COUNCIL: 16 October 2019

Report of: **Borough Treasurer**

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SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING 2019-20

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 to report on the Prudential Indicators for 2019/20, where available.

2.0 RECOMMENDATION

2.1 That the Prudential Indicators and Treasury Management activity in the year to date, including the funding provided to Tawd Valley Developments Ltd, be noted.

2.2 That the terms of reference and delegation to the Strategic Asset Purchasing Committee be broadened and increased to cover any commercial investment opportunity up to £3m.

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.

3.3 Earlier this year the Council approved the set up of a new company, Tawd Valley Developments Ltd, and funding is now being provided to the company to enable it to become operational. The Council also approved a series of Sustainable Organisational Review (SORP) proposals at its meeting in July, including changes to the way cash will be invested and through the creation of a fund to acquire or build commercial assets. This report sets out details on how these initiatives will influence treasury management activities going forward.

4.0 PRUDENTIAL INDICATORS

4.1 One of the Council's main strengths is its healthy financial position, this position is confirmed in this 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 net revenue stream at some 1.76%. The forecast percentage has decreased as the investment earned is projected to improve on budget forecasts. The HRA self financing borrowing undertaken of some £88.212m attracts annual interest payments of £3.057m, which represents 11.44% of revenue, after allowing for some investment income. The forecast position for the HRA is broadly in line with the estimate.

4.3 The Treasury Management strategy document presented to Council in February 2019 introduced new indicators in order to facilitate the understanding of borrowing and investment decisions. One of these was occupancy levels and the actual levels being achieved over the summer of 2019 are presented in the appendix. They are very similar to the levels in February 2019 and indicate a sound position. Similarly the forecast rental income of the commercial assets is also showing that forecast rental incomes will be marginally improved on the budget target.

4.4 Capital expenditure indicators are currently being reviewed and will be reported to Members later this year. However current monitoring shows that no schemes are over spending which is the main purpose of this indicator.

4.5 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 2018/19 the capital financing requirement stood at £104.868m. Due to its nature this indicator can only be reported upon when the non current asset accounts are closed, and the figure for the 2019/20 financial year will not be available until Summer 2020.

4.6 With regard to the Treasury Management Prudential Indicators two of these relate to approved borrowing limits namely, the authorised limit for external debt and the operational boundary. Council agreed these limits at, £111.0m and £108.0m respectively at its meeting on 27th February 2019, and we are currently well within these limits. Table 3 in the Appendix details the borrowing structure and interest payments associated with our debt. No new external borrowing has been taken out in the year to date and at the current time it is not expected that any will be required in this financial year. This position will be kept under review particularly in the light of the speed of delivery of capital schemes and potential future interest rate movements.

5.0 INVESTMENTS

5.1 There have been on average greater funds available for investment during the current year compared to last year. The average amount of funds invested for the first 5 months of 2019/2020 was £28m compared to £26m after the same period in 2018/2019.

5.2 The Base Rate started the year at 0.75% and has remained unchanged, which was higher than the same period last year. Given the uncertainty surrounding the manner of Britain's exit from the European Union our treasury management advisors, Link Asset Services, have forecast that the base rate will remain at 0.75% until December 2020, but this position is not certain. It is however anticipated that the total interest earned in 2019/20 will be well in excess of that earned in 2018/19.

5.3 The Council's previous investment criteria meant that there were only a limited number of counter parties in which we could invest. These criteria ensured that the Council would only invest with other Local Authorities, or with UK based Banks or Building Societies with the highest possible credit rating, and this approach was primarily designed to minimise the risk of the loss of public funds.

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

	End of Aug 2019/20	End of Aug 2018/19
Investment levels		
Average Funds invested	£28 million	£26 million
External Investment Interest earned	£94,074	£58,213
Turnover	£33.25 million	£43.10 million
Number of individual investments	23	23
Average Rate earned on all investments	0.721%	0.530%
Number & type of organisations invested in		
Local Authorities	1	1
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 have exceeded this target, achieving an average rate of interest earned of 0.721%, on investments, against the benchmark average of 0.66%.

6.0 NEW APPROACH ON INVESTMENTS

6.1 Through the SORP report to July Council it was agreed that the Council's Cash Investment Strategy should be revised, with £10m being invested in longer term, higher yielding investments. This type of approach has a higher level of risk but has been adopted by many other local authorities given the difficult financial position facing Councils. This strategy is subject to analysis and evaluation of the risks, including variation in return rates and capital versus revenue implications of different funds, by the Council's financial advisers.

6.2 At the end of September the first equity investment was made in Tawd Valley Development Ltd to enable it to become operational, and at the time of writing this report the first loan amount is about to be made. This funding has been provided from the Council's cash balances rather than taking out external borrowing. The equity investments should produce dividends in due course, although this will take some time to materialise given the long time scales involved in development activity. Long term loan funding is being provided to the company at commercial lending rates and consequently should generate a significantly higher rate of return than other current treasury management investments. Consequently this will start to generate the higher levels of investment income anticipated through the SORP process.

6.3 Work is also underway with our Treasury Management Advisors to review other possible long term cash investment opportunities, including Property Funds, and the results of this work will be reported back to Members in due course.

6.4 Through the SORP, Council also approved the creation of a £30m Fund to acquire new commercial property assets. Given that this principle has now been agreed it is proposed that the terms of reference of the Strategic Asset Purchasing Committee be broadened to cover any commercial investment opportunity up to £3m, compared to the existing limit of £2m. Any investment decisions above this level will still require Council approval, but this change should enable a more agile and flexible approach to respond to opportunities that may arise as these can present at very short notice. Work is underway to consider how this Fund should be used and this will include the production of a new Commercial Property Strategy.

7.0 SUSTAINABILITY IMPLICATIONS

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

8.0 RISK ASSESSMENT

8.1 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. Given the very large sums invested, treasury management activities are included in the Council's Key Risk Register.

Background Documents

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report.

Date	Document	File Ref
2003	CIPFA Prudential Code for Capital Finance	Accountancy Office
2010	CIPFA Revised Treasury Management Code of Practice	Accountancy Office

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