

<b>Report to:</b>	Cabinet	<b>Date of Meeting:</b>	25 July 2019
<b>Subject:</b>	Revenue and Capital Budget Update - Treasury Management Outturn 2018/19		
<b>Report of:</b>	Head of Corporate Resources	<b>Wards Affected:</b>	All Wards
<b>Portfolio:</b>	Cabinet Member - Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

This outturn report provides Members with details of the treasury management activities undertaken to 31<sup>st</sup> March 2019. 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):

Members are requested to note the Treasury Management position to 31<sup>st</sup> March 2019 and the update to 31<sup>st</sup> May 2019, to review the effects of decisions taken in pursuit of the Treasury Management Strategy and to consider the implications of changes resulting from regulatory, economic and market factors affecting the Council's treasury management activities.

### Reasons for the Recommendation(s):

To ensure that Members are fully apprised of the treasury activity undertaken to 31<sup>st</sup> March 2019 and to 31<sup>st</sup> May 2019 in order 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:**

<b>Resource Implications (Financial, IT, Staffing and Assets):</b> None
<b>Legal Implications:</b> The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and Treasury Management Activities.
<b>Equality Implications:</b>  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 5669/19) is the author of the report.

The Chief Legal & Democratic Officer (LD4793/19) has been consulted and has no comments on the report.

**(B) External Consultations**

The Council's external Treasury Management Advisors: 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 meeting.

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**Appendices:**

None

**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 2018/19 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 2018/19 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 2018/19 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.

## 2. Capital Expenditure

- 2.1. The original estimate for 2018/19 expenditure together with the actual capital expenditure calculated on an accruals basis for the financial year is as follows:

2018/19	Budget £m	Actual £m
<b>Capital Expenditure</b>	<b>31.010</b>	<b>22.961</b>

- 2.2. Capital Programme expenditure in 2018/19 was £22.961m and is less than the original budget estimate. The variation is due to the re-profiling of some major programmes in Highways and Public Protection, School's maintenance and improvement, and the Disabled Facilities Grant.

## 3. The Council's Overall Borrowing Need

- 3.1. Capital Financing Requirement

2018/19	Estimate £m	Actual £m
<b>Capital Financing Requirement</b>	<b>236.571</b>	<b>231.762</b>

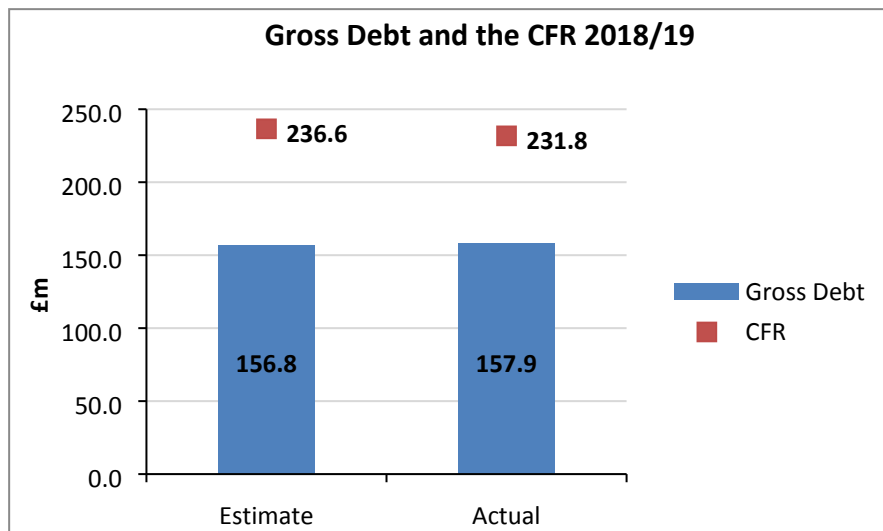
- 3.1.1. The Capital Financing Requirement reflects the Authority's underlying need to borrow for capital purposes and is based on historic capital financing decisions and the borrowing requirement arising from the financing of actual capital expenditure incurred in 2018/19.
- 3.1.2. The Council is currently internally borrowed meaning it temporarily uses its own cash balances to fund some capital schemes instead of external borrowing which saves the cost of interest payments on loans. This reflects the current national low interest rates for investment of cash balances and the need to find savings for the revenue budget.
- 3.1.3. The actual level of Total Capital Financing Requirement as at 31<sup>st</sup> March 2019 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 2018, it was stated that the Authority would comply with this requirement in 2018/19. During the financial year, gross external borrowing did not exceed the total of the Capital Financing Requirement. The chart below shows the out-turn position compared to the



original estimate:

### 3.3. Borrowing Limits

	2018/19 £m
<b>Authorised limit</b>	<b>177.000</b>
<b>Operational boundary</b>	<b>167.000</b>
<b>Maximum Gross Borrowing Position</b>	<b>167.272</b>

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

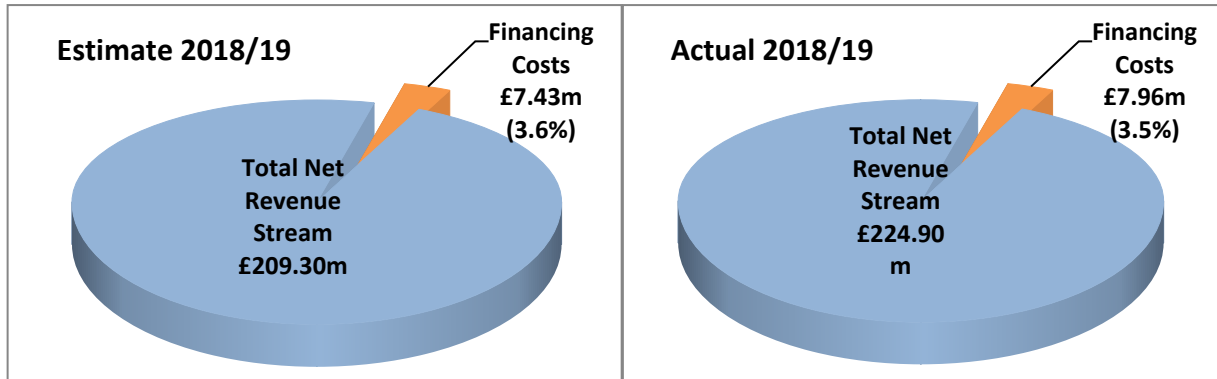
3.3.2. The Authorised Limit sets a limit on the amount of external borrowing (both short and long term) that the Council can enter into. It uses the Operational Boundary as its base but also includes additional headroom to allow for exceptional cash movements.

3.3.3. The Maximum Gross Borrowing Position shows the highest level of actual borrowing undertaken during 2018/19 financial year. This level did not exceed the Authorised limit.

3.3.4. A minor increase above the operational boundary occurred during April 2018 due to new borrowing undertaken at the end of 2017/18 financial year. The gross borrowing position then dropped below the boundary by 25<sup>th</sup> April 2018 as capital was repaid on loans, and remained below the operational limit for the rest of the year. Minor variations above the operational boundary are permitted under the Prudential Code provided they occur on an occasional rather than regular basis.

### 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 overall ratio is as anticipated, being only marginally different (0.1%) to the original forecast showing that the Council’s capital financing remains at an affordable level.

## 4. Borrowing Strategy and Practice

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

Actual Debt Outstanding	31 <sup>st</sup> March 2018 £m	31 <sup>st</sup> March 2019 £m
<b>PWLB</b>	<b>154.687</b>	<b>148.692</b>
<b>Finance Leases</b>	<b>9.083</b>	<b>6.129</b>
<b>Merseyside Residuary Body</b>	<b>3.502</b>	<b>3.063</b>
<b>TOTAL</b>	<b>167.272</b>	<b>157.884</b>
Average PWLB Interest Rate in Year	3.71%	3.86%

4.2. The Council’s PWLB debt activity during 2018/19 is summarised in the following table:

Movement in Year	Actual £m
<b>PWLB opening debt 1<sup>st</sup> April 2018</b>	<b>154.687</b>
Less principal repayments	(5.995)
Add new borrowing	0
<b>Closing PWLB debt 31<sup>st</sup> March 2019</b>	<b>148.692</b>

4.3. 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 2019/20 as no new expenditure was financed from external 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 31 <sup>st</sup> March 2019
<b>Under 12 months</b>	35%	0%	<b>4%</b>
<b>12 months and within 24 months</b>	40%	0%	<b>2%</b>
<b>24 months and within 5 years</b>	40%	0%	<b>24%</b>
<b>5 years and within 10 years</b>	40%	0%	<b>15%</b>
<b>10 years and within 15 years</b>	40%	0%	<b>17%</b>
<b>15 years and above</b>	90%	25%	<b>38%</b>

5.2. As can be seen our debt profile highlights that most of our debt is due to mature in 15 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 2018/19 Budget Setting process:

Treasury Limits	Limit £m	Max. Borrowing 2018/19 £m
<b>Authorised Borrowing Limit</b>	177.000	<b>167.272</b>
<b>Short Term Borrowing Limit</b>	15.0	<b>0.0</b>
<b>Proportion of external borrowing subject to variable interest rates</b>	20%	<b>0%</b>

6.1.1 During the financial year the Council operated within the agreed borrowing limits. No short term borrowing or borrowing subject to variable rates was undertaken.

## 6.2. Non-Specified Investment Indicator

Upper Limit	Limit	Max. Investment 2018/19 £m
<b>Non-specified Investments</b>	40%	<b>32%</b>



6.2.1. 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 £35.1m and were managed internally with advice from our Treasury Consultants.

7.2. The level of the Council's investments during 2018/19 and comparable figures from the previous year are summarised in the following table:

Investments	2017/18	2018/19
<b>Total Investment of Cash Balances at year end</b>	<b>£15.42m</b>	<b>£18.00m</b>
<b>Average Investment Balance during the year</b>	<b>£34.50m</b>	<b>£35.10m</b>
<b>Average Return on Investments</b>	<b>1.10%</b>	<b>1.28%</b>

7.3. In 2018/19 a weighted average return of 1.28% was achieved. This is more than the benchmark 7 day LIBID figure of 0.51% 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 1.28% can be disaggregated into a return of 0.68% on bank and MMF investments, whilst 4.38% was returned by the CCLA investment.

7.4. The year on year increase in the average return on investments reflects a minor improvement in Money Market Fund rates over the past 12 months. The actual performance of investments has therefore over-achieved against the total budget for 2018/19 as follows:

Budget Profile	Budget £m	Actual £m	Variance £m
<b>Outturn 2018/19</b>	0.375	0.453	0.078

## 8. Treasury Position for 2019/20 – Update to 31<sup>st</sup> May 2019

### 8.1. Investments Held

8.1.1. Investments held to 31<sup>st</sup> May 2019 comprise to the following:

Institution	Deposit £m	Rate %	Maturity	Rating
<b>Money Market Funds:</b>				
Aberdeen	2.880	0.72	n/a	AAA
Aviva	2.880	0.76	n/a	AAA
BNP Paribas	2.880	0.65	n/a	AAA
Goldman Sachs	1.100	0.71	n/a	AAA
Invesco	2.880	0.77	n/a	AAA
Federated Investors	2.600	0.77	n/a	AAA
Insight	2.600	0.75	n/a	AAA
Total	17.820			
<b>Fixed Term Deposits:</b>				
Lloyds	3.000	1.05	10/02/2020	A+
Coventry Building Society	3.000	0.92	11/11/2019	A-
Total	6.000			
<b>Property Fund:</b>				
CCLA	5.000	4.27	n/a	n/a
Total	5.000			
<b>TOTAL INVESTMENTS</b>	<b>28.820</b>			

8.1.2. The above cash balances represent the full range of earmarked reserves such as school's balances.

8.1.3. All of the investments made since April 2019 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £25m. Whilst the maximum should be retained, in case economic conditions change, a day to day operational maximum of 10% of the total portfolio is currently being imposed for specified investments. This will spread the risk for the Council, but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.

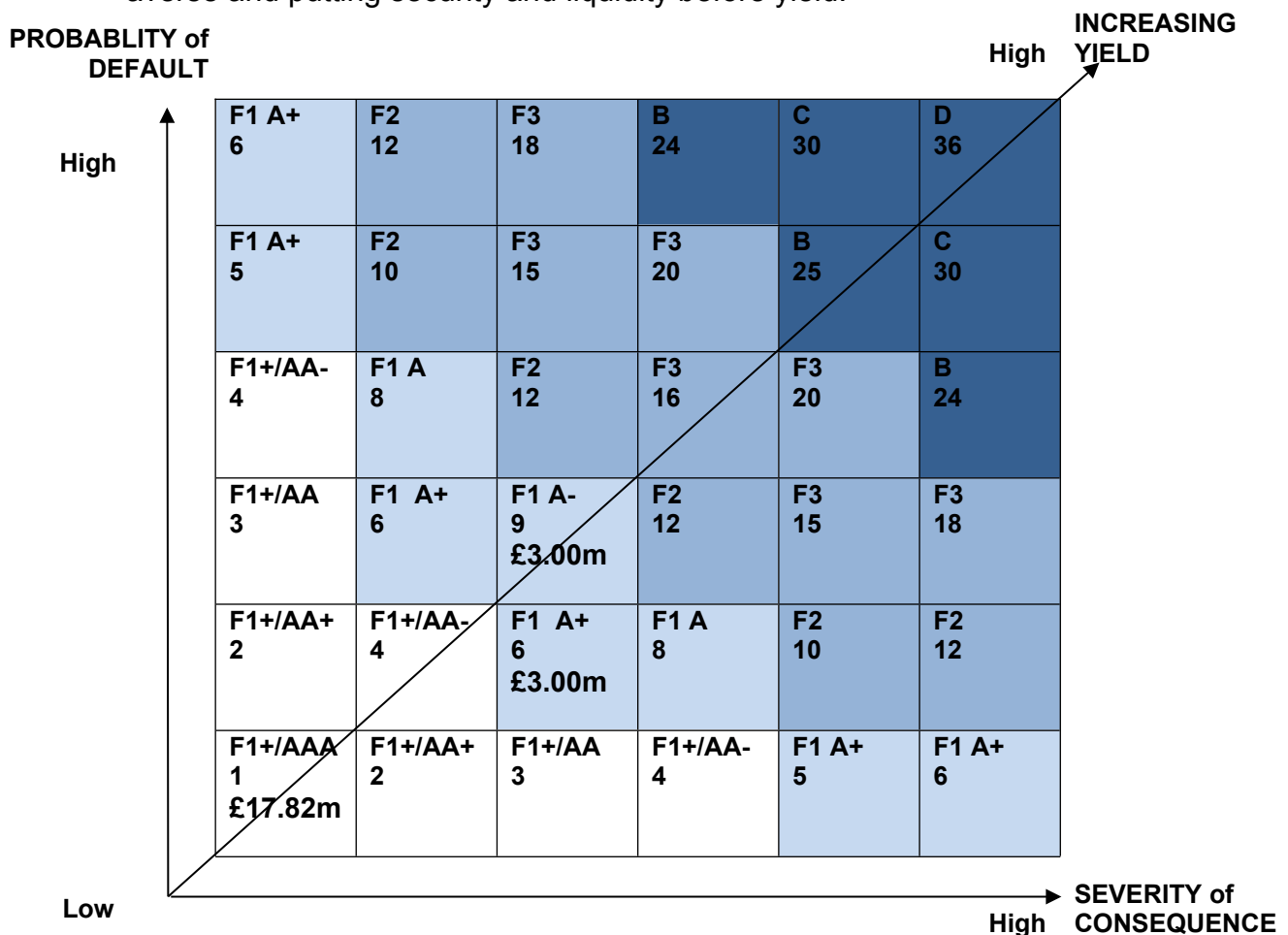
8.1.4. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 8.1.7.).

8.1.5. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises as retail units, warehousing, and offices. The majority

of properties owned are in the south of the country where the market is currently more buoyant than the north. The Council has in effect bought a share of the property portfolio, and returns paid are in the region of 4%. This is seen as a long term investment with the potential for capital growth of the investment as property prices potentially increase. However, when the investment is made fees are deducted from the initial investment hence in the first year any income received covers these fees.

8.1.6. The Net Asset Value (NAV) of the Property Fund has increased over a 12 month period to April 2019 from 303.09p per unit to 306.50p per unit, an increase of 1.1%. The rate of inflation (CPI) to the end of April was 2.0% by comparison hence the value of the investment growth is marginally lower although the income received at a yield rate of 4.27% does represent a real return.

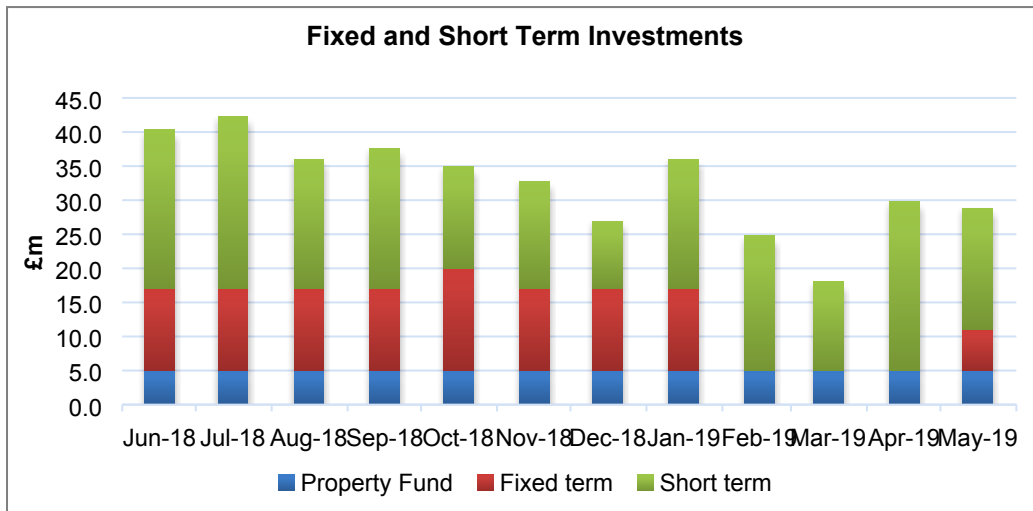
8.1.7. The matrix below shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield:



**SEFTON RISK TOLERANCE:**

Risk Level	Score	Grade	Amount Invested
LOW	1 - 4	Investment Grade	£17.82m
LOW - MEDIUM	5 - 9	Investment Grade	£6.00m
MEDIUM	10 - 20	Investment Grade	£0
HIGH	21 - 36	Speculative Grade	£0

8.1.8. The ratio of overnight deposits (short term) to fixed term investments is shown below:



8.1.9. Two new fixed term investments have been made since the last quarterly report. Two amounts of £3m have been placed, one for 9 months with Lloyds Bank and one for 6 months with Coventry Building Society.

8.1.10. The Council will continue to maximise any investment opportunities as they arise, but in light of the current cash flow forecast it is not envisaged that any substantial increase in returns can be achieved for the remainder of the current financial year as cash balances available for investment are forecast to be relatively low.

8.2. Interest Earned

8.2.1. The actual performance of investments against the profiled budget to the end of May 2019 and the forecast performance of investments against total budget at year end is shown below:

Budget Profile	Budget £m	Actual £m	Variance £m
<b>May-19</b>	0.036	0.032	0.004

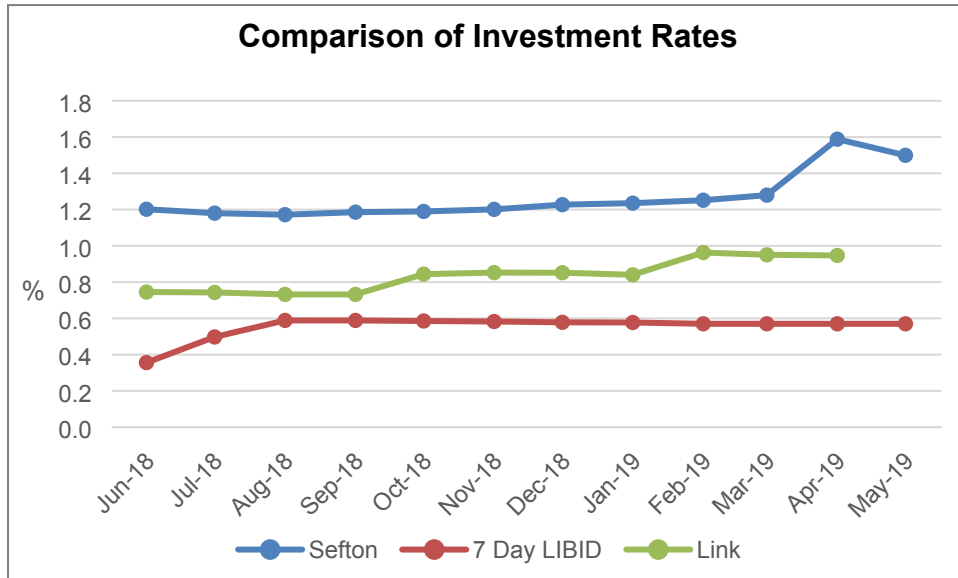
Budget Profile	Budget £m	Forecast £m	Variance £m
<b>Outturn 2019/20</b>	0.165	0.165	0.000

8.2.2. There is no significant variation in forecast investment income as at the end of May 2019.

8.2.3. There has been some improvement in investment rates since the Bank of England base rate increase was announced in August 2018. As mentioned in paragraph

8.1.10 however, it is not envisaged that improved rates will lead to a significant increase in the current forecast income from investments during 2019/20.

8.2.4. The Council has achieved an average rate of return on its investments of 1.6% that has out-performed the 7 day LIBID and the model portfolio provided by Link Asset Services to the end of May 2019.



\* Link's data only available to April 2019 at the time of writing