COUNCIL: 18 July 2018

Report of:	**Borough Treasurer**
Contact for further information:	**Mr J Smith (Extn.5093)** **Mr M Kostrzewski (Extn 5374)**

SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR PERFORMANCE 2017-18

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To set out details of Treasury Management performance and Prudential Indicators for the year ended 31 March 2018.

2.0 RECOMMENDATION

2.1 That the performance for the 2017-18 financial year be noted.

3.0 BACKGROUND

3.1 Treasury Management covers the management of the Council's cash flows, banking, investments and borrowing. Given the large sums of money involved it is an important area of the Council's finances and is subject to a specific set of rules and regulations.

3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, which has been adopted by the Council, requires a number of reports to be made to Council on Treasury Management activities. This includes details of performance during the year and the exercise of powers delegated to the Borough Treasurer.

3.3 The Prudential Code for Capital Finance allows Councils to determine their own level of borrowing, taking account of a set of prudential indicators. The general principle is that borrowing is to be affordable, prudent and by conclusion sustainable. Details on these prudential indicators are required to be reported to Council on a regular basis.

4.0 INVESTMENT PERFORMANCE

4.1 The Council's investment activity during the year continued to be adversely influenced by external factors. The continuation of the Funding for Lending Scheme until the end of January 2018, for example, had a negative impact on investment returns. The Bank of England Base Rate started the financial year at 0.25% and following a rate rise in November 2017 closed the year at 0.50%. This rise did not have a significant impact on the Council's average interest rate for the year as cash flow in the final quarter reduces, and so the availability of funds for investment is restricted. The main priority however is to guarantee the security of the funds invested. The average amount of investments during 2017-18 was £20.8m compared to £19.1m in 2016-17.

4.2 The following table provides details on investment activity over the last 2 years.

	2017-18	2016-17
External Investment Interest earned	£75,114	£90,980
Annual Turnover	£130 million	£152 million
Number of individual investments	40	32
Average Interest Rate earned	0.308%	0.389%
Number & type of organisations invested in		
Local Authorities	1	1
Building Societies	4	3
Banks	4	4

4.3 As part of the ongoing exercise to achieve Best Value in Treasury Management, performance on investment activities continues to be monitored against a benchmark of the average 3-month LIBID interest rate. The average interest rate earned by the Council on its investments, was 0.308%, which was higher than the average LIBID rate of 0.28%. This represents a good performance and demonstrates that treasury management activities continue to be delivered effectively. This position is especially favourable given that our procedures for minimising risk mean that investments are only made in the highest rated UK based financial institutions and for relatively short periods of time.

5.0 COUNCIL BORROWING

5.1 At the start of the financial year the Council had outstanding long term borrowing of £88.212m, from the Public Works Loan Board which was related to the implementation of HRA self-financing. By the end of the financial year this position had remained unchanged. Total interest payments of £3.06m were made in 2017-18 in order to service this debt.

5.2 The funding resources for the Council's capital works for 2017-18 did not include any element of external borrowing in order to achieve the programme. Instead a combination of mainly internally generated resources and capital grants was utilised in order to fund the different schemes detailed in the programme.

5.3 There are a number of potential initiatives that are currently being considered that could have major borrowing implications. These projects include the Skelmersdale Town Centre Vision, the replacement of leisure facilities, and the setting up of a development company. In addition delivery of the HRA Business Plan will require funding through external borrowing over the course of the medium term capital programme. These schemes will be subject to separate reports to Council which will contain details on their financial implications.

5.4 It was reported to Council in February 2018 that there is new guidance on Minimum Revenue Provision requirements and local government investments coming into force from 2019-20. In addition there is also a new suite of prudential indicators to be reported from 2019-20. Appropriate measures will be taken to ensure that any external borrowing that is utilised complies with the requirements of this new guidance.

6.0 EXERCISE OF DELEGATED POWERS

6.1 The current Counterparties list is set out in Appendix A. This shows the types of organisations that have been approved for investment purposes, and the maximum amount and loan period for investing with a single organisation. There have been no changes made to this list during the year.

6.2 The Borough Treasurer has delegated powers to take out new debt and repay existing debt. These powers ensure that the Council can obtain the best possible deals in a market where conditions can change rapidly. However this facility was not utilised during the year.

7.0 PRUDENTIAL CODE PERFORMANCE

7.1 Appendix B details the actual Prudential Indicators for the financial year 2017-18. The overall information that this conveys is one of a healthy financial position and this confirms that the Council has a good financial standing.

7.2 The purpose of the Indicators is to ensure that financing costs associated with capital activities are managed in a prudent, affordable and by definition, sustainable manner.

7.3 The Council aims to ensure this position in a number of ways. One of the main areas in which it achieves this objective is by a robust budget setting cycle. During this process Managers must detail the revenue implications of any capital decisions, while the capital process identifies the resources available to fund the capital programme. This ensures that strategic resource planning and option appraisal of bids are fully reviewed prior to setting the programme.

7.4 In specific reference to the Prudential Indicator performance for 2017-18 it is worth pointing out that the net revenue stream for the GRA is in a small positive position. This is due to the fact that investment returns are currently low as detailed above, while a minimum revenue provision for the repayment of outstanding liabilities has to be made.

7.5 The HRA net revenue position is at the level detailed primarily due to the interest payments of £3.06m on the self-financing debt. However, it must be borne in mind that the Council does not now have to pay housing subsidy to the Government, which was some £6m per annum, and consequently is in a much better financial position.

8.0 SUSTAINABILITY IMPLICATIONS

8.1 There are sustainability impacts about undertaking long term debt. Any decisions in this regard will follow the following principles of being prudent, affordable and sustainable and will also be in accord with CIPFA guidance and codes of practice. There are no significant impacts on Crime and Disorder arising from this report.

9.0 RISK ASSESSMENT

9.1 The formal reporting to Council of Treasury Management performance and Prudential Indicators for Capital Finance is part of the overall framework to ensure that the risks associated with this activity are effectively controlled.

Background Documents
There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact assessment
The decision does not have any direct impact on members of the public, employees or elected members and/or stakeholders. Therefore, no Equality Impact Assessment is required.

Appendices
Appendix A – Approved Counterparties for External Investments

Appendix B – Outturn Prudential Indicators

APPENDIX A

APPROVED COUNTERPARTIES FOR EXTERNAL INVESTMENTS –

Type of Counterparty	Maximum loan by Council	Maximum Period
Major British Based Banks and Subsidiaries with the highest possible credit ratings.	£5m	Up to £3m 364 days Up to £5m 6 months
British Based Building Societies. – Only those with the highest possible credit ratings as advised by our Treasury Management advisors	£5m	Up to £2m 364 days Up to £5m 6 months
Other Local Authorities	£5m	Up to 364 days
Money Market Funds	£3m	Callable deposits

NOTE:-

No investments are currently being made for more than 3 months.

Appendix B:

PRUDENTIAL INDICATORS OUTTURN 2017-18

Net Revenue Stream:

	2017/18	2016/17
General Revenue Account -	2.56 %	2.38 %
Housing Revenue Account -	11.77 %	12.11 %

This is a measure of the interest paid on borrowing / debt taking account of the interest earned on investments as a percentage of the overall Council tax or HRA expenditure requirement.

Capital Expenditure:
£ '000

	Budget	Actual
General Revenue Account -	£3,168	£2,344
Housing Revenue Account -	£10,652	£6,839
Total	£13,820	£9,183

This Indicator is reported upon to demonstrate that there is effective control of the capital programme and that expenditure is incurred in line with resources approved.

Authorised Limit for External Debt: £ '000		Operational Boundary:
Borrowing	110,000	107,500
Other long term liabilities	2,000	600
Total	112,000	108,100

The Borough Treasurer has delegated authority to borrow up to the limits detailed above and to effect movement to these figures for borrowing and other long term liabilities. Such changes will be reported to Council at its next meeting following the change. The Council undertook borrowing of £88.212m on 28th March 2012 and had other long term liabilities totalling £0.446m at the end of the year, and consequently is comfortably within the parameters detailed.

Capital Financing Requirement
£ '000

	2016/17	2017/18
General Revenue Account	£21,454	£21,621
Housing Revenue Account	£80,106	£80,106
Total	£101,560	£101,727

The capital financing requirement measures the Authority's underlying need to borrow for a capital purpose.

Maturity Structure of Borrowing

All fixed rate loans:

£ Value	% Interest Rate	Period	Maturity date	£ Int p.a.
4,410,600	3.01	15	28/3/27	132,759
4,410,600	3.30	20	28/3/32	145,549
8,821,200	3.44	25	28/3/37	303,449
8,821,200	3.50	30	28/3/42	308,742
8,821,200	3.52	35	28/3/47	310,506
8,821,200	3.53	37	28/3/49	311,388
8,821,200	3.52	40	28/3/52	310,506
8,821,200	3.51	42	28/3/54	309,624
8,821,200	3.50	45	28/3/57	308,742
8,821,200	3.50	47	28/3/59	308,742
8,821,200	3.48	50	28/3/62	306,977

Weighted average interest rate is 3.47%
Total interest charge p.a. is £3,056,986