



COUNCIL: 17 October 2018

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Report of: Borough Treasurer

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**SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS  
MONITORING 2018-19**

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Wards affected: Borough wide

## **1.0 PURPOSE OF THE REPORT**

1.1 To set out details of Treasury Management operations in the year to date and on future plans, and to report on the Prudential Indicators for 2018/19 where available.

## **2.0 RECOMMENDATION**

2.1 That the Prudential Indicators and Treasury Management position be noted.

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## **3.0 BACKGROUND**

3.1 The Council has adopted the CIPFA Treasury Management Code of Practice in Local Authorities. One condition of the Code is that a report must be made twice yearly to the Council on the activities of the Treasury Management function including the exercise of Treasury Management powers delegated to the Borough Treasurer.

3.2 The CIPFA Prudential Code for Capital Finance sets out a range of prudential indicators to assess whether an authority's financial position is prudent, affordable and sustainable. It is best practice that performance on these indicators is reported to Members on a regular basis.

## **4.0 PRUDENTIAL INDICATORS**

- 4.1 One of the Council's main strengths is its healthy financial position, and the Council has consistently received reports from its external auditors stating that the Council has a strong financial standing. This position is confirmed in the latest set of prudential performance indicators that are set out in the Appendix.
- 4.2 Table 1 in the Appendix details the estimated and the projected outturn in relation to the principle of affordability contained within the Prudential Code for the current financial year. The first indicator shows that the GRA has a low ratio of financing costs compared to the net revenue stream. The HRA ratio is higher as a result of the borrowing that had to be taken out when the HRA Self Financing system was introduced in March 2012. The borrowing undertaken of some £88.212m attracts annual interest payments of £3.057m, which represents 11.68% of revenue, after allowing for some investment income.
- 4.3 Table 2 in the Appendix details the Prudential Indicator in relation to capital expenditure, which fall under the principle of prudence. At its meeting in February 2018 the Council approved a capital programme worth £20.177m for 2018-19. Capital monitoring in the year to date shows that expenditure is not expected to exceed these budget levels.
- 4.4 There is also a requirement to report upon the Capital Financing Requirement of the Council. This indicator details the authority's underlying need to borrow for a capital purpose. At the end of the financial year 2017/18 the Capital Financing Requirement stood at £101.560m. Due to its nature this indicator can only be reported upon when the non current asset accounts are closed, and the figure for the 2018/19 financial year will not be available until Summer 2019.
- 4.5 With regard to the Treasury Management Prudential Indicators two of these relate to approved borrowing limits, in terms of the authorised limit and the operational boundary for external debt. Council agreed these limits at £112.0m and £108.1m respectively at its meeting on 28th February 2018, and we are currently well within these limits. Table 3 in the Appendix details the borrowing structure and interest payments associated with our debt.

## **5.0 INVESTMENTS**

- 5.1 There have been on average far greater funds available for investment during the current year compared to the last year. The average amount of funds invested for the first 5 months of 2018/2019 was £26.0m compared to £15.9m after the same period in 2017/2018.
- 5.2 The Base Rate started the year at 0.50% and was then increased to 0.75% in August. Our treasury management advisors, Link Asset Services have forecast that the base rate will remain at this level for the rest of this financial year. As a result investment rates have improved and it is anticipated that the total interest earned in 2018/19 will be in excess of that earned in 2017/18.
- 5.3 The Council's strict investment criteria means that there are only a limited number of counter parties in which we can invest. These criteria ensure that the Council will only invest with other Local Authorities or with UK based Banks or Building

Societies with the highest possible credit rating, and this approach seeks to minimise the risk of the loss of public funds.

- 5.4 The following table provides details on investment activity during the first 5 months of this year and last year.

	End of Aug 2018/19	End of Aug 2017/18
Investment levels		
Average Funds invested	£26.0 million	£15.9 million
External Investment Interest earned	£58,213	£21,521
Turnover	£43.10 million	£29.75
million		
Number of individual investments	23	15
Average Rate earned on all investments	0.530%	0.213%
Number & type of organisations invested in		
Local Authorities	1	0
Building Societies	3	3
Banks	3	3

- 5.5 As part of the ongoing work to achieve Best Value in Treasury Management, we continually monitor our performance against a benchmark figure of the average 3-month LIBID interest rate. The position at the end of August is that we are just short of this target, achieving an average rate of interest earned of 0.53% on all investments, against the benchmark average of 0.55%. There is still time in the remainder of this year though to improve on this position.

- 5.6 Members should note that investments are only made in very secure financial institutions with the highest possible credit ratings. We liaise closely with money market brokers and our treasury advisors in order to anticipate the investment landscape ahead, so that we are in a good position to safeguard our investments. In addition each year our treasury advisors undertake a review of our activities and approach to ensure its effectiveness and to consider potential opportunities.

## 6.0 TREASURY MANAGEMENT FRAMEWORK

- 6.1 There have not been any significant changes made to the treasury management framework in the year to date. It is standard practice that credit rating and other financial information are fully assessed before investments are made to ensure their security.

- 6.2 No changes have been made to the criteria used for deciding upon counterparties for investment purposes, and the maximum amount and loan period for investing with a single organisation remains unchanged. In addition no changes have been made to the list of Brokers used for investment purposes.

## 7.0 LARGE SCALE DEVELOPMENTS

- 7.1 The Council has a number of initiatives in the pipeline that will require careful consideration from a treasury management perspective including:

- The Skelmersdale Town Centre development
- Leisure Centre replacement
- Forming a Development Company, which is the subject of separate report elsewhere on this agenda

7.2 We are currently exploring approaches to the funding of these schemes to ensure that cash flow is managed efficiently, debt costs are managed to minimum levels and the risks associated with the differing approaches are fully considered. There has however been no external borrowing taken out on these or any other schemes in the year to date.

7.3 It has been previously reported to Members that new Prudential Indicators and a capital strategy have to be in place from April 2019 as a result of regulatory changes. It is intended that these issues will be covered in a report to Council in February 2019, and this will incorporate the potential implications of the new developments set out above in order to ensure the effective financial management of these projects.

## **8.0 SUSTAINABILITY IMPLICATIONS**

8.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder.

## **9.0 RISK ASSESSMENT**

9.1 The formal reporting to Council of Prudential Indicators and Treasury Management performance is part of the overall framework set out in Codes of Practice to ensure that the risks associated with this area are effectively controlled. Treasury management activities are included as a risk in the Council's Key Risk Register.

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### **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, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

### **Appendices**

Appendix A – Prudential Indicators