key aspects:

- Setting limits to control borrowing; and
- Assessing the affordability of the capital investment plans.

3.5.2 In addition, we also set limits on interest rate exposure.

3.5.3 <u>Controlling borrowing prudential indicators</u>

3.5.4 The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This indicator is important as it effectively measures whether your actual external debt exceeds your need to borrow. If it does, then it could suggest that Councils have been borrowing when they do not need to do so or for inappropriate purposes. It could also mean that the Council has made a

reduction to its CFR by undertaking VRP. This is the case for the Council, with additional VRP's being made in 2013/14 for £1.414m and 2015/16 £0.597m.

3.5.5 The table below shows that the Council has complied with this indicator for 2018/19.

	2018/19 Actual £000	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Gross Debt	22,436	27,436	27,436	27,436
Capital Financing Requirement (CFR)	21,246	33,067	32,098	31,128
Under / (Over) borrowing	**(1,190)**	**5,631**	**4,662**	**3,692**

3.5.6 In 2018/19, the Council was in an "overborrowed" position, which can be explained as follows:

- The position did not materialise from borrowing for revenue purposes, which this indicator is a key test of. Since 2008 when the Council borrowed £4m PWLB for the by-pass, the Council has taken only two loans i) an interest free loan from the Local Enterprise Partnership to contribute to the purchase and renovation of Oakham Enterprise Park (£630k); and ii) a Salix loan at 0% for Street Lighting upgrades (£420k). This borrowing is for capital purposes and not to fund revenue.

- The Council has also made voluntary contributions to reduce its CFR as a means of reducing the capital financing charge on the revenue account. In 2013/14 the application of unused Capital Receipts was used to reduce the CFR by £1.4m and in 2015/16 to repay the advance borrowing in relation to Adult Soccer a reduction of £597k. If the Council had not done this, the CFR would be £2m higher and the revenue account would receive a higher capital financing charge.

3.5.7 Ideally, to reduce interest costs, the Council would have preferred to use capital receipts etc to repay external debt. However, there has not been a viable business case to do so. The Council would have to pay a premium to repay early, which would cost the Council in the long term more than repaying in line with the current loan on maturity.

3.5.8 A further key prudential indicator represents a control on the maximum level of borrowing. The Council approved the Authorised Limit of £33m. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term

3.5.9 The table in paragraph 3.4.3 shows that Council did not breach this limit for 2018/19.

3.5.10 An additional indicator is the Operational Boundary – this is the maximum amount of money a Council expects to borrow during the year. This is lower than the Authorised Limit and acts as a useful warning sign if it is breached during the year, which could mean that underlying spending may be higher or income lower than budgeted. The Council approved an Operational Boundary of £28m within the 2018/19 Treasury Strategy. The table in paragraph 3.4.3 shows that Council did not breach this limit for 2018/19.

3.5.11 <u>Affordability Prudential Indicators</u>

3.5.12 The previous section covered the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

3.5.13 One of the key affordability indicators is the ratio of financing costs to net revenue stream. This indicator helps a Council identify if borrowing costs become too high as a proportion of its budget. This is important as borrowing costs always have to be paid and are very hard to cut if resources fall.

	Budgeted £000	**Actual £000**	
Capital Financing Costs	1,644	1,644	
Interest Receivable	(0,210)	(0,312)	
	1,434	1,332	A
Revenue Stream			
Government Grants	4,779	5,444	
Retained Business Rates	4,963	4,881	
Council Tax	24,870	24,870	
	34,612	35,195	B
Ratio (A divided by B as a percentage)	4.14%	3.78%	

3.5.14 The table above shows that the Council complied with this indicator. The net financing costs (A) were lower than budgeted, due to the additional interest earned on investments and the Revenue Stream (B) being higher due to additional income from government grants.