POLICY AND RESOURCES SCRUTINY COMMITTEE – FOR INFORMATION

SUBJECT: TREASURY MANAGEMENT AND CAPITAL FINANCING PRUDENTIAL INDICATORS OUTTURN REPORT FOR 2017/18

REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES

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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 2017/18.

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 2017/18 were approved by Council on 22nd February 2017.

3. LINKS TO STRATEGY

3.1 Treasury Management Strategy 2017/18 as agreed by Council on 22nd February 2017.

3.2 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.

4. THE REPORT

4.1 Background – Interest Rates

4.1.1 The Monetary Policy Committee (MPC) increased Bank Rate during November 2017 by 0.25% to 0.50%, making it the first increase in interest rate by the Bank of England since July 2007. The increase in Bank Rate reflects the MPC's growing concern that rising inflation had finally outweighed the risks to growth. The Bank has reiterated that it expects any future increases in Bank Rate to be at a gradual pace and limited in extent. As at the date of this report Bank Rate has further increased to 0.75%.

4.2 Treasury Management Advice

4.2.1 The Authority receives treasury management advice from Arlingclose Limited.

4.3 Borrowing Activity

4.3.1 Borrowing rates were volatile throughout 2017/18 with the 25-year maturity loan rate reached a high of 3.13% and a low of 2.72% and an overall average rate of 2.89%. The average rate for a 25 year annuity loan was 2.57%.

4.3.2 No long-term loans were raised during 2017/18 other than five temporary loans totalling £31.0m. Temporary loans were raised for the purpose of cashflow requirements as investments were tied in.

4.3.3 During the period covered by this report, PWLB loans to the value of £4.32m were repaid on maturity. Such loans had an average interest rate of 5.62%. 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 £32.0m were repaid during the year.

4.3.4 As at 31 March 2018, the Authority held £30m in LOBO loans and a £10m long-term bank loan.

4.3.5 As at 31st March 2018 the nominal value of the Council's treasury management debt portfolio was £284.5m and comprised of £30m LOBO loans, £10m long-term bank loan; £239.3m of PWLB loans; £5m local authority temporary loan and a £180k WRU loan in respect of the Ystrad Mynach Centre of Sporting Excellence.

4.4 Rescheduling

4.4.1 No loans were rescheduled during 2017/18.

4.5 Investments

4.5.1 Short-term Investments – up to 365 Days - The return on investments, for 2017/18 was 0.75%. Investments ranged from overnight deposits and deposits with average duration of 2 years. The return on investments is a considerable achievement when compared to the target rate of 0.25%. The improvement in returns reflect the Authority's change in investment strategy and lending to high creditworthy counterparties that consist of banks; building societies; supranational institutions; the DMO, local authorities; and Corporates using a range of investment instruments such as corporate bonds; covered bonds; cash deposits; Gilts; treasury bills and moneymarket fund. 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 2018 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.

4.5.2 The total nominal value of investments as at 31st March 2018 (short-term and long-term) was £104.5m. The nominal value of short-term investments as at 31st March 2018 (excluding accrued interest and accounting charges) was £76.5m and comprised of £13.6m deposited with banks; £49.9m invested in bonds; and £13m deposited in the DMADF.

4.5.3 Long-term Investments - The value of long-term investments as at 31st March 2018 was £28m and £13m was invested in AAA rated bonds with an average duration of 4 years, with an average rate of return of 1.0%.

4.6 **Prudential Indicators**

4.6.1 Capital Financing Requirement

4.6.1.1 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.

4.6.1.2 *Appendix 2* shows the value of the Capital Financing Requirement as at 31 March 2018 based on the audited Balance Sheet position. This is calculated to be £345.1m.

4.6.2 Prudential Indicators – "Prudence"

4.6.2.1 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.

4.6.3 Prudential Indicators – "Affordability"

4.6.3.1 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***.

4.6.3.2 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.

4.6.3.3 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.

4.6.4 Capital Expenditure and Funding

4.6.4.1 Capital Expenditure is reported in ***Appendix 3***, for information purposes. The table indicates the audited position as at 31st March 2018.

5. WELL-BEING OF FUTURE GENERATIONS

5.1 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.

6. EQUALITIES IMPLICATIONS

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

7. FINANCIAL IMPLICATIONS

7.1 As detailed throughout the report.

8. PERSONNEL IMPLICATIONS

8.1 There are no direct personnel implications arising from this report.

9. CONSULTATIONS

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

10. RECOMMENDATIONS

10.1 Members are asked to note the contents of this report.

11. REASONS FOR THE RECOMMENDATIONS

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

12. STATUTORY POWER

12.1 Local Government Acts 1972 and 2003.

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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- Outturn Report

	Budget 2017-18	Actual 2017-18
	£000	**£000**
Authorised limit for external debt -		
Borrowing	403,699	355,622
Other long term liabilities	34,139	33,815
Total	**437,838**	**389,437**
Operational boundary for external debt -		
Borrowing	322,959	284,498
Other long term liabilities	34,139	33,815
Total	**357,098**	**318,313**
Capital Financing Requirement	359,522	345,137
Upper limits for interest rate exposure		
Principal outstanding on borrowing	322,959	284,498
Principal outstanding on investments	100,000	104,543
Net principal outstanding	**222,959**	**179,955**
Fixed rate limit – 100%	222,959	179,955
Variable rate limit – 30%	66,888	-
Upper limit for total invested for over 364 days	**50,000**	**28,000**

Maturity structure of fixed rate borrowing	Upper Limit	Lower Limit	ACTUAL 2017/18	
			£000	
Under 12 months	**35%**	**0%**	7,100	**2%**
Over 12 months and within 24 months	**40%**	**0%**	2,828	**1%**
Over 2 years and within 5 years	**50%**	**0%**	4,963	**2%**
Over 5 years and within 10 years	**75%**	**0%**	15,944	**6%**
Over 10 years	**100%**	**0%**	253,663	**89%**
			284,498	100%

Gross Debt and Net Debt	Budget 2017-18	Actual 2017-18
	£000	**£000**
Outstanding Borrowing	322,959	284,498
Other long term liabilities	34,139	33,815
Gross Debt	**357,098**	**318,313**
Less investments	100,000	104,543
Net Debt	**257,098**	**213,770**

Gross and The CFR	Budget 2017-18	Actual 2017-18
	£000	**£000**
Gross Debt	357,098	318,313
CFR	359,522	345,137
CFR Breached?	No	No

'Appendix 2 - Prudential Indicators - Capital Finances- Outturn Report

Ratio of Financing costs to net revenue stream	Budget 2017-18	Actual 2017-18
General Fund	**£000**	**£000**
Principal repayments	2,373	2,328
Interest costs	8,709	8,095
Debt Management costs	45	40
Rescheduling discount	-153	-153
Investment income	-400	-942
Interest applied to internal balances	813	842
Total General Fund	**11,386**	**10,210**
Net revenue stream	324,031	325,651
Total as percentage of net revenue stream	**3.51%**	**3.14%**
Housing Revenue Account		
Principal repayments	2,267	2,260
Interest costs	6,083	5,148
Rescheduling discount	-39	-39
Debt Management costs	39	25
Total HRA	**8,352**	**7,395**
Net revenue stream	46,400	45,743
Total as percentage of net revenue stream	**18.00%**	**16.17%**

Capital financing requirement [end of year position]	Budget 2017-18	Actual 2017-18
	£000	**£000**
Council Fund	223,337	235,451
Housing Revenue Account	136,185	109,686
Total Authority	**359,522**	**345,137**

'Appendix 3 - Capital Expenditure and Funding- Outturn Report

	Budget 2017-18	Actual 2017-18
Expenditure	**£000**	**£000**
Council Fund	16,456	28,121
Housing Revenue Account	50,200	42,210
Total	**66,656**	**70,331**
Funding		
Surplus/ (Deficit) Balance b/f	971	-
Borrowings - Supported (GF)	5,002	-
General Capital Grant - WG	3,044	3,044
Internal Borrowing	-	11,962
RCCO Budget	128	-
One off funding- MRP Review 16.17	5,540	-
One off funding- MRP Review 17.18	1,929	-
RCCO (GF)	-	4,825
Capital Receipts Reserve- Specific	-	61
Capital Receipts Reserve- 21st Century Schools	-	5,184
S106 Funding	-	1,175
Specific Grants & Contributions	-	1,869
RCCO- (HRA)	16,700	32,134
Capital Receipts (HRA)	300	-
Borrowings - Unsupported (HRA)	25,900	-
Major Repairs Allowance (HRA)	7,300	7,347
Other HRA Grant(s)	-	2,729
Total	**66,814**	**70,331**
Surplus C/f	**158**	