Title of meeting:	Governance and Audit and Standards Committee Cabinet City Council
Date of meeting:	Governance and Audit and Standards Committee 8 June 2018 Cabinet 14 June 2018 City Council 10 July 2018
Subject:	Treasury Management Outturn Report 2017/18
Report by:	Director of Finance and Information Technology (Section 151 Officer)
Wards affected:	All
Key decision:	No
Full Council decision:	Yes

---

1. Executive Summary

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Prudential Code of Practice requires local authorities to calculate prudential indicators before the start of and after each financial year. The CIPFA Code of Practice on Treasury Management also requires the Section 151 Officer to prepare an annual report on the outturn of the previous year. This information is shown in Appendix A of the report.

2. Purpose of Report

To inform members and the wider community of the Council's treasury management activities in 2017/18 and of the Council's treasury management position as at 31 March 2018.

3. Recommendations

It is recommended that the actual prudential and treasury management indicators based on the unaudited accounts, as shown in Appendix D, be noted.

4. Background

The Local Government Act 2003 requires local authorities to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.

5. Reasons for Recommendations

The net cost of Treasury Management activities and the risks associated with those activities have a significant effect on the City Council's overall finances.

6. Equality Impact Assessment

The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

7. Legal implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

8. Director of Finance & Information Services (Section 151 Officer) comments

All financial considerations are contained within the body of the report and the attached appendices

…………………………………………………………………….
Signed by Director of Finance & Information Services (Section 151 Officer)

Appendices:

Appendix A: Treasury Management Outturn Report
Appendix B: Debt maturity Profile
Appendix C: Investment Rates
Appendix D: Prudential and Treasury Management Indicators
Appendix E: Explanation of Prudential and Treasury Management Indicators

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

	Title of document	Location
1	Information pertaining to the treasury management outturn	Financial Services
2		

APPENDIX A

TREASURY MANAGEMENT OUTTURN REPORT

1. GOVERNANCE

Treasury management activities were performed within the Prudential Indicators approved by the City Council.

Treasury management activities are also governed by the Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy approved by the City Council.

2. ACTUAL CAPITAL EXPENDITURE 2017/18

The Council's capital programme includes the Local Enterprise Partnership (LEP) as the Council is the accountable body for the LEP. Although the Council is responsible for ensuring the LEP's grant income is spent appropriately and has a veto on the LEP's spending, it does not control the LEP.

The Council's actual capital expenditure was as follows:

	Revised Estimate £'000	**Actual £'000**
General Fund	98,606	73,740
Local Enterprise Partnership (LEP)	32,685	10,704
Housing Revenue Account (HRA)	41,578	38,200
Total	**172,869**	**122,644**

3. FINANCING OF CAPITAL PROGRAMME

The 2017/18 capital program was financed as follows:

Source of Finance	Revised Estimate £'000	Actual £'000
Corporate Reserves (including Capital Receipts)	20,363	10,004
Grants & Contributions	72,269	38,835
Revenue & Reserves	25,829	20,642
Long Term Borrowing	54,408	53,163
Total	172,869	122,644

As a result of slippage in the capital programme none of the main sources of finance for capital expenditure have been used to the extent that was budgeted.

£33.4m less grants and contributions were applied to finance capital expenditure than had been included in the revised capital programme. This was largely due to the Local Enterprise Partnership for which the Council is the accountable body underspending on schemes which would have been financed from grants and contributions.

4. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)

On 31 March 2018 the Council had gross debt including finance leases and private finance initiative (PFI) schemes of £630m and gross investments of £419m giving rise to a net debt of £211m. The current high level of investments has arisen from the Council's earmarked reserves and borrowing in advance of need to take advantage of low borrowing rates thus securing cheap funding for the Council's capital programme. The current high level of investments does increase the Council's exposure to credit risk, ie. the risk that an approved borrower defaults on the Council's investment. In the interim period when investments are high in advance of capital expenditure being incurred, there is also a short term risk that the rates (and therefore the cost) at which money has been borrowed will be greater than the rates at which those loans can be invested. The difference between current borrowing and investment rates is 0.76%. Securing cheap funding for the capital programme will provide longer term savings through reduced borrowing costs.

5. BORROWING ACTIVITY

The Council borrowed £1.2m interest free from Salix repayable over 5 years to fund energy efficiency projects including the replacement of street lighting with LED lamps. Salix is a not-for-profit organisation that is funded by the Government to promote energy efficiency within the public sector.

The Council's gross debt at 31 March 2018 of £630m is within the Council's authorised limit (the maximum amount of borrowing permitted by the Council) of £653m and the Council's operational boundary (the maximum amount of borrowing that is expected) of £641m. The Council aims to have a reasonably even maturity profile so that the Council does not have to replace a large amount of borrowing in any particular year when interest rates might be high. The maturity profile of the Council's borrowing (Appendix B) is within the limits contained in the Council's Treasury Management Policy.

The following methodologies have been applied to calculating the MRP:

Borrowing	**MRP Methodology**
General Fund Borrowing:	
Government supported borrowing other than finance leases and service concessions including private finance initiative schemes	50 year annuity
Finance leases and service concessions including private finance initiative schemes	MRP equals the principal repayments made to lessors and PFI operators
Self - financed borrowing excluding borrowing to fund long term debtors (including finance leases), investment properties and equity shares purchased in pursuit of policy objectives	Annuity over life of asset*
Self - financed borrowing to fund long term debtors	The repayments of principal are set aside to repay the borrowing that financed the original advance
Self - financed borrowing to fund finance leases	The principal element of the rent receivable be set aside to repay the borrowing that financed these assets
Self - financed borrowing to fund investment properties	The repayment of unsupported borrowing will be provided for by setting aside the capital receipt when the property is disposed of
Self - financed borrowing to fund equity shares purchased in pursuit of policy objectives	No MRP is made unless the shares are sold in which case the capital receipt is set aside to repay debt
Housing Revenue Account (HRA)	MRP was being provided for the HRA Self Financing Payment in equal instalments over 30 years. An MRP holiday is being taken from 2017/18 to 2019/20 during the period when Government policy requires rents to be reduced by 1% per annum. MRP is not provided for other HRA debt.

* Members approved the asset life (annuity) method of calculating MRP for post 1 April 2008 self-financed borrowing subject to some exceptions as part of the 2016/17 Treasury Management Policy. The MRP policy was summarised into a table in the 2017/18 Treasury Management Policy and the table quoted "50 year annuity" instead of annuity over asset life as approved in 2016/17.

6. INVESTMENT ACTIVITY

Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of the Bank of England base rate increasing from its floor of 0.25%, and reached a peak at the end of March see Appendix C). The base rate was duly raised from 0.25% to 0.50% on 2 November 2017 and has remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates have been at previous depressed levels for most of the year due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.

The Council's cash investment portfolio has decreased by £18.0m from £436.7m at 1 April to £418.7m. The total sums invested for longer than 365 days remained within the limits approved by the City Council. The average return on the Council's cash investments during 2017/18 was 0.90%. This compares with 1.11% during 2016/17. As existing investments matured in 2017/18 it was not generally possible to replace them with new investments offering similar returns. The Council's investment return for 2017/18 was £4.1m and performance for the year was £0.8m above the revised estimate of £3.3m. The duration of the Council's investments remained within the limits set in the Council's Treasury Management Policy.

7. REVENUE COSTS OF TREASURY MANAGEMENT ACTIVITIES IN 2017/18

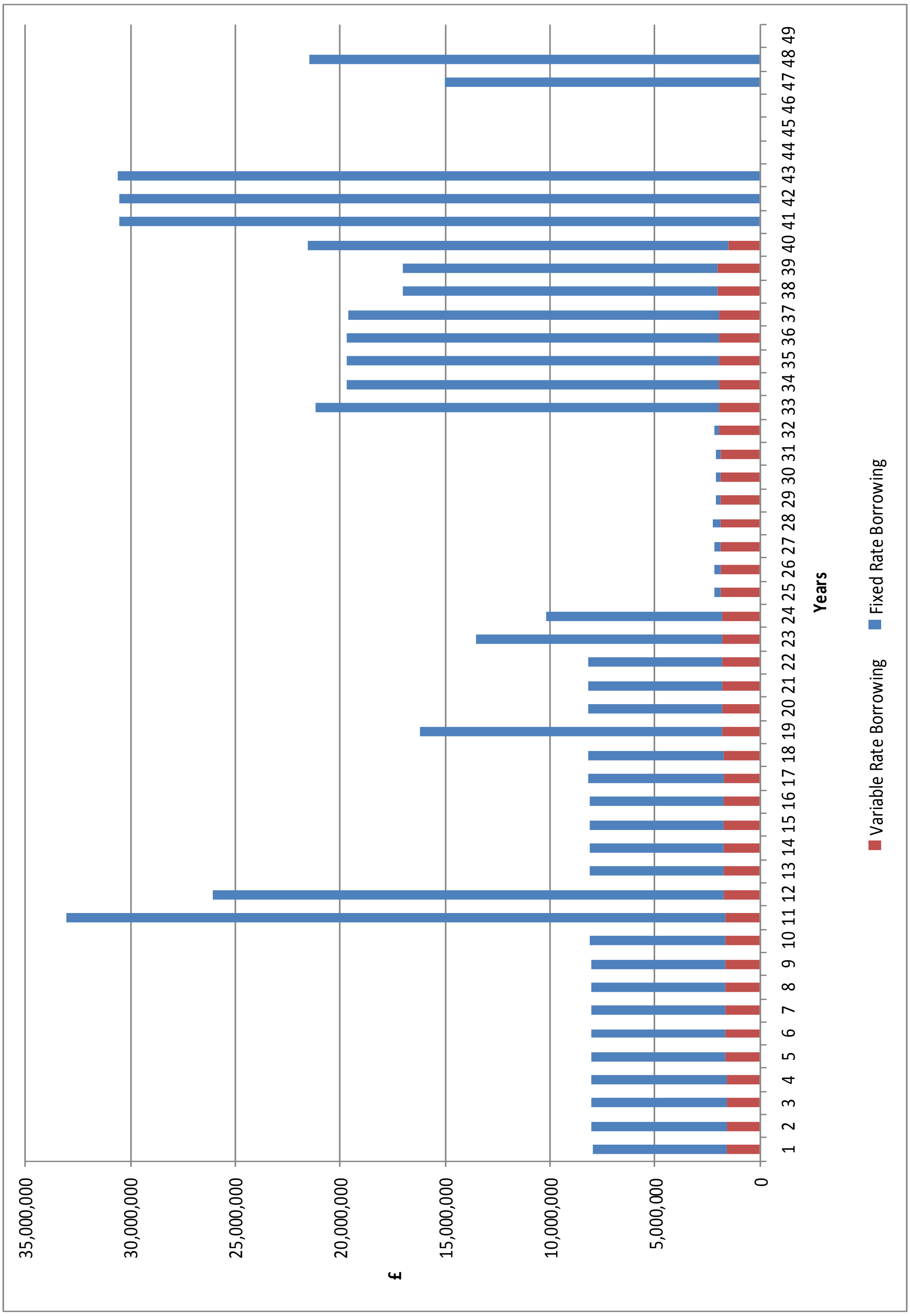
Expenditure on treasury management activities against the revised budget is shown below.

	Revised Estimate 2017/18 £000	Actual 2017/18 £000	Variance +/- £000
Interest Payable:			
PWLB – Maturity Loans	12,522	12,522	-
PWLB - E.I.P Loans	4,928	4,928	-
Other Long Term Loans	1,027	1,027	-
HCC Transferred Debt	410	379	(31)
Interest on Finance Lease	190	190	-
Interest on Service Concession Arrangements (including PFIs)	6,679	6,679	-
Interest Payable to External Organisations	1	1	-
Premiums and Discounts on Early Redemption of Debt	283	283	-
	26,040	26,009	(31)
Deduct			
Investment Income:			
Interest on Investments	(3,271)	(4,066)	(795)
Other interest receivable	(1,309)	(1,329)	(20)
	21,460	20,614	(846)
Provision for Repayment of Debt	4,411	4,474	63
Debt Management Costs	416	377	(39)
	26,287	**25,465**	**(822)**

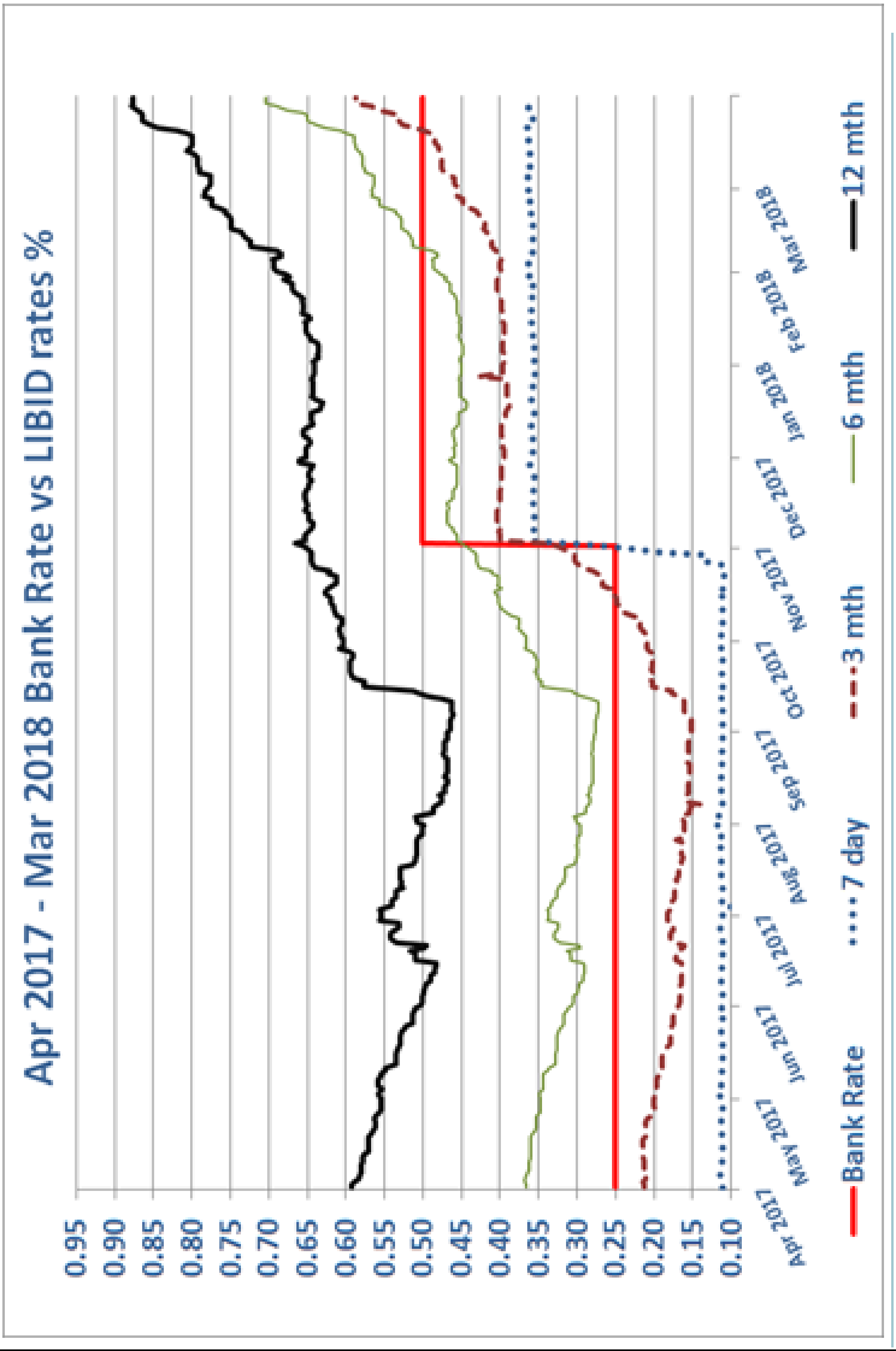
Net treasury management costs were £0.8m below the revised budget due to an increase in interest on investments. This was due to the Council having more cash to invest than had been anticipated, largely due to slippage in the capital programme, and the interest rates on the Council's investments being higher than had been anticipated.

APPENDIX B

DEBT MATURITY PROFILE



APPENDIX C


Apr 2017 - Mar 2018 Bank Rate vs LIBID rates %
0.95
0.90
0.85
0.80
0.75
0.70
0.65
0.60
0.55
0.50
0.45
0.40
0.35
0.30
0.25
0.20
0.15
0.10
Apr 2017
May 2017
Jun 2017
Jul 2017
Aug 2017
Sep 2017
Oct 2017
Nov 2017
Dec 2017
Jan 2018
Feb 2018
Mar 2018
Bank Rate
7 day
3 mth
6 mth
12 mth