



POLICY AND RESOURCES SCRUTINY COMMITTEE – FOR INFORMATION

**SUBJECT: TREASURY MANAGEMENT & CAPITAL FINANCING
PRUDENTIAL INDICATORS OUTTURN REPORT FOR
2018/19**

**REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND
CORPORATE SERVICES**

1. PURPOSE OF REPORT

- 1.1 To present Members with details of Treasury Management activities and Capital Financing, together with the related Prudential Indicators for 2018/19.

2. SUMMARY

- 2.1 The Code of Practice on Treasury Management in the Public Services 2017, which was adopted by the Council on 12th October 2010, sets out a framework of operating procedures, which is encompassed in the Treasury Management Practices (TMPs). TMP6 (Reporting Requirements and Management Information Arrangements) provides for the submission of monitoring reports to the appropriate Committee on a quarterly basis.
- 2.2 Under the provisions of the Local Government Act 2003, The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [The Capital Regulations], and the CIPFA's "The Prudential Code for Capital Finance in Local Authorities" [the Code], the Authority is obliged to approve and publish a number of indicators relevant to Capital Finance and Treasury Management.
- 2.3 The Authority's Annual Investment Strategy and Capital Financing Prudential Indicators for 2018/19 were approved by Council on 22nd February 2018.

3. RECOMMENDATIONS

- 3.1 Members are asked to note the contents of this report.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 Compliance with the CIPFA "Code of Practice for Treasury Management in the Public Services".

5. THE REPORT

5.1 Background – Interest Rates

- 5.1.1 The Bank of England's Monetary Policy Committee (MPC) has continued to maintain the Bank Rate at 0.75% during the reported period. However the MPC is reluctant to push interest rate expectations too strongly to avoid a sharp rise in government bond yields. The MPC see a long-term Base Rate level between 2% and 3%.

5.2 Treasury Management Advice

- 5.2.1 The Authority receives treasury management advice from Arlingclose Limited.

5.3 Borrowing Activity

- 5.3.1 Borrowing rates were volatile throughout 2018/19 with the 25-year maturity loan rate reached a high of 2.91% and a low of 2.23%, and an overall average rate of 2.89%. The average rate for a 25 year annuity loan was 2.61%.
- 5.3.2 No long-term PWLB loans were raised during 2018/19 other than a £1.9m temporary loan. The temporary loan was raised for the purpose of cashflow requirements as investments were tied in. The Authority entered into a loan agreement with Salix Finance to raise a loan of £4.14m to fund the Authority's street lighting conversion programme. Cabinet agreed the use of Salix funding for the street lighting programme at the meeting held on 28th November 2018. As at 31st March 2019 £2m of the loan was drawn down to fund in year capital expenditure.
- 5.3.3 During the period covered by this report, PWLB loans to the value of £2.07m were repaid on maturity. Such loans had an average interest rate of 4.29%. A loan repayment of £30k was also made to the WRU in accordance with the loan agreement as agreed at the Cabinet meeting held on 30th October 2013. Furthermore temporary loans of £6.9m were repaid during the year.
- 5.3.4 As at 31st March 2019, the Authority held £30m in LOBO loans and a £10m long-term bank loan. There were no interest rate changes for the LOBO loans during the year in accordance with the loan agreement as the lender did not exercise the interest rate option.
- 5.3.5 As at 31st March 2019 the nominal value of the Council's treasury management debt portfolio was £279.4m and comprised of £30m LOBO loans, £10m long-term bank loan; £237.2m of PWLB loans; £2m Salix Finance loan and a £150k WRU loan in respect of the Ystrad Mynach Centre of Sporting Excellence.
- 5.3.6 The internal borrowing position as at 31st March 2019 was £56m, which has increased by £23m from the previous financial year, reflecting the Authority's decision to defer borrowing into the future. The increase in internal borrowing mainly relates to funding WHQS capital expenditure. The impact of internal borrowing is reducing investment balances; and an increasing dependency on short-term borrowing to aid cashflow as investments are tied up and cannot be recalled prematurely without incurring capital losses.

5.4 Rescheduling

- 5.4.1 No loans were rescheduled during 2018/19.

5.5 Investments

- 5.5.1 The return on investments for 2018/19 was 1.08%. Investments ranged from overnight deposits and deposits with an average duration of 2 years. The return on investments is a considerable achievement when compared to the DMO target rate of 0.50%. The improvement in returns continue to reflect the Authority's investment strategy to lend to high creditworthy counterparties that consist of banks; building societies; supranational institutions; local authorities; and Corporates using a range of investment instruments such as corporate bonds; covered bonds; cash deposits; Gilts; treasury bills and moneymarket funds. Whilst the returns have improved, the riskiness of the investment portfolio has been quantified with a weighted average credit score equivalent to an AA rating. As at 31st March 2019 the UK government was rated by two credit rating agencies at AA. Therefore the Authority's portfolio is on par with the UK Government rating.
- 5.5.2 The total nominal value of investments as at 31st March 2019 (short-term and long-term) was £86.0m. The nominal value of short-term investments as at 31st March 2019 (excluding accrued interest and accounting charges) was £51.7m, and comprised of £15.0m deposited with banks; £20.2m invested in bonds; £5.0m deposited with local authorities; and £11.5m deposited in money market funds.
- 5.5.3 Long-term Investments- The value of long-term investments as at 31st March 2019 was £34.3m and £17m was invested in AAA rated bonds with an average duration of 2.2 years, with an average rate of return of 1.0%. £7m is deposited with local authorities; £0.3m is invested in corporate bonds and £10m is invested in UK Gilts.

5.6 Prudential Indicators

5.6.1 Capital Financing Requirement

- 5.6.1.1 The capital financing requirement measures the Authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Authority does not associate borrowing with particular items or types of expenditure. In practice, the raising and repaying of loans is determined primarily by professional / expert advice, and may not necessarily take place in the relevant year. In order to create an operating environment within which the Treasury Manager can legitimately react to, the various authorised limits, as identified in **Appendix 1**, are set at a level in excess of the capital financing requirement. During the year, the Authority operated within the approved limits.
- 5.6.1.2 **Appendix 2** shows the value of the Capital Financing Requirement as at 31st March 2019 based on the audited Balance Sheet position. This is calculated to be £367.1m.

5.6.2 Prudential Indicators – “Prudence”

- 5.6.2.1 The Prudential Indicators for Treasury Management are shown in **Appendix 1**. Whilst the Authorised Limit has remained unchanged when compared to the original Council approved figure, the Operational Boundary limit has decreased as a result of new planned debt being deferred.

5.6.3 Prudential Indicators – “Affordability”

- 5.6.3.1 There is a requirement to analyse and report the capital financing costs, and express those costs as a percentage of the net revenue streams of the Authority. These are

identified in **Appendix 2**.

5.6.3.2 Financing Costs to Net Revenue Stream- General Fund - the audited outturn shows a decrease on the budgeted position. This is mainly attributable to reduced interest costs as a result of deferred borrowing for the capital programme. The income generated from investments was higher than anticipated as the Authority locked into interest rates higher than the DMADF rate and the Base Rate.

5.6.3.3 Financing Costs to Net Revenue Stream- General Fund and Housing Revenue Account (HRA) - The ratio is lower due the General Fund and the HRA not borrowing to fund the capital programme.

5.6.4 Capital Expenditure and Funding

5.6.4.1 Capital Expenditure is reported in **Appendix 3**, for information purposes. The table indicates the audited position as at 31st March 2019.

6. **ASSUMPTIONS**

6.1 The details set out in the report are based on actuals that have occurred between 1st April 2018 and 31st March 2019.

7. **LINKS TO RELEVANT COUNCIL POLICIES**

7.1 Treasury Management Strategy 2018/19 as agreed by Council on 22nd February 2018.

7.2 Prudent financial management contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015:-

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

8. **WELL-BEING OF FUTURE GENERATIONS**

8.1 The effective management of the Authority's borrowing and investments are key in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

9. **EQUALITIES IMPLICATIONS**

9.1 This report is for information purposes, so the Council's Equalities Impact Assessment (EqIA) process does not need to be applied.

10. FINANCIAL IMPLICATIONS

10.1 As detailed throughout the report.

11. PERSONNEL IMPLICATIONS

11.1 There are no personnel implications arising from this report.

12. CONSULTATIONS

12.1 There are no consultation responses that have not been reflected in this report.

13. STATUTORY POWER

13.1 Local Government Acts 1972 and 2003.

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S. Harris - Interim Head of Business Improvement Services & Acting S151 Officer
A. Southcombe – Finance Manager, Corporate Finance
Cllr B. Jones- Deputy Leader and Cabinet Member for Finance, Performance and Governance

Appendices:

Appendix 1 – Treasury Management Prudential Indicators – Prudence
Appendix 2 – Capital Finance Prudential Indicators – Affordability
Appendix 3 – Capital Expenditure and Funding

Appendix 1 Treasury Management Prudential Indicators- 2018-19 Outturn Report

	Budget 2018-19 £000	Actual 2018-19 £000
Authorised limit for external debt -		
Borrowing	430,277	349,247
Other long term liabilities	32,504	32,500
Total	462,781	381,747
Operational boundary for external debt -		
Borrowing	344,221	279,398
Other long term liabilities	32,504	32,500
Total	376,726	311,898
Capital Financing Requirement	389,132	367,178
Upper limits for interest rate exposure		
Principal outstanding on borrowing	339,259	279,398
Principal outstanding on investments	100,000	90,333
Net principal outstanding	239,259	189,065
Fixed rate limit – 100%	239,259	189,065
Variable rate limit – 30%	71,778	56,719
Upper limit for total invested for over 364 days	50,000	34,344

Maturity structure of fixed rate borrowing	Upper Limit	Lower Limit	ACTUAL 2018/19 £000	
Under 12 months	35%	0%	2,458	1%
Over 12 months and within 24 months	40%	0%	1,796	1%
Over 2 years and within 5 years	50%	0%	6,051	2%
Over 5 years and within 10 years	75%	0%	24,498	9%
Over 10 years	100%	0%	244,595	88%
			279,398	100%

	Budget 2018-19 £000	Actual 2018-19 £000
Gross Debt and Net Debt		
Outstanding Borrowing	344,221	279,398
Other long term liabilities	32,504	32,500
Gross Debt	376,726	311,898
Less investments	100,000	90,333
Net Debt	276,726	221,565

Appendix 2 Treasury Management Prudential Indicators- 2018-19 Outturn Report

Ratio of Financing costs to net revenue stream	Budget 2018-19	Actual 2018-19
General Fund	£000	£000
Principal repayments	2,383	2,437
Interest costs	8,977	8,102
Debt Management costs	42	40
Rescheduling discount	-110	-110
Investment income	-600	-924
Interest applied to internal balances	847	854
Total General Fund	11,539	10,399
Net revenue stream	330,643	332,055
Total as percentage of net revenue stream	3.49%	3.13%
Housing Revenue Account		
Principal repayments	2,194	2,194
Interest costs	6,435	4,974
Rescheduling discount	-28	-28
Debt Management costs	50	24
Total HRA	8,651	7,164
Net revenue stream	47,210	47,114
Total as percentage of net revenue stream	18.32%	15.21%

Capital financing requirement [end of year position]	Budget 2018-19	Actual 2018-19
	£000	£000
Council Fund	238,410	262,529
Housing Revenue Account	150,722	104,649
Total Authority	389,132	367,178

Appendix 3 Treasury Management Prudential Indicators- 2018-19 Outturn Report

	Budget 2018-19	Actual 2018-19
Expenditure	£000	£000
Council Fund	13,652	26,653
Housing Revenue Account	55,801	51,972
Total	69,453	78,625
Funding		
Surplus/ (Deficit) Balance b/f	158	158
Borrowings - Supported (GF)	4,962	-
General Capital Grant - WG	3,020	1,766
General Fund Working Balances	3,446	-
RCCO Budget	128	128
Capital underspends from previous years	168	-
Property Services Capital Earmarked Reserve	12	12
One off funding- MRP Review	1,758	-
Internal Borrowing	-	7,701
Salix Energy Loan	-	1,000
RCCO (GF)		4,090
S106 Funding		3,330
Specific Grants & Contributions		8,468
RCCO- (HRA)	27,154	21,512
Borrowings - Unsupported (HRA)	21,300	-
Internal Borrowings (HRA)	-	22,985
Major Repairs Allowance (HRA)	7,347	7,351
Capital Receipts (HRA)	-	294
Other HRA Grants	-	-170
Total	69,453	78,625
Surplus C/f	-	