BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance and Customer Services
DATE:	15th October 2019

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2019/20

Based on monitoring information for the period 1st June – 31st August 2019

1. PURPOSE
To allow scrutiny of the Treasury Management function and to update Members with regard to the Treasury Management position to date and proposed Strategy for the remainder of 2019/20.

2. RECOMMENDATIONS
It is recommended that Audit and Governance Committee notes the Treasury Management position for the period, and the proposed Strategy for the remainder of the year.

3. BACKGROUND

3.1 The Treasury Management Strategy for 2019/20, approved at Executive Board in March 2019, complies with the CIPFA Code and with Ministry for Housing Communities and Local Government (MHCLG) Guidance on Investments.

The CIPFA Code, the Investment Guidance issued by MHCLG, and the Internal Audit & Assurance reviews of Treasury Management activities, all recommend a strong role for elected members in scrutinising the Treasury Management function of the Council.

3.2 This report summarises the interest rate environment for the period and the borrowing and lending transactions undertaken, together with the Council's overall debt position. It also reports on the position against Treasury and Prudential Indicators established by the Council.

3.3 A glossary of Treasury Management Terms is appended to this paper. .

4. KEY ISSUES

4.1 Bank of England Bank Rate

The Bank of England's Bank Rate held steady at 0.75%, having increased in August 2018.

4.2 Investments Made and Interest Earned

The graph in Appendix 1 shows the weekly movement in the totals available for investment, both actuals to date and projections for the rest of the year (adjusted for anticipated borrowing). These balances have fluctuated across the period, but have ranged around £20M. It is intended that these will reduce further in future in the range of £10 M and £20 M.

Investments made in the period were mainly in “liquid” (instant access) deposits, either bank “call accounts” or Money Market Funds (MMFs). Returns on such MMF holdings had fallen a little by the end of the period, to around 0.67%. Bank account rates vary, paying between 0.20% and 0.65%.

For limited periods, funds were also placed with the Government’s Debt Management Office (at 0.5%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
21-Jun-19	27-Sep-19	National Counties Bldg Soc	£1,000,000	0.92%

At 31st August, the Council had approximately £18.0 M invested, compared to £21.2 M at the start of the period. Appendix 2 shows the breakdown of the closing investment balance.

The Council’s investment return over the period was approximately 0.65%.

For comparison, benchmark LIBID (London Interbank Bid) rates were
(a) 1 month lending - stable at around 0.6%
(b) 3 month lending - falling a little over the period, averaging 0.65% and ending at 0.63%

4.3 Borrowing Rates

The cost of long term borrowing through the PWLB (Public Works Loan Board) is linked to central government's own borrowing costs. These rates have continued to fall over the period – they again reached new historic lows at the start of September.

The cost of short term borrowing, based on loans from other councils, continued to fall slightly over the period. By the end of the period, loans from 3 months out to one year were priced between 0.65% to 0.8%.

Though the medium term trend in interest rates has been, and is expected to continue, slowly upwards, it is unclear how rates will move in the coming months.

4.4 Short Term Borrowing in the 3 month period

The Council’s CFR (Capital Financing Requirement) is the key measure of the Council’s borrowing **need** in the long term. It is

(a) the accumulated need to borrow **to finance capital spend** (not funded from grants, etc.)
less
(b) the accumulated Minimum Revenue Provision (MRP) charges already made - councils must make a prudent MRP charge in their accounts each year, to finance their debt -
less
(c) any capital receipts applied to finance outstanding debt.

and therefore tends to increase if capital spend financed from borrowing exceeds MRP.

The Council’s **actual** long term debt is significantly below the CFR – the gap has widened as long term debt has been repaid. We have been using “internal borrowing” from available revenue cash balances to partly cover this gap. The remaining gap has been covered by taking enough short term borrowing to ensure that the Council has sufficient funds to pay its liabilities and commitments, and to anticipate future borrowing needs. This has resulted in net interest savings.

Up to the end of August, there was an increase in short term borrowing of £4M, as loans of £11M were repaid and £15M of new loans were taken (listed below).

New loans taken in the period				
Start Date	**End Date**	**Counterparty**	**Amount £**	**Rate**
27/08/2019	27/02/2020	Kent County	5,000,000	0.87%
27/08/2019	27/02/2020	Thurrock Council	5,000,000	0.83%
30/08/2019	28/02/2020	Gwent Police	5,000,000	0.78%
			15,000,000	

Future deals already agreed by end of period				
Start Date	**End Date**	**Counterparty**	**Amount £**	**Rate**
30/09/2019	30/03/2020	Tendring District Council	4,000,000	0.74%
27/09/2019	29/06/2020	Fylde Borough Council	2,000,000	0.78%
			6,000,000	

4.5 Current debt outstanding -

	31st May 2019		31st Aug 2019	
	£000	£000	£000	£000
TEMPORARY DEBT				
Less than 3 months	6,000		10,000	
Greater than 3 months (full duration)	27,000		27,000	
		33,000		37,000
LONGER TERM DEBT				
Bonds	18,000		18,000	
PWLB	135,885		135,885	
Stock & Other Minor Loans	263		263	
		154,148		154,148
Lancashire County Council transferred debt		14,738		14,738
Recognition of Debt re PFI Arrangements		64,844		64,415
TOTAL DEBT		**266,730**		**270,301**
Less: Temporary Lending - fixed term		(1,000)		(1,000)
- instant access		(20,154)		(17,029)
NET DEBT		**245,576**		**252,272**

The key elements of long term borrowing set out above are:

(a) £18M classed as bonds, borrowed from the money markets, largely in the form of "LOBO" (Lender Option, Borrower Option) debt. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.4%

(b) £135.9M borrowed from the PWLB at fixed rates, at an overall average rate of around 4%. Loans repayable on maturity range from 3.06% to 7.875%, and EIP (Equal Instalment of Principal) loans from 1.7% to 3.77%.

(c) Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year, charged provisionally at 2%.

(d) Debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use school buildings financed through Public Finance Initiative (PFI) arrangements. The Council's effective control over, and use of these assets is thereby shown "on balance sheet", with corresponding adjustments to the debt. This does not add to the costs faced by the Council Tax payer as these payments made to the PFI contractor are largely offset by PFI grant funding from the Government.

4.7 Performance against Prudential and Treasury Indicators

Appendix 3 shows the current position against the Prudential and Treasury Indicators set by the Council for the current year.

With regard to the movement in the key indicator, **Total Borrowing against the Authorised Borrowing Limit**, this is shown as the first graph in Appendix 4. Total borrowing at 31st August 2019 was £270.3M, which is below both our Operational Boundary (£326.1M) and our Authorised Borrowing Limit (£336.1M) for 2019/20.

This year we have remained within both our Operational Boundary – which is set for management guidance - and the (higher) Authorised Borrowing Limit. The Authorised Limit is the key Prudential Indicator - loans from the PWLB cannot be taken if this Limit is (or would be caused to be) breached.

This total debt includes the impact on the balance sheet of the recognition of assets that have been financed through PFI. The accounting adjustments are designed to show our effective long term control over the assets concerned, and the "indebtedness" arising from financing the cost of them. They do not add to the "bottom line" cost met by the Council Tax payer.

The Council still holds a large part of its debt portfolio in loans of less than a year's duration - short term loans still represent a cheap way to funding marginal changes in its debt.

Interest Risk Exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at £32.0M, against the **limit** set for this year of £102.8M.

This indicator exists to ensure that the Council does not become over-exposed to changes in interest rates impacting adversely on its revenue budget. The limit is set to allow for short as well as long term borrowing, and takes:

(a) all variable elements of borrowing (including short term borrowing – up to 364 days – and any LOBO debt at risk of being called in the year), which is then offset by
(b) any lending (up to 364 days).

Our **Fixed Interest Rate Exposure** was around £141.2M, against the **limit** of £233.9M. This indicator effectively mirrors the previous indicator, tracking the Council's position in terms of how much of the debt will **not** vary as interest rates move. The historically low interest rates prevailing over recent decades led the Council to hold a large part of its debt in this way.

This limit was set to allow for the possibility of much higher levels of new long term, fixed rate borrowing. There are still significant levels of short term debt.

4.8 Mid-Year Treasury Management Strategy Review

Executive Board approved the Treasury Management Strategy for 2019/20 on 14th March 2019. A mid-year review has been undertaken, a copy of which is appended (Appendix 6), which will be taken to Executive Board in November as part of the budget monitoring process.

The conclusion of the review is that an amendment be made to the Investment Criteria within the Strategy to allow for the long-term investment in property funds. The remaining Investment Criteria and Treasury Indicators set before the start of the financial year can remain unchanged.

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

The financial implications arising from Treasury Management activities are reflected in the Council's overall Budget Strategy, and in ongoing budget monitoring throughout the year.

7. LEGAL IMPLICATIONS

The report is in accordance with the CIPFA code and therefore is in accordance with the Financial Procedure Rules under the Council's Constitution.

8. RESOURCE IMPLICATIONS

None

9. CONSULTATIONS

None

10. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

VERSION:	**0.02**

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DATE:	16th September 2019
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved by Executive Board 14th March 2019