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| REPORT OF: | Joss Convey |
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| TO: | EXECUTIVE |
| DATE: | 8 November 2018 |
| EXECUTIVE MEMBER: | COUNCILLOR T. SCHOFIELD |

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| KEY DECISION REQUIRED: | NO |
| WARD (S) AFFECTED: | ALL |

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| SUBJECT: | Half Yearly Treasury Management Performance |
| RECOMMENDATIONS: Note the Treasury Management Performance for the year to date and the prudential indicators. | |
| REASONS FOR RECOMMENDATIONS: To comply with the requirements of the regulatory framework for treasury management and meet the Council's reporting requirements. | |
| EXECUTIVE SUMMARY: The 2018/19 treasury management performance is currently as forecast as better than budget. This is primarily as a result of the borrowing facility not being utilised as yet. The update of the capital programme has not resulted in any changes to the Prudential Indicators, Investment Strategy, Borrowing Strategy or Cash Management Strategy at this time. | |

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| The above recommendations are subject to approval by Full Council. |
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STATUTORY POWERS

1. The Council operates its Treasury Management activity as an integral part of its statutory obligation to effectively manage the Council's finances under the Local Government Act 2003 and associated regulations.
2. The Council's Treasury Management activities are undertaken in accordance with Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities, and the Government's Investment Regulations.
3. Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid-year treasury review, in

addition to the Annual Treasury Strategy and Annual Report on Treasury Management Activity required previously.

4. This report meets that requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the Capital Expenditure Plans and the Council's Prudential Indicators.

BACKGROUND

5. The Treasury Management Strategy and PI's were previously reported to the Executive on 29 March 2018.

KEY INFORMATION

Issues

6. The underlying economic environment continues to remain challenging for the Council, particularly in relation to investment counterparty risk (ie which institutions it is "safe" to invest with) and the on-going uncertainty relating to Brexit. This has led to an approach of maintaining short-term investments with high quality counterparties which allows the council to be responsive when funding projects from both borrowed funds and internal funding sources. The consequences of this approach are that investments are limited to a small group of banks and building societies. The returns on investment continue to be low although have improved again this year.

Current Treasury Position

7. The following shows the Council's net investment position as at 30 September 2018 and its projected position at 31 March 2019.

| | Actual as at 31/3/18 £000 | Average Rate % | Current Position as at 30/9/18 £000 | Estimated Position as at 31/3/19 £000 | Anticipated Average Rate % |
|---------------------------|---------------------------------|----------------------|---|--|----------------------------------|
| Fixed Rate Borrowings | 0 | 0 | 0 | 0 | 0 |
| Variable Rate Borrowings | 0 | 0 | 0 | 0 | 0 |
| TOTAL BORROWINGS | 0 | 0 | 0 | 0 | 0 |
| Fixed rate Investments | 56,000 | 1.0000 | 51,000 | 51,000 | 1.175 |
| Variable rate Investments | 0 | 0 | 0 | 0 | 0 |
| TOTAL INVESTMENTS | 56,000 | 1.0000 | 51,000 | 51,000 | 1.175 |
| Net Investments | 56,000 | | 51,000 | 51,000 | |

8. Due to cash flow requirements arising in particular from property investments, forecasted cash requirements will be closely monitored to assess any borrowing and/or funding from internal sources requirements necessary by the end of the financial year.

9. The following table shows the projected earnings against the annual treasury budget at 30 September 2018. This shows that the forecast performance is more favourable than budget due to the council not utilising the external borrowing budget.

| Activity | Projection as at 30/09/18 | Budget 2018/19 | Variance Projected at 31/03/19 |
|---|---------------------------------|-------------------|--------------------------------------|
| | £000 | £000 | £000 |
| Cash Managers – Investment Returns | (400) | (433) | 33 |
| Bank Deposit returns | (20) | (17) | (3) |
| Temporary Lending – Cash Flow Activity | (80) | (31) | (49) |
| Temporary Borrowing | 0 | 15 | (15) |
| Long Term Borrowing | 0 | 142 | (142) |
| Bank Charges, Borrowing Costs & Operational Costs | 116 | 70 | 46 |
| Net Interest | (384) | (254) | (130) |

Conditions and Expected Movements in Interest Rates

10. A detailed commentary of the economy and interest rates, as provided by Link Treasury Services, can be found in Annex 1 to this report.

Investment Strategy

11. No changes are proposed to the 2018/19 Treasury Management Strategy at this time, however a detailed piece of work is currently being carried out to develop an Investment Strategy in accordance with changes in the prudential code. The Investment Strategy for 2019/20 and beyond will be reviewed in a separate report later in the year.

Borrowing Strategy

12. The Borrowing Strategy remains unchanged.

Cash Management Strategy

13. The Cash Management Strategy sets out the Council's approach to the effective management of the processes handling the inflows and outflows of cash within the Council. Work continues in this area to ensure the efficiency and productivity of these systems and processes.

Prudential Indicators

14. The relevant Prudential Indicators are set out in each of the individual strategy documents. An update on the performance against these indicators is provided below.

Capital Programme

15. The Capital Programme has been revised to take account of carry forwards and re-profiling of projects to reflect updated expectations. The following table shows these revisions for 2018/19.

| APPROVED CAPITAL EXPENDITURE PROGRAMME | 2018/19 Budget £000 | 2019/20 Projected £000 | 2020/21 Projected £000 | 2021/22 Projected £000 | 2022/23 Projected £000 | 2023/24 Projected £000 |
|---|---------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <u>FINANCE & ORGANISATION:</u> | | | | | | |
| Strategic Property | 21,674.2 | 50.0 | 50.0 | 76.0 | 76.0 | 76.0 |
| IT Services | 183.4 | 275.0 | 100.0 | 300.0 | 275.0 | 275.0 |
| Organisational Development | 150.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 |
| <u>PEOPLE SERVICES</u> | | | | | | |
| Housing | 1,847.0 | 9,729.0 | 4,815.0 | 1,115.0 | 1,115.0 | 1,115.0 |
| Wellbeing & Intervention | 280.0 | 145.0 | 105.0 | 105.0 | 105.0 | 105.0 |
| Community Partnerships | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 |
| <u>PLACE SERVICES:</u> | | | | | | |
| Neighbourhood Operations | 1,198.6 | 1,022.0 | 2,041.0 | 1,307.5 | 1,307.5 | 1,307.5 |
| Place Delivery | 2,042.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Expenditure | 27,400.8 | 11,276.0 | 7,166.0 | 2,958.5 | 2,933.5 | 2,933.5 |

Capital Financing

16. The table below shows the Capital Financing for the revised programme.

| Capital Financing | 2018/19 Original £000 | 2018/19 Revised £000 | 2019/20 Budget £000 | 2020/21 Budget £000 |
|--|-----------------------------|----------------------------|---------------------------|---------------------------|
| Total Capital Expenditure | 10,173 | 27,401 | 11,276 | 7,166 |
| Capital Receipts Reserve | 8,418 | 15,000 | - | - |
| Capital Grants | 965 | 9,523 | 1,115 | 1,115 |
| CIL / S106 | 290 | 290 | 362 | 303 |
| New Homes Bonus | - | 2,588 | 2,052 | 1,788 |
| Contribution from Revenue | 500 | - | - | - |
| Total Financing | 10,173 | 27,401 | 3,529 | 3,206 |
| Borrowing Need (or Capital Financing Requirement) | - | - | 7,747 | 3,960 |
| Net Investments (see table in paragraph 7) | -43,000 | -51,000 | -51,000 | -51,000 |

Capital Financing Requirement

17. There is currently no long term borrowing in 2018/19, which results in a Capital Financing Requirement (CFR) of zero. In addition, there will be no requirement to make a Minimum Revenue Provision (MRP) toward the repayment of borrowing in 2018/19.
18. There is also a requirement to ensure that total borrowing, net of any investments, does not, except in the short-term, exceed the total of the CFR for 2018/19 and the next 2 years. Since projected investment levels are greater than projected borrowing levels the Council complies with this.

Borrowing Limits

19. The Council sets limits on borrowing activity. These are set out below.

| | 2017/18 Actual £000 | 2018/19 Budget £000 | 2019/20 Budget £000 | 2020/21 Budget £000 |
|--|------------------------|------------------------|------------------------|------------------------|
| Authorised Limit for External Debt | 80,000 | 80,000 | 80,000 | 80,000 |
| Operational Boundary for External Debt | 70,000 | 70,000 | 70,000 | 70,000 |
| Upper limit for fixed rate exposure | 100% | 100% | 100% | 100% |
| Upper limit for variable rate exposure | 0% | 0% | 0% | 0% |

OPTIONS

20. The Executive has two options open to it.
 - Option 1 – accept and note the contents of the report.
 - Option 2 – accept the report, but ask Officers to provide more detail on some specific issues contained in the report.
21. The Executive is asked to approve Option 1.

LEGAL IMPLICATIONS

22. There are no direct legal implications arising from this report.

FINANCIAL IMPLICATIONS

23. The financial impacts of this proposed strategy have already been reflected within the Council's 2018/19 Budget proposals. There are no additional direct financial implications that arise from this report or from the changes to the CIPFA Treasury Management Code of Practice and the Prudential Code.

EQUALITIES IMPLICATIONS

24. This does not have any equalities implications

COMMUNICATION IMPLICATIONS

25. The purpose of this report is to communicate the treasury performance internally. No external communication is required at present.

RISK MANAGEMENT CONSIDERATIONS

26. Key risks are management in accordance with the Prudential code indicators and the consideration of Security Liquidity and Yield (SLY) for the councils investments.

OTHER IMPLICATIONS

27. There are no other implications relating to this report

CONSULTATION

28. There is no consultation required for this report. However this report will act as a starting point for discussions, later in the year, with the Treasury Member Panel regarding the Treasury Strategy 2019/20
29. This report will be presented to the Executive Committee on the 8th November 2018 for review

POLICY FRAMEWORK

30. This report is submitted in accordance with the Council's Treasury Management Policy

Background Papers:

None.