

For Publication

TREASURY MANAGEMENT ANNUAL REPORT 2018/19 AND MONITORING REPORT 2019/20

Meeting: Council

Date: 09 October 2019

Cabinet portfolio: Deputy Leader

Report by: Chief Finance Officer

For publication

1.0 **Purpose of report**

- 1.1 To consider the Annual Treasury Management Report for 2018/19.
- 1.2 To consider the Treasury Management activities for the first five months of 2019/20.

2.0 **Recommendations**

- 2.1 That the **Council** is recommended to:
 - (i) Approve the outturn Prudential Indicators for 2018/19;
 - (ii) Approve the treasury management stewardship report for 2018/19;

- (iii) Note the treasury management position for the first five months of 2019/20.

3.0 **Background**

- 3.1 The Council's Treasury Management Strategy requires the full Council to receive three treasury reports each financial year; the Strategy report before the start of each financial year, an annual report for the previous financial year and a mid-year review for the current year.
- 3.2 The Annual Report for 2018/19 is attached at Appendix A. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 3.3 Following the Icelandic banks collapse in 2008 the regulatory framework places a much greater emphasis on the review and scrutiny by Members of treasury management activities. The attached report provides details of the treasury management activities in 2018/19 and confirms compliance with the Council's approved policies.
- 3.4 This report was considered by the Standards and Audit Committee at its meeting on 25 September, 2019, where it resolved that the report and its recommendations be supported and referred to Council for approval.

4.0 **Summary of the Annual Report**

- 4.1 During 2018/19, the Council complied with its legislative and regulatory requirements. The key actual prudential and

treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2017/18 Actual £'000	2018/19 Revised £'000	2018/19 Actual £'000
Actual capital expenditure	19,631	34,319	25,737
Capital Financing Requirement:			
- General Fund	15,143	17,941	14,911
- HRA	132,343	130,358	130,358
- Total	147,486	148,299	145,269
External debt	131,303	129,336	129,336
Investments – under 1 year	46,360	45,600	47,547
1 year and above	-	-	-
Net borrowing	84,943	83,836	81,789

4.2 Other prudential and treasury indicators are to be found in Appendix A. The Chief Finance Officer also confirms that borrowing over the medium term is only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached in 2018/19.

4.3 The financial year 2018/19 continued the challenging environment of low investment return, however August 2018 saw an interest rate rise of 0.25% with the official bank rate rising to 0.75%. There was a large differential between borrowing and investments rates during the year.

Investments – Interest income received for the year was above budget at £418,000. This was due to increased yields on fixed deposits with banks and other local authorities during the last quarter of 2018/19. Following a review of investments during the 2018/19 financial year the Council continued with its policy of increasing its investments with other local authorities in order to achieve greater security. Further information can be found in Appendix A.

The in-house team managed average balances of £53.3m earning an average rate of return of 0.78%.

Borrowing – in terms of activity during the year on the Council's debt portfolio:

- No new external long term borrowing was undertaken; &
- Long term loan repayments of £1m were made.

Treasury Management Advisors – Arlingclose continued to provide treasury management advice to the Council throughout 2018/19. Treasury recommendations were incorporated into the 2018/19 Treasury Management Strategy Statement that was approved by Council in February 2018.

5.0 **Mid- Year Review 2019/20**

5.1 Annual Investment Strategy

In accordance with the Cipfa Code and the Council's Treasury Management Strategy, the investment priority is to ensure security and liquidity of capital, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. The Bank Rate has been maintained at 0.75% since August 2018; however the continuing uncertainty of economic recovery and the geo-political uncertainties prompt a low risk and short term strategy. The Bank of England has increased the possibility of interest rate cuts during the second half of 2019/20. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the five months ended 31st August 2019.

5.2 Internally Managed Cash Balance

In the first quarter of the year the interest rates achieved were lower than those assumed when setting the budget (0.80%

against 0.93%), which has resulted in internal investment returns being £9,000 worse than forecast for the first quarter of the year.

5.3 Continuing uncertainty on the impact of the UK leaving the European Union and the increased risk of a global economic slowdown has led to a drop in investment rates during the first quarter of 2019/20. The budget forecast for investment income will be reviewed as part of the revised budget process in the Autumn.

5.4 Borrowing activities in the period:

- No new long term borrowing has been undertaken;
- No repayments of principal have yet been made; &
- No debt rescheduling was undertaken.

5.5 Compliance with Treasury & Prudential Limits

All treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices have been maintained.

The main Prudential Indicators relating to borrowing are:

- Authorised Borrowing Limit – the limit for the year was set at £142.5m, the limit has not been breached.
- Operational Boundary – this was set at £135.6m for the year, again the limit has not been breached.

5.6 Treasury Management Advisors

The contract for the Council's Treasury Management Advisors was tendered during the summer of 2019. The contract was awarded to Arlingclose for two years, with the option to extend for a further 12 months. The contract will commence in September 2019.

6.0 **Treasury Management Indicators 2019/20**

Amendments to the 2019/20 General Fund capital programme will be considered by Council in October. Further borrowing may be necessary and this additional borrowing would require an adjustment to the Prudential Indicators (PI's) approved as part of the Treasury Management Strategy Statement in February. The PI's detailed below would need to be amended:-

- General fund Capital Expenditure & Financing
- General Fund Capital Financing Requirement
- Operational Boundary
- Authorised Limit

These amended PI's will be reported to Cabinet as part of the budget monitoring report in the autumn.

7.0 **Recommendations**

7.1 That the **Council** is recommended to:

- (i) Approve the outturn Prudential Indicators for 2018/19;
- (ii) Approve the treasury management stewardship report for 2018/19;
- (iii) Note the treasury management position for the first five months of 2019/20.

8.0 **Reasons for recommendations**

8.1 To comply with the Council's Treasury Management Policy and Practices, the CIPFA Code of Practice on Treasury Management (2017) and the CIPFA Prudential Code for Capital Finance in Local Authorities (2017).

Decision information

Key decision number	Non-key 150
Wards affected	All
Links to Council Plan priorities	All

Document information

Report author	Contact number/email
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Background documents Local Government Act 2003, CIPFA Prudential Code & Guidance, Accountancy Services' final accounts working papers.	
Annexes to the report	
Appendix A	Annual Treasury Outturn Report 2018/19