Report to:	Cabinet	**Date of Meeting:**	21 June 2018
Subject:	Revenue and Capital Budget Update - Treasury Management Outturn 2017/18		
Report of:	Head of Corporate Resources	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:

This outturn report provides Members with details of the treasury management activities undertaken to 31st March 2018. Cabinet receives this outturn report to allow review against the Treasury Management Policy & Strategy and Prudential Indicators. This report is also provided to Audit & Governance Committee, whose role it is to carry out scrutiny of treasury management policies and practices.

Recommendation(s):

Cabinet and Council are requested to note the treasury management Outturn to 31st March 2018.

Reasons for the Recommendation(s):

To ensure that Members are fully apprised of the treasury activity undertaken to 31st March 2018 and to meet the reporting requirements set out in Sefton's Treasury Management Practices and those recommended by the CIPFA code.

Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

What will it cost and how will it be financed?

(A) Revenue Costs
None

(B) Capital Costs
None

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): None
Legal Implications: The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and treasury management activities.
Equality Implications: There are no equality implications.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned and cash is available when needed by the Council for improvements to the Borough through its service provision and the Capital Programme.
Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities and minimising the cost of borrowing and the effective management of the associated risk continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Head of Corporate Resources (FD 5175/18) and Head of Regulation and Compliance (LD 4399/18) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

The Council's external treasury management advisor's: Link Asset Services have provided advice with regards to treasury management activities undertaken during the financial year.

Implementation Date for the Decision

Immediately following the Committee / Council meeting.

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Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

BACKGROUND:

1. Introduction

1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. The Prudential Code details a number of measures / limits / parameters (Prudential Indicators) that, to comply with legislation, must be set in respect of each financial year to ensure that the Council is acting prudently and that its capital expenditure proposals are affordable.

1.2. A requirement of the Prudential Code is the reporting to Cabinet and Full Council of the outturn position of Indicators following the end of the financial year. In accordance with this requirement, this report outlines the 2017/18 outturn for the following Prudential Indicators:-

- i. Capital Expenditure (Section 2);
- ii. Capital Financing Requirement (Section 3.1);
- iii. Gross Borrowing and the CFR (Section 3.2);
- iv. Borrowing Limits (Section 3.3);
- v. Financing Costs as a proportion of Net Revenue Stream (Section 3.4);
- vi. Treasury Management Indicators (Section 6).

1.3. The Treasury Management Policy and Strategy Statements are agreed annually by the Council as part of the budget process. A requirement of the Policy Statement is the reporting to Cabinet and Full Council of the results of the Council's treasury management activities in the previous year. Treasury management in this context is defined as:

'The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

1.4. In accordance with the above, this report outlines the results of treasury management activities undertaken in 2017/18 covering the following issues:

- borrowing strategy and practice
- compliance with treasury limits
- compliance with Prudential Indicators
- investment strategy and practice.

1.5. The results of treasury management activities in 2017/18 are reflected in the net expenditure on Capital Financing Costs included within the Council's Revenue Budget.

1.6. The Capital Programme is also agreed annually as part of the budget process. It sets out the anticipated capital expenditure to be incurred within the year. This outturn report is also provided to Audit & Governance Committee.

2. Capital Expenditure

2.1. The original estimate for 2017/18 expenditure together with the actual capital expenditure calculated on an accruals basis for the financial year is as follows:

2017/18	Budget £m	Actual £m
Capital Expenditure	**62.935**	**54.014**

2.2. The Capital Programme for 2017/18 shows a decrease in expenditure of £8.921m when compared to the original estimate. This movement has been caused by underspending on the following schemes, Local Transport Plan / Integrated Transport Block, Schools Funding, Better Care Funding, and Vehicle Replacement, which will be rolled into the 2018/19 financial year.

3. The Council's Overall Borrowing Need

3.1. Capital Financing Requirement

2017/18	Estimate £m	Actual £m
Capital Financing Requirement	**241.000**	**234.234**

3.1.1. The Capital Financing Requirement reflects the Authority's underlying need to borrow for capital purposes and is based on historic capital financing decisions and the borrowing requirement arising from the financing of actual capital expenditure incurred in 2017/18.

3.1.2. The Council is currently internally borrowed which is a temporary position. This reflects the current national low interest rates for investment of cash balances and the need to find savings for the revenue budget. The decision as to when external borrowing (to finance previous years' capital expenditure) will be undertaken will be kept under review.

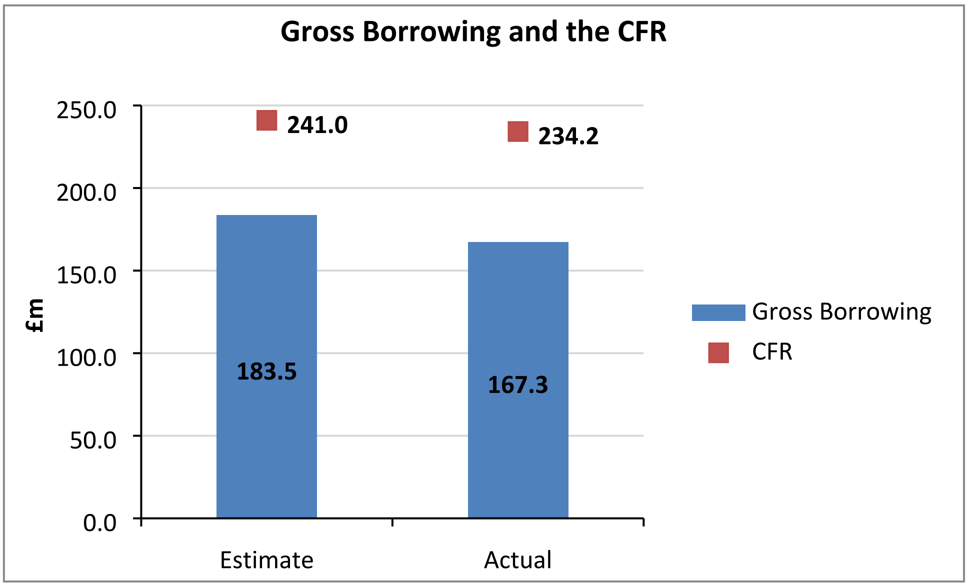
3.1.3. The actual level of Total Capital Financing Requirement as at 31st March 2018 is lower than the estimate. This is due to Capital Expenditure being lower than the initial estimate as mentioned in paragraph 2.2 (above).

3.2. Gross Borrowing and the CFR

3.2.1. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key factor of prudence:

"In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

3.2.2. In the report to Cabinet in March 2017, it was stated that the Authority would comply with this requirement in 2017/18. During the financial year, gross external borrowing did not exceed the total of the Capital Financing Requirement:



3.3. Borrowing Limits

	2017/18 £m
Authorised limit	**198.500**
Operational boundary	**183.500**
Maximum Gross Borrowing Position	**167.272**

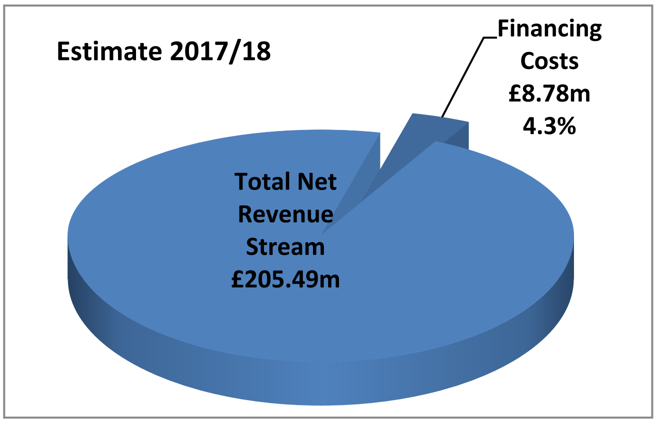
3.3.1. The Operational Boundary sets a limit on the total amount of long term borrowing that the Council can enter into. It reflects the Authority's current commitments, existing capital expenditure plans, and is consistent with its approved Treasury Management Policy Statement and practices.

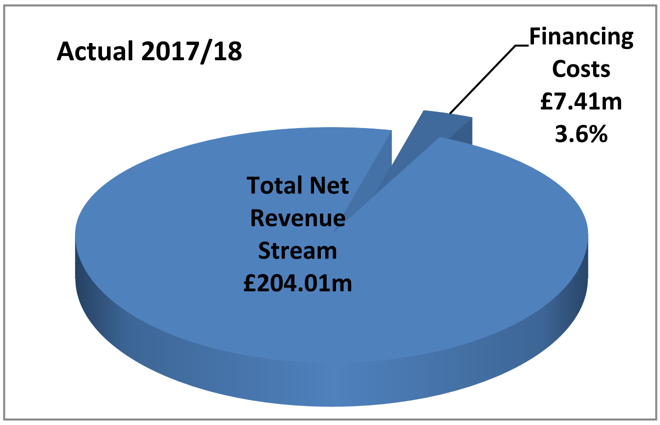
3.3.2. The Authorised Limit sets a limit on the amount of external borrowing (both short and long term) that the Council enters into. It uses the Operational Boundary as its base but also includes additional headroom to allow for exceptional cash movements.

3.3.3. The Maximum Gross Borrowing Position shows the highest level of actual borrowing during 2017/18 financial year. This level did not exceed the prescribed borrowing limits.

3.4. Financing Costs as a Proportion of Net Revenue Stream

3.4.1. This indicator measures the financing costs of capital expenditure as a proportion of the net resource expenditure of the General Fund.





3.4.2. The actual proportion of financing costs to net revenue stream was lower than the estimate due to actual PWLB rates on new borrowing being lower than in the previous year (reflected in the lower average, table 4.1 below), hence the financing cost for new borrowing undertaken during 2017/18 was lower than anticipated. It should be noted that a proportion of finance costs are met from income due from capital investment or invest to save schemes.

4. Borrowing Strategy and Practice

4.1. The Council's current debt portfolio can be summarised as follows:

Actual Debt Outstanding	31st March 2017 £m	31st March 2018 £m
PWLB	**100.177**	**154.687**
Finance Leases	**12.275**	**9.083**
Merseyside Residuary Body	**3.938**	**3.502**
TOTAL	**116.930**	**167.272**
Average PWLB Interest Rate in Year	4.75%	3.71%

The level of the Council's actual external debt has also been monitored throughout the financial year and for information had remained within both of the Prudential Indicators set.

4.2. The Council's external debt activity in during 2017/18 is summarised in the following table:

Movement in Year	Actual £m
PWLB opening debt 1st April 2017	**100.177**
Less principal repayments	(2.990)
Add new borrowing	57.500
Closing PWLB debt 31st March 2018	**154.687**

4.3. New borrowing was undertaken for Strategic Investment, an advance payment into the Merseyside Pension Fund and new borrowing for the Capital Programme.

4.4. It should be noted however, that the policy of internally borrowing, running down the Authority's cash balances rather than taking out new borrowing, continued with regards to the Capital Programme in 2017/18 as not all new expenditure was financed from borrowing.

5. Debt Maturity Profile

5.1. This is a profile measuring the amount of borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate:

Fixed Rate Debt Maturity	Upper Limit	Lower Limit	Actual 31st March 2018
Under 12 months	35%	0%	**4%**
12 months and within 24 months	40%	0%	**4%**
24 months and within 5 years	40%	0%	**12%**
5 years and within 10 years	40%	0%	**24%**
10 years and above	90%	25%	**56%**

5.2. As can be seen, the Council's debt profile highlights that most debt is due to mature in 10 years and above, reflecting the internal borrowing position of the Council.

6. Compliance with Treasury Limits

6.1. The following Treasury Limits were approved by Council during the 2017/18 Budget Setting process:

Treasury Limits	Limit £m	31st March 2018 Actual £m
Authorised Borrowing Limit	198.500	**167.272**

Short Term Borrowing Limit	15.0	**0**
Proportion of external borrowing subject to variable interest rates	20%	**0%**

6.1.1 During the financial year the Council operated within the agreed limits.

6.2. Interest Rate Exposure

Upper Limit	Limit	31st March 2018 Actual
Fixed Rate	340%	**111%**
Variable Rate	-5%	**-11%**

6.2.1. The upper limits for fixed rate and variable rate debt and investments are calculated as a proportion of the Council's total net debt.

6.2.2. The limits have not been breached during the year and the actual proportion of fixed rate debt and investments are significantly below the limit representing a reduction in investments as the Council's overall cash balances available for investment have decreased during 2017/18 when compared to the previous year (see 7.2 below).

6.3. Non Specified Investment Indicator

Upper Limit	Limit	31st March 2018 Actual
Non-specified Investments	40%	**32%**

6.3.1. An investment of £5m was made in 2014 with the Church, Charities and Local Authorities (CCLA) Property Fund. This sum remains within the limit for investments greater than 1 year as a proportion of total investments.

7. Investment Strategy and Practice

7.1. The Council invests all available cash balances, which includes school balances and the insurance fund, following a policy of obtaining maximum returns whilst minimising risks.

i. **Externally Managed Investments**
No externally managed funds are held.

ii. **Internally Managed Investments**
The Council's available funds during the year averaged £34.5m and were managed internally with advice from our treasury consultants.

7.2. The level of the Council's investments during 2017/18 and comparable figures from the previous year are summarised in the following table:

Investments	2016/17	2017/18
Total Investment of Cash Balances at year end	**£28.01m**	**£15.42m**
Average Investment Balance during the year	**£59.65m**	**£34.50m**
Average Return on Investments	**0.94%**	**1.10%**

7.3. In 2017/18, a weighted average return of 1.10% was achieved. This is more than the benchmark 7 day LIBID figure of 0.67% and is considered to be an acceptable return. The majority of the funds are invested with banks and Money Market Funds (MMF's), with the remaining balance of £5m invested with the CCLA Property Fund. The return of 1.10% can be disaggregated into a return of 0.38% on bank and MMF investments, whilst 4.58% was returned by the CCLA investment.

7.4. The year on year reduction in investment balances over the financial year reflects the internal borrowing position of the Council.