Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

19 JULY 2019

REPORT OF FINANCE AND CORPORATE RESOURCES PORTFOLIO HOLDER

A.5 TREASURY MANAGEMENT PERFORMANCE 2018/19
(Report prepared by Richard Barrett and Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To report on the Council's treasury management activities and Prudential Indicators for 2018/19.

EXECUTIVE SUMMARY

- Borrowing and investments have been undertaken in accordance with the 2018/19 Annual Treasury Strategy that was approved by Council on 27 March 2018.

- ***Summary of the Council's Borrowing Position:***

Amount Outstanding at the end of March 2019	Average Interest Rate Paid in 2018/19	Total Interest paid in 2018/19
£0.306m (General Fund)	7.947%	£0.032m
£41.770m (HRA)	3.386%	£1.441m

No external borrowing was undertaken in 2018/19 for either the General Fund (GF) or Housing Revenue Account (HRA).

- ***Summary of the Council's Investment Position:***

Value of Investments held at the end of March 2019	Average Interest rate on Investments 2018/19	Interest Earned on Investments 2018/19
£59.470m	0.676%	£0.468m

The amount of interest earned from investments did increase during the year as the bank base rate was increased to 0.75% on 2 August 2018, but compared to historic interest figures it still remained low because of the continuing unprecedented low interest rates. Estimated income was increased during the year from the original estimate of **£0.236 million** to **£0.416 million,** with the outturn figure being **£0.468 million** as set out in the table above.

- The Council continues to hold one property within its Commercial Investment Portfolio, which had a balance sheet value at 1 April 2018 of **£3.100 million**. This 'book value' was reduced by the Council's appointed valuers to **£2.300 million** at the end of 2018/19. However this is an 'accounting' valuation and not a direct value that could be achieved on the market if it was sold. In-line with the budget, rental income of **£0.207 million** was earned on the property in 2018/19.

- Treasury performance figures for the year are set out in **Appendix A** with Prudential Indicators attached as **Appendix B.**

RECOMMENDATION(S)

That Cabinet notes the Treasury Management performance position for 2018/19 and approves the Prudential and Treasury Indicators for 2018/19.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Good and effective Treasury Management supports the Council in delivery against its corporate goals and objectives.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Key treasury management performance data is set out in **Appendix A**.

Risk

Risk is inherent in all treasury management activities. Such risks are considered within the Capital and Treasury Strategy with management actions necessary to mitigate the risks set out in the Council's Treasury Management Practices.

LEGAL

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance which this Council has adopted.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications in respect of the above areas.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Services. The main reporting elements to comply with this code include:

- An Annual Capital and Treasury Strategy approved by Cabinet after consultation with the relevant overview and scrutiny committee for recommending to the Full Council.
- Regular monitoring reports that form part of the Council's Corporate Financial Performance Monitoring arrangements during the year. (For 2018/19, one issue was brought to the attention of members as part of this reporting process with no further issues to raise as part of this outturn review)
- An annual treasury performance or outturn report for the preceding year that is presented to Cabinet.

This report sets out the necessary information in response to the third bullet point above and provides a summary of the treasury activities undertaken in 2018/19 **(Appendix A)** and final Prudential and Treasury Indicators at the end of 2018/19 **(Appendix B),** with revised figures for 2019/20 where relevant.

During 2018/19, the Council complied with its legislative and regulatory requirements and associated treasury management activity remained in accordance with the Treasury Strategy and Treasury Management Practices with further details in respect of specific borrowing and investment considerations set out in the next section of the report.

BORROWING AND INVESTMENTS 2018/19

<u>Borrowing</u>

The Base Rate set by the Bank of England was increased to 0.75% on 2 August 2018 and the latest forecast from the Council's treasury advisors indicates that this is unlikely to change until March 2020 when an increase is forecast to 1.00%, with a further increase to 1.25% forecast in September 2020. Public Works Loan Board (PWLB) rates rose for the period up to October 2018 but have fallen back again since and remain at low levels historically.

No external borrowing was undertaken during the year. In respect of the General Fund, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent, as investment returns are low and counterparty risk remains relatively high. As set out in the Treasury Strategy, the current internal borrowing position is running just ahead of the £5m agreed. However given the continuing low return on investments and no significant increases in PWLB interest rates in the immediate future, it is felt prudent to maintain this position in the short term although this will be kept under review in consultation with the Council's external advisors and set against the background of potential increases in borrowing rates in the future.

No new borrowing or restructuring of existing debt was undertaken for GF or HRA purposes in 2018/19. Principal on HRA debt continues to be repaid each year in line with the 30 year business plan.

Debt rescheduling opportunities are limited in the current economic climate with no debt rescheduling taking place in 2018/19.

No temporary borrowing from the markets was required during the year.

One of the key prudential indicators relates to the Council's Authorised Borrowing Limit. It is therefore worth highlighting that borrowing has been maintained within the Council's Authorised limit as set out below:

Key Indicator	Limit 2018/19	Amount Borrowed (Internal and External)
Authorised Limit – borrowing	£80.505m	£47.446m

Investments

The year saw the continuation of the challenging investment environment of low investment returns with relative high level of counterparty risk continuing. The tight monetary conditions remain and short term deposit rates remain at low levels, although there was an increase following the increase in bank base rates.

The Council manages its investments in-house and invests in accordance with the approved strategy. The Council invests for periods of time dependent on the Council's cash flows, the view as to future interest rate movements and the interest rates offered by counterparties whilst balancing various risks such as interest rate risk and counterparty risk.

The Council's investments continued across the following investment types:

- Deposits at fixed rates and for fixed terms with other local authorities and the Government's Debt Management Office (DMO)
- Deposits at fixed rates and for fixed terms with UK-based banks and building societies meeting the counterparty risk criteria
- Treasury bills, which are tradeable but if held to maturity are at fixed rates, although none were purchased during 2018/19 as the rates were much lower than could be achieved elsewhere
- Certificates of deposit, which are tradeable but if held to maturity are at fixed rates
- Use of deposit accounts with UK banks for liquidity

These remain the same instruments the Council has used in prior years so there has been no new investment types used during 2018/19. Further details on how the investment types changed over the year is set out below.

With poor investment returns available along with limited 'low' risk counterparties, a significant proportion of the Council's investments were still made with other local authorities. A number of banks have, however, seen their ratings rise over the past 36 months which brought them back onto the Council's lending list. The returns on Treasury Bills were so low that none were bought during the year. Certificates of deposit and fixed deposits with banks were pursued for much of the year and were used when they offered better returns than that available from local authorities. Local authority rates rose in autumn 2018 and in early 2019 and the Council continued to invest with them again. Both government and local authority investments fit well with the Council's low appetite for risk with the security and liquidity of the investment the prime concern.

The total invested in local authorities at 31 March 2019 was **£46.000 million** out of a total investment of **£59.470 million**, with a further **£1.000 million** invested short term with the Debt Management Office. Other investments were held with UK banks with no amounts held with Building Societies, non-UK institutions or in Treasury Bills.

The Council receives regular credit rating updates during the year following which the appropriate action is taken as soon as practical where the credit rating falls below the minimum ratings which form part of the Council's Treasury Management Practices.

The UK holds an AA rating with two rating agencies and Aa2 with the third, with the lower grades not having a specific adverse impact on the Council's treasury activities at the present time.

In accordance with the Council's Commercial Property Investment Policy, an annual update on the portfolio is set out below.

In August 2017 the Council purchased an investment property in the District. The purchase was financed partly from capital receipts and partly from revenue resources, so there was no increase in indebtedness arising from the purchase. The purchase price, including stamp duty, was **£3.244 million**. At 31 March 2018 the property had been revalued t**o** **£3.100 million** (the purchase price less stamp duty tax). During 2018/19 the Council's appointed valuer revalued the property for the purposes of the Council's Statement of Accounts and the fair value was reduced to **£2.300 million** at 31 March 2019. An impairment of **£0.800 million** was therefore recognised in the Council's 2018/19 statement of accounts, which is charged to revenue within the Comprehensive Income and Expenditure Statement and then reversed out through the Movement in Reserves Statement so that it does not fall as a direct cost that needs to be financed. It is worth highlighting that the above adjustments reflect the necessary end of year accounting adjustments and therefore do not necessarily reflect the value of the property on the open market. This remains as the only property in the portfolio.

In terms of the performance of the property, during the year the rental income was **£0.207million**. This represents an annual rate of return for the year of 6.4% compared to the purchase price including stamp duty. The property is therefore performing satisfactorily against the financial target with the budgeted investment income achieved for the year.

The current leasehold occupier of the property purchased ceased trading from the property in November 2018. At the present time discussions remain on-going with the current leasehold occupier to explore options going forward, which could include them subletting the property for the unexpired period of the lease (approximately 7 years). It is worth highlighting that the Council's Commercial Property Investment Policy is underpinned by robust risk management actions which will respond to any changes to the situation.

Given the above, there are no current risks to the Council's long term forecast or significant changes to the risk of holding commercial property, but this will be reviewed on an on-going basis with any changes required to be made to the forecast set out as part of the financial strategy process over the reminder of the year.

<u>Specific Issues Experienced in 2018/19</u>

Already Reported to Members on 14 September 2018 as part of the Financial Performance Report for the period ending July 2018 considered by Cabinet

On 1 May 2018 the Council arranged a 'roll over' deal of £1 million with another Local

Authority. On paper this would require the repayment of £1m from the local authority that relates to the original deal, with the same amount being relent to them on the same day. In practise no money should change hands apart from the payment of the interest due, as in effect all that is happening is the period of the short term loan given to the other Local Authority is being extended. However, unexpectedly the relevant Local Authority repaid the **£1.000m** to the Council relatively late in the day and following discussions with the bank, it was not possible to send the money back to that Council the same day. Therefore the money remained with Tendring District Council overnight before the required transfer was completed the next day. As a result, the Council carried a total of **£1.717m** overnight in its bank account against a limit of **£1.000m**. There was no additional risk associated with this issue as the money was only held overnight. This was a rather unusual situation as such deals are completed on a regular basis with other local authorities with no such issues emerging. In practical terms, all the Council can do is make it clearer in any communication it has with local authorities when such deals are agreed in future.

Compliance with Treasury and Prudential Limits

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy. The outturn for the Prudential Indicators is shown in **Appendix B.**

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A Treasury Performance figures 2018/19
Appendix B Prudential and Treasury Indicators 2018/19

Key treasury management performance data for 2018-19 **Appendix A**

1 Borrowing

1a Long Term Debt

Principal	Opening Balance 1 April 2018 £'000	New Borrowing £'000	Principal Repaid £'000	Balance at 31 March 2019 £'000	Average Debt for Year £'000
Long Term Borrowing					
PWLB - General Fund	464	0	158	306	408
PWLB - Housing Revenue Account	43,434	0	1,664	41,770	42,544
Total Long Term Borrowing	**43,898**	**0**	**1,822**	**42,076**	**42,952**

Average Interest Rates	Average Interest Rate 1 April %	New Borrowing %	Principal Repaid %	Average Interest Rate 31 March %	Average Interest Rate for Year %
Long Term Borrowing					
PWLB - General Fund	7.968	0.000	8.145	7.958	7.947
PWLB - Housing Revenue Account	3.368	0.000	2.371	3.408	3.386
Overall Long Term Borrowing	**3.417**	**0.000**	**2.872**	**3.441**	**3.429**

Interest paid relating to 2018-19	
General Fund	32
Housing Revenue Account	1,441
	1,473

Long term debt is defined in legislation as loans repayable over more than one year.

1b *Total debt*

Average debt over the year	£42,952
Interest paid relating to 2018-19	£1,473
Average interest rate for year	3.429%

This includes interest paid on temporary debt

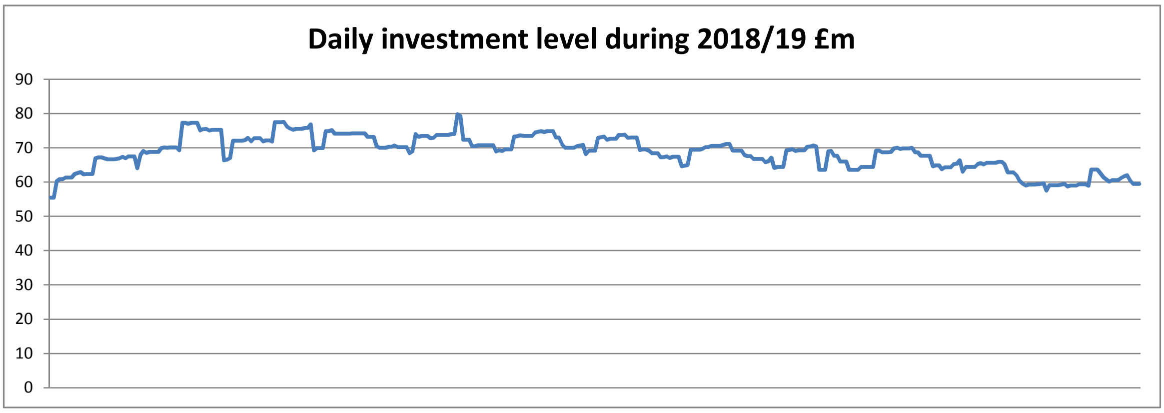
1c Budget for Total Interest Paid

	Original Estimate £'000	Out-turn £'000	Variation from Budget £'000
General Fund	56	32	(24)
Housing Revenue Account	1,453	1,441	(12)
Total Interest Paid	**1,509**	**1,473**	**(36)**

2 Investments

2a *Temporary Investments*

Principal	Opening Balance 1 April 2018 £'000	New Investments £'000	Investments Repaid £'000	Balance at 31 March 2019 £'000	Average Investments for Year £'000
Investments less than a year					
Investments with UK Government via Treasury Bills, DMO, Local Authorities and other public bodies	46,000	303,800	302,800	47,000	
Investments with UK Financial Institutions (including Money Market Funds)	9,440	53,580	50,550	12,470	
Investments with non-UK Financial Institutions	0	0	0	0	
Total Temporary Investments	**55,440**	**357,380**	**353,350**	**59,470**	**68,573**



Average Interest Rates	Average Interest Rate 1 April %	Average Interest Rate 31 March %	Average Interest Rate for Year %
Temporary Investments	0.484	0.915	0.676

2b Budget for Total Interest Earned

	Original Estimate £'000	Revised Q3 CBM £'000	Out-turn £'000	Variation from Revised Budget £'000
Total Interest Earned	**(236)**	**(416)**	**(468)**	**(52)**

3 Base rates

	%
At 1 April 2018	0.500
At 31 March 2019	0.750

The rate was increased by the Bank of England on 2 August 2018

PRUDENTIAL INDICATORS

CAPITAL EXPENDITURE

This is an estimate of the amount of investment planned over the period. As can be seen, not all investment necessarily has an impact on the Council Tax, schemes funded by grants, capital receipts or external contributions mean that the effect on the Council Tax is greatly reduced.

Capital Expenditure - General Fund £000s	2017/18 Actual	2018/19 Q3 CBM	2018/19 Actual	Notes	2019/20 as agreed by Council March 2019	Amended 2019/20 for carry forwards
Total Capital Expenditure	**5,811**	**13,737**	**4,831**		**2,637**	**11,591**
Financing - General Fund						
External contributions	(142)	(282)	(203)		-	(59)
Section 106	(80)	(183)	(168)		-	(14)
Coast protection grant	(270)	(4,115)	(2,609)		(602)	(2,108)
Other Government grants	-	(322)	-		-	(322)
Disabled Facilities Grant	(1,151)	(3,759)	(1,077)		(757)	(3,439)
Capital receipts	(850)	(883)	(41)		(64)	(907)
Direct revenue contributions	(2,917)	(954)	(165)		(100)	(957)
Earmarked reserves	(401)	(3,239)	(568)		(1,114)	(3,785)
Total Capital Financing	**(5,811)**	**(13,737)**	**(4,831)**	**-**	**(2,637)**	**(11,591)**
Net Financing need (External Borrowing)	**0**	**0**	**0**		**0**	**0**

Housing Revenue Account Capital Schemes £000	2017/18 Actual	2018/19 Q3 CBM	2018/19 Actual	Notes	2019/20 as agreed by Council March 2019	Amended 2019/20 for carry forwards
Total Capital Expenditure	**3,233**	**8,113**	**4,283**		**3,176**	**6,711**
Financing - Housing Revenue Account						
Major repairs reserve	(2,801)	(4,096)	(3,224)		(3,176)	(3,753)
Direct revenue contributions	(85)	(3,233)	(342)		-	(2,891)
Section 106	(92)	-	-		-	-
Capital receipts	(156)	(37)	(37)		-	-
External contributions	-	(667)	(600)		-	(67)
Government grant	(99)	(80)	(80)		-	
Total Capital Financing	**(3,233)**	**(8,113)**	**(4,283)**		**(3,176)**	**(6,711)**
Net Financing need (External Borrowing)	**0**	**0**	**0**		**0**	**0**

CAPITAL FINANCING REQUIREMENT

Each year, the Council finances the capital programme by a number of means, one of which could be borrowing. The Capital Financing Requirement (CFR) represents the cumulative amount of borrowing that has been incurred to pay for the Council's capital assets, less amounts that have been set aside for the repayment of debt over the years. The Council is only allowed to borrow long term to support its capital programme. It is not allowed to borrow long term to support its revenue budget.

CAPITAL FINANCING REQUIREMENT	2017/18 Actual	2018/19 Estimate	2018/19 Actual	Notes	2019/20 as agreed by Council March 2019
	£000	**£000**	**£000**		**£000**
General Fund	5,912	5,676	5,676		5,449
Housing Revenue Account	43,435	41,770	41,770		40,106
Total	**49,347**	**47,446**	**47,446**		**45,555**

GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT

This indicator compares the Capital Financing Requirement to the level of external debt and shows how much of the capital programme is financed from internal resources. The capital programme is partially funded in the short to medium term by internal resources when investment interest rates are significantly lower than long term borrowing rates. Net interest payments are, therefore, optimised.

PRUDENTIAL INDICATOR	2017/18 Actual	2018/19 Estimate	2018/19 Actual	Notes	2019/20 as agreed by Council March 2019
	£000	£000	£000		£000
Capital Financing Requirement	49,347	47,446	47,446		45,555
External debt	43,898	42,076	42,076		40,312
Internal borrowing	5,449	5,370	5,370		5,243

OPERATIONAL BOUNDARY AND AUTHORISED LIMIT

The Council must set an operational boundary and authorised limit for external debt. The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. It also takes account of other long term liabilities, which comprise finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt. The Council has none of these at present.

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

PRUDENTIAL INDICATOR	2017/18 Actual	2018/19 Estimate	2018/19 Actual	Notes	2019/20 as agreed by Council March 2019
	£000	£000	£000		£000
Operational boundary - borrowing	72,934	67,861	67,861		67,704
Authorised limit - borrowing	81,038	80,505	80,505		76,455

RATIO OF FINANCING COSTS TO NET REVENUE STREAM

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

ESTIMATE OF THE RATIO OF FINANCING COSTS TO NET REVENUE	2017/18 Actual	2018/19 Estimate	2018/19 Actual	Notes	2019/20 as agreed by Council March 2019
	£000	£000	£000		£000
General Fund	0.33	-0.37	-1.91		-0.64
Housing Revenue Account	45.16	75.22	47.89		46.23

INTEREST RATE EXPOSURE

Tendring District Council currently has all its borrowings at fixed rate and usually has a mixture of fixed and variable rate investments. This indicator is set to control the Council's exposure to interest rate risk.

PRUDENTIAL INDICATOR	2017/18 Actual	2018/19 Estimate	2018/19 Actual	Notes	2019/20 as agreed by Council March 2019
	£000	£000	£000		£000
Upper limit for Fixed Interest Rates on debt	49,347	47,446	47,446		45,555
Upper limit for Variable Interest Rates on debt (based on 30% of the fixed rate limit)	14,804	14,234	14,234		13,667

TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS (excluding property)

Interest rate risk is also affected by the proportion of the investments invested at fixed rates for longer periods, especially in a period when rates are expected to rise.

PRUDENTIAL INDICATOR	2017/18 Actual	2018/19 Estimate	2018/19 Actual	Notes	2019/20 as agreed by Council March 2019
	£000	£000	£000		£000
Limits on the total principal sum invested to final maturities longer than 364 days	0	3,500	0		3,500

MATURITY STRUCTURE OF FIXED RATE BORROWING

This indicator is set to control the Council's exposure to refinancing risk. The limits are set for each age range to ensure that the Council avoids too many fixed rate loans being matured at one time and spreads the maturity across several periods. The percentages for the upper and lower limits do not add up to 100% as they do not represent an actual allocation.

PRUDENTIAL INDICATOR	Upper limit	Lower limit	Actual outstanding debt maturity % at		2019/20 as agreed by Council March 2019
	%	%	31/03/2019		31/03/2020
Under 12 months	25	0	4.19%		4.27%
12 months and within 24 months	30	0	4.09%		4.15%
24 months and within 5 years	60	0	12.63%		15.55%
5 years and within 10 years	75	0	22.92%		20.13%
10 years and above	95	25			
10-20 years			17.90%		16.89%
20-30 years			2.61%		1.82%
>30 years			35.65%		37.21%

TREASURY INDICATOR - EXPOSURE TO CREDIT RISK

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) using the rating applicable when it is taken out and taking the arithmetic average, weighted by the size of each investment. Investments in government instruments such as DMO, treasury bills and in local authorities are scored as 1.

TREASURY INDICATOR	2017/18 Actual	2018/19 Actual	2019/20 Upper limit
Average credit score for investments	1.39	1.43	2.00