Report to	Council	**Item**
Date	24 September 2019	7
Report of	Chief finance officer	
Subject	Treasury Management Full Year Review Report 2018-19	

Purpose

This report sets out the Treasury Management performance for the year to 31 March 2019.

Recommendation

To note the report and the treasury activity for the year ending 31 March 2019.

Financial implications

The report has no direct financial consequences however it does report on the performance of the council in managing its borrowing and investment resources.

Ward/s: All wards

Cabinet member: Councillor Kendrick, resources

Contact officers

Karen Watling, chief finance officer 01603 212440

Background documents

None

Report

Background

1. The council is required by regulations issued under the Local Government Act 2003 to produce an annual review of its treasury management activities and the actual prudential and treasury indicators for 2018-19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2. This report details the results of the council's treasury management activities for the financial year 2018-19. It compares this activity to the Treasury Management Strategy for 2018-19, approved by Full Council on 20 February 2018. It will also detail any issues that have arisen in treasury management during this period.

Introduction

3. Treasury Management relates to the policies, strategies and processes associated with managing the cash and debt of the Council through appropriate borrowing and lending activity. It includes the effective control of the risks associated with the lending and borrowing activity and the pursuit of optimum performance consistent with the risks.

4. For the 2018/19 financial year the minimum reporting requirements were:
   (a) an annual Treasury Management Strategy in advance of the year (Council 20 February 2018).
   (b) a mid-year Treasury Management Review report (Cabinet 12 December 2018).
   (c) an annual review following the end of the year describing the activity compared to the strategy (this report).

5. The regulatory environment places responsibility on members to review and scrutinise treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the council’s policies which have previously been approved by members. This report summarises the following:-
   (a) Capital activity during the year (paragraphs 6 - 8)
   (b) Impact of this activity on the Council’s underlying indebtedness (the Capital Financing Requirement) (paragraphs 9 - 15)
   (c) The actual prudential and treasury indicators (paragraphs 16-20)
   (d) Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances (paragraphs 21-25)
   (e) Borrowing strategy and detailed debt activity (paragraphs 26-31)
   (f) Investment strategy and detailed investment activity (paragraphs 32-40)

The Council's Capital Expenditure and Financing 2018-19

6. The 2018-19 capital programme budgets were approved as part of the budget papers by full Council on 20 February 2018. Subsequent to this there were approved revisions to the 2018-19 capital budgets to include the 2017/18 capital carry forwards and new capital schemes approved during the year. The final capital programme budget is shown in **Table 1** along with the mid-year estimate as reported to Cabinet in December 2018.

7. Actual capital spending was under budget for the year by £71.813m. This capital spending included spend on individual capital projects, commercial property investment, and a capital loan made in year to the council's wholly owned subsidiary Norwich Regeneration Ltd. The actual level of revenue and borrowing needed to finance the expenditure was less than that originally estimated. The actual capital expenditure forms one of the required prudential indicators. **Table 1** shows the estimates and then the actual capital expenditure for 2018-19 and how this was financed in the year:

Table 1

	2018/19 Original Budget	**2018/19 Final Budget**	**2018/19 Mid-Year Estimate**	**2018/19 Actual Outturn**	**Variance**
Capital Expenditure	**£m**		**£m**	**£m**	**£m**
General Fund capital expenditure	42.793	78.769	36.441	27.394	(51.375)
General Fund capital loans		1.881	1.881	0.900	(0.981)
HRA Capital expenditure	31.572	45.857	30.086	26.400	(19.457)
	74.365	**126.507**	**68.408**	**54.694**	**71.813**
Financed by					
Capital Receipts	5.221	15.200	6.571	5.704	(9.496)
Capital Grants/Contributions	3.265	8.303	6.272	5.513	(2.790)
Capital Reserves	14.238	21.601	14.739	11.707	(9.894)
Revenue	11.641	12.008	11.944	11.997	(11)
	34.365	**57.112**	**39.526**	**34.921**	**(22.191)**
Borrowing need for the Year	**40.000**	**69.395**	**28.882**	**19.773**	**(49.622)**

8. Capital expenditure may either be:

   (a) Financed immediately through the application of capital or revenue resources (e.g. capital receipts, capital grants, revenue contributions etc.), which has no impact on the Council's borrowing need; or

   (b) If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need, which will be satisfied by either external or internal borrowing.

Council's overall borrowing need

9. The council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR arises as the Council incurs capital spending and then if it does not apply resources immediately to finance the capital spend, (i.e. capital receipts, capital grants, capital reserves or revenue), a borrowing need arises. The 2018-19 CFR year-end balance is the cumulative total

of the 2018-19 unfinanced capital expenditure i.e. £19.773m and prior years' unfinanced capital.

10. Treasury Management includes addressing the funding requirements for this borrowing need; it also includes maintaining a cash position to ensure sufficient cash is available to meet the capital expenditure and cash flow requirements. This may be sourced through borrowing from external bodies, e.g. the Government through the Public Works Loan Board (PWLB) or the money markets, or utilising temporary cash resources within the Council (known as internal borrowing).

11. The council's (non-HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Therefore statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. This requirement is met by making an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR).

12. The total CFR can also be reduced by either:

    (a) the application of additional capital financing resources (such as unapplied capital receipts)

    (b) charging more than the statutory MRP each year through a Voluntary Revenue Provision (VRP).

13. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External borrowing can be taken or repaid at any time, but this does not change the CFR.

14. The Council's CFR for the year is shown below, and is a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

Table 2

	2018/19 Original Estimate	**2018/19 Revised Estimate**	**2018/19 Actual**
General Fund	**£m**	**£m**	**£m**
Opening balance	93,900	58.918	58.918
Add: Unfinanced capital expenditure*	40.000	24.747	19.773
Less: MRP and other credits*	(0.345)	(0.314)	(1.628)
General Fund closing balance	133.555	87.401	77.063
HRA	**£m**	**£m**	**£m**
Opening balance	187.698	205.717	205.716
Add: Unfinanced capital expenditure	- (2.096)	-	-
HRA closing balance	185.602	205.717	205.716
Total Capital Financing Requirement	**319.157**	**293.118**	**282.779**

* The credits of £1.628m include loan repayments received in year which have reduced the capital financing requirement.

15. Borrowing activity is constrained by prudential indicators for borrowing and the CFR, and by the authorised limit.

The actual prudential and treasury indicators

16. **Gross borrowing and the CFR -** in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 3

	2018/19 Original Estimate £m	**2018/19 Revised Estimate £m**	**2018/19 Actual £m**
Gross borrowing	302.050	200.518	199.392
CFR	319.157	293.118	282.779
Over Borrowed/(Under Borrowed)	**(17.107)**	**(92.600)**	**(83.387)**

17. **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

Table 4

	2018/19 Original Estimate £m	**2018/19 Revised Estimate £m**	**2018/19 Actual £m**
Authorised Limit for external debt			
Borrowing	335.000	335.000	335.000
Other long term liabilities	1.600	1.600	1.600
Total Agreed Authorised Limit	**336.600**	**336.600**	**336.600**
Operational boundary for external debt			
Borrowing	315.000	315.000	315.600
Other long term liabilities	1.600	1.600	1.600
Total Agreed Operational Boundary	**316.600**	**316.600**	**316.600**

External debt (including other long term liabilities e.g. finance leases)	**302.050**	**200.620**	**200.729**

18. The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream

19. The authority is required to report on the ratio represented by its net financing costs to its net revenue stream. For the general fund net revenue is represented by the amount that is funded by government grants and council tax payers, while for the HRA it is the rental income paid by tenants. This is intended to be a measure of affordability, indicating how much of the authority's revenue is taken up in financing its debt.

20. The table below shows that the General Fund is currently a net investor as net financing costs are an income stream. This is partly the result of internal borrowing being used in the short term to fund capital additions. The negative percentage is therefore the contribution that the capital investments are making to the General Fund as a percentage of the net revenue stream.

Table 5

Affordability of financing costs	2018/19 Estimate	2018/19 Actual
General fund - financing costs as a percentage of net revenue	0.59%	(0.53)%
HRA - financing costs as a percentage of rental income	37.92%	43.59%

Treasury Position as at 31 March 2018

21. The Council's debt and investment position is managed by the in-house treasury management team. All activities are undertaken primarily to ensure security for investments, to ensure that there is adequate liquidity for revenue and capital activities, and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

22. The council's actual borrowing position at 31 March 2019 and activity during 2018-19 is detailed in the table below:

Table 6

Borrowing activity 2018-19 (excluding finance leases)	PWLB loans £m	Market loans £m	Total £m	Average interest rate %
Opening balance (1 April 2018)	196.107	5.000	201.107	
New borrowing taken	-	-	-	
Borrowing matured/repaid	(2.000)	-	(2.000)	
Closing balance (31 March 2019)	**194.107**	**5.000**	**199.107**	**4.01%**

Authorised limit for external debt	336.600

23. The maturity structure of the debt portfolio was as follows:

Table 7

Maturity Structure of fixed rate borrowing	**Upper Limit per Strategy**	**31-Mar-19**	
	%	**%**	**£m**
Under 12 months	10	0	0.000
Between 12 months and 2 years	10	0	0.000
Between 2 years and 5 years	40	29	57.459
Between 5 years and 10 years	70	59	117.700
Over 10 years	70	12	23.948
			199.107
Perpetually irredeemable stock			0.510
Total borrowing			**199.617**

24. The following table shows the movement in investments in the year. The decrease in year was due to investments being liquidated to fund commercial property investments and the loan to Norwich Regeneration Ltd.

Table 8

Investments	**Actual 31 March 2018**	**Net movements in year**	**Actual 31 March 2019**
	£m	**£m**	**£m**
Short term			
Banks	8.000	3.000	11.000
Building Societies	12.000	(9.000)	3.000
Local Authorities	3.000	9.000	12.000
Cash Equivalents			
Banks	6.770	(6.940)	13.710
Building Societies	1.650	(1.650)	0.000
Local Authorities	4.250	(0.250)	4.000
Money Market Funds	15.000	(15.000)	0.000
UK Government	0.000	6.000	6.000
Total Internally Managed Funds	**50.670**	**(0.960)**	**49.710**

25. The maturity structure of the investment portfolio was as follows:

Table 9

	31 March 2018	**31 March 2019**
	£m	**£m**
Under 1 year	50.670	49.710
	50.670	**49.710**

Borrowing Strategy for 2018-19

26. The council maintained an under-borrowed position in 2018/19. This means that the capital borrowing need (the CFR) has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

27. Going forwards caution will be adopted with the 2019-20 treasury operations. The Chief finance officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

    (a) if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

    (b) if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

28. The Chief Finance Officer (CFO) advise that it is very likely that the Council will need to undertake fixed rate long term borrowing within the next 12 months. Any decisions will be reported to Cabinet at the next available opportunity.

Policy on borrowing in advance of need

29. The council's policy is not to borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of such funds. The policy has been complied with in 2018/19.

Borrowing Outturn for 2018-19

30. No borrowing was undertaken during the year because cash balances have been sufficient in the short term to cover the 2018/19 unfinanced capital and short term investments. During 2018-19 £2.000m of PWLB debt was repaid.

31. During 2018-19 the council paid £7.8m in interest costs on external loans, this compares to a budget of £8.4m.

Investment Strategy for 2018-19

32. The council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in Public Services Code and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The council's treasury management investment priorities will be security first, liquidity second, followed by yield.

33. In accordance with the above guidance from the Government and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable

credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

34. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

35. This report does not cover the Council's investment strategy in regard to non-financial investments. These investments which include the purchasing of commercial property and lending to third parties are covered under the Non-Financial (Commercial) Investment Strategy published in February 2019 for implementation in financial year 2019/20 and onwards.

Investment Outturn for 2018-19

36. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Reserves

37. The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's reserves comprised:

Table 11

Balance Sheet Reserves	31-Mar-18	31-Mar-19
	£m	£m
General Reserves	43.644	42.556
Earmarked Reserves	8.360	12.055
Useable Capital receipts	33.997	43.154
Capital grants Unapplied	8.079	5.141
Major Repairs Reserve	7,000	9.796
Total	**101.080**	**112.702**

Investments held by the Council

38. The Council's year-end balance of cash and short term investments was £49.710m. These internally managed funds earned an average rate of return of 0.88%.

39. The Council is part of a benchmarking group (run by our treasury management advisors, Link Asset Services) across Norfolk, Suffolk & Cambridgeshire. The table below shows the performance of the Council's investments when compared with this benchmark group, and also when compared with the non-metropolitan districts and all authorities that use Link's benchmarking group facility.

Table 12

Link benchmarking - position at 31 March 19				
	Norwich	Benchmark Group (7 of 12)	Non met districts (90)	All authorities (231)
WARoR[1]	0.88%	0.89%	0.88%	0.87%
WA Risk[2]	3.25	3.45	3.23	2.94
WAM[3]	93	99	84	78

WATT[4]	134	192	179	167

40. The council's average investments return (0.88%) is on par with that for the benchmark group (0.89%), and it was same as both the 90 non-met authorities at 0.88% and the population of 231 local authorities at 0.87%. The average investment return in 2018/19 compares favourably with other similar authorities while still keeping council funds readily available so that if an opportunity to acquire an investment property arose the funds would be available to purchase it at short notice.

Integrated impact assessment

NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report
Detailed guidance to help with completing the assessment can be found here. Delete this row after completion

Report author to complete	
Committee:	Council
Committee date:	24 September 2019
Head of service:	Karen Watling
Report subject:	Full Year Treasury Management Report
Date assessed:	28 August 2019
Description:	This report is to inform members of the actual treasury activity for the year and compares that to the treasury management indicators set in the Treasury Management Strategy for 2018-19.

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	The report has no direct financial consequences however it does report on the performance of the Council in managing its borrowing and investment resources
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	
ICT services	☒	☐	☐	
Economic development	☒	☐	☐	
Financial inclusion	☒	☐	☐	
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☒	☐	☐	

	Impact			
Equality and diversity (please add an ‘x’ as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	☒	☐	☐	
Eliminating discrimination & harassment	☒	☐	☐	
Advancing equality of opportunity	☒	☐	☐	
Environmental (please add an ‘x’ as appropriate)	Neutral	Positive	Negative	Comments
Transportation	☒	☐	☐	
Natural and built environment	☒	☐	☐	
Waste minimisation & resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☒	☐	☐	
Energy and climate change	☒	☐	☐	
(Please add an ‘x’ as appropriate)	Neutral	Positive	Negative	Comments
Risk management	☒	☐	☐	

Recommendations from impact assessment
Positive
Negative
Neutral
Issues