**AGENDA ITEM:**

**COUNCIL: 19 July 2017**

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

**SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR PERFORMANCE 2016-17**

**Borough wide interest**

## 1.0 PURPOSE OF THE REPORT

1.1 To set out details of the Treasury Management performance and Prudential Indicators for the year ended 31 March 2017, and to consider a budget update for a capital scheme.

## 2.0 RECOMMENDATIONS

2.1 That the performance for the 2016-17 financial year be noted.

2.2 That the budget figures for the Gorsey Place capital scheme set out in section 8 of this report be approved.

## 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 introduction of the Prudential Code for Capital Finance has allowed 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.

3.4 Cabinet considered a report on the redevelopment of Gorsey Place at its meeting on 13th June 2017 and resolved:

A. That the Director of Development and Regeneration be authorised to take all necessary steps to rebuild and refurbish units 34 and 36 Gorsey Place using insurance and reserve funding as detailed in section 5 of the report, subject to the budget impact being approved by Council on 19 July 2017.

B. That the Director of Development and Regeneration in consultation with the Leader of the Council and the Portfolio Holder for Finance, take all necessary steps to extend enhancement works to the other two adjoining units as detailed in section 5.5 of the report (Numbers 38 and 40 Gorsey Place), subject to the budget impact being approved by Council on 19 July 2017.

3.5 Section 8 of this report sets out the details on this project and the budget impact that requires Council approval.

## 4.0 INVESTMENT PERFORMANCE

4.1 The Council's investment activity during the year continued to be influenced by external and market factors, such as the continuation of the Funding for Lending Scheme, which has had a negative impact on investment returns. The Bank of England Base Rate started the financial year at 0.5% and was reduced in August 2016 to 0.25% as a consequence of the BREXIT vote and this was another major determining factor in continuing low investment returns. The main priority however remains to guarantee the security of the funds invested. The average amount of investments during 2016-17 was £19.1m compared to £21.9m in 2015-16.

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

| | 2016-17 | 2015-16 |
|---|---|---|
| External Investment Interest earned | £90,980 | £122,651 |
| Annual Turnover | £152 million | £189 million |
| Number of individual investments | 32 | 48 |
| Average Interest Rate earned | 0.389% | 0.535% |
| Number & type of organisations invested in | | |
| Local Authorities | 1 | 0 |
| Building Societies | 3 | 3 |
| Banks | 4 | 4 |

4.3 As part of the ongoing exercise to achieve Best Value in Treasury Management, we continue to monitor performance of the Council's investment activities against a benchmark of the average 3-month LIBID interest rate. The average interest rate earned by the Council, on its investments, was 0.389%. This was higher than the average LIBID rate of 0.32%. This, once again, represents good performance and shows that we are continuing the trend established over previous years. This position is especially favourable given that we currently do not invest funds for longer periods than three months. As part of our procedures for minimising risk, the Council only invests in the highest rated UK based financial institutions.

## 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 HRA self-financing.

5.2 By the end of the financial year the position had remained unchanged. Total interest payments of £3.057m were made in 2016-17 in order to service the self-financing debt.

5.3 The funding resources for the Council's capital works for 2016-17 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 plan. However achieving the HRA Business Plan and Capital Investment Programme may require external borrowing to be taken out and this position has been reflected in the budgets agreed by Council in February 2017.

## 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. This is in accord with the previously agreed Treasury Management protocol which has been approved by Members.

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 2016-17. 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 2016-17 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 (MRP) has to be made.

7.5 The HRA net revenue position is at the level detailed primarily due to the interest payments of £3.057m 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 p.a. and consequently is in a much better financial position.

7.6 As a result of the self financing payment, there is now another relevant indicator that requires reporting, that being the maturity structure of borrowing. This details the differing amounts of debt, the dates of maturity and the associated interest costs relating to the payment of £88.212m. It can be seen that by structuring the debt on a long term basis that the Council benefits from the low interest charges that were available at that specific time. This enables the HRA to develop a business plan with the backdrop of a clear financial picture relating to its debt.

## 8.0 GORSEY PLACE

8.1 Cabinet approved the enhanced rebuild of the fire damaged units at numbers 34 and 36 Gorsey Place and enhancement works at the adjoining units of 38 and 40 Gorsey Place at its meeting in June 2017. The enhancement involves the raising of the roof so that a mezzanine floor can be fitted. Both projects were considered appropriate as it had been assessed that there is a market demand for these types of units, which would also return an improved rental per square foot.

8.2 The total costs of the works would be £445,000, plus a possible contingency of £40,000. This is after taking account of the Insurance contribution, the remaining costs would be funded from the Industrial Portfolio reserve. The total extra income being generated from these works would be £34,600, which would generate a gross yield of 7.13%, which takes account of the possibility of the contingency being required.

## 9.0 SUSTAINABILITY IMPLICATIONS

9.1 There are no significant sustainability impacts implications associated with this report and in particular no significant impact on Crime and Disorder. The report has no links to the sustainable Community Strategy.

## 10.0 RISK ASSESSMENT

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

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**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 in Local Authorities | Accountancy Office |
| 2009 | 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 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<br><br>Up to £5m 6 months |
| British Based Building Societies. –<br><br>Only those with the highest possible credit ratings as advised by Capita ( our TM advisors ) | £5m | Up to £2m 364 days<br><br>Up to £5m 6 months |
| Other Local Authorities | £5m | Up to 364 days |
| Money Market Funds | £3m | Callable deposits |

NOTE:-

Given the uncertainty in the financial markets no investments are currently being made for more than 3 months.

**Appendix B:**

*PRUDENTIAL INDICATORS OUTTURN 2016-17*

Net Revenue Stream:

| | 2016/17 | 2015/16 |
|---|---|---|
| General Revenue Account - | 2.38% | 0.96% |
| Housing Revenue Account - | 12.11% | 11.53% |

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 | £7,677 | £6,119 |
| Housing Revenue Account | £15,070 | £10,733 |
| Total | £22,747 | £16,852 |

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: £'000 |
|---|---|---|
| Borrowing | 107,500 | 102,500 |
| Other long term liabilities | 2,000 | 750 |
| Total | 109,500 | 103,250 |

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 it's next meeting following the change. The Council undertook borrowing of £88.212m on 28th March 2012 and had other long term liabilities totalling £0.674m at the end of financial year 2016-17. Hence, the Authority is comfortably within the parameters detailed.

Capital Financing Requirement £'000

| | 2016/17 | 2015/16 |
|---|---|---|
| General Revenue Account | £21,621 | £18,938 |
| Housing Revenue Account | £80,106 | £80,106 |
| Total | £101,727 | £99,044 |

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

Maturity Structure of Borrowing

All fixed rate loans:

| £<br>Value | %<br>Interest Rate | Period | Maturity date | £<br>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