Treasury Management Outturn Report 2018/19

1. BACKGROUND

1.1 Treasury Management is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code). The Code has been developed to meet the needs of Local Authorities and its recommendations provide a basis to form clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

1.2 The Code was adopted via the Treasury Management Strategy Statement (TMSS), which was approved for the 2018/19 financial year by Council in February 2019. It requires the Council to produce an annual treasury report and a half yearly report.

1.3 This report has been developed in consultation with the Council's external investment manager and treasury adviser, Link Asset Services (LAS) and provides an update to 31st March 2019.

2. THE ECONOMIC ENVIRONMENT

2.1 During the quarter ended 31st March 2019, the significant UK economic headlines were:

- Brexit uncertainty continued to dominate;
- Bank Rate remained unchanged at 0.75% with no changes to the quantitative easing programme;
- There had been a rise in wage inflation and fall in CPI inflation. An increase in household spending power is likely to feed through into overall economic growth in the coming months.

3. SUMMARY PORTFOLIO POSITION

3.1 Net debt, including third party loans, at 31st March 2019 stood at £246.851m, which is lower than originally set out in the Treasury Management Strategy Statement in February 2019 as anticipated borrowing has been deferred. A balance sheet review has been carried out on the draft 2018/19 financial statements, and will be updated once the final audited financial statements for 2018/19 become available, which provides useful detailed analysis of the Councils loans, investments, Capital Financing Requirement and reserves.

3.2 Further analysis on borrowing and investments is set out in the next two sections. A snapshot of the Council's debt and investment position is shown in the table 1 below:

Table 1: Debt and Investment Position at 31st March

	TMSS 2018/19 31 Mar 2019 Forecast (Council Feb 2019)		Actual as at 31 March 2018		Actual as at 31 March 2019		Change from Mar 2018 to Mar 2019
	£m	Rate %	£m	Rate %	£m	Rate %	£m
Borrowing	**285.000**	**3.2**	**257.361**	**3.0**	**246.851**	**3.1**	**(10.510)**
Treasury Investments	**(27.200)**	**0.5**	**(65.400)**	**0.5**	**(48.044)**	**0.9**	**17.356**
3rd Party Loans	**(49.800)**	**2.1**	**(50.643)**	**2.2**	**(49.763)**	**2.1**	**0.880**
Total Net Debt / Borrowing	**208.000**	**-**	**141.318**	**-**	**149.044**	**-**	**7.726**

4. BORROWING

4.1 The Council can raise loan finance in order to primarily fund its Capital spending plans and also for short term cashflow purposes. The actual amount of new borrowing required each year is determined by capital expenditure plans, capital funding available, the actual Capital Financing Requirement (CFR), forecast reserves, cashflow analysis, and current and projected economic conditions.

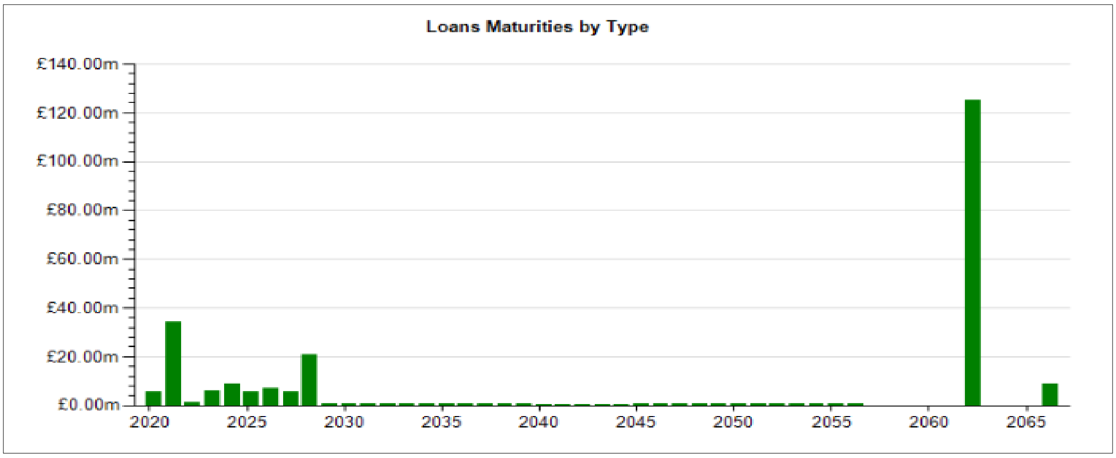
New loans and repayment of loans:

4.2 This section details new long term loans raised (i.e. loans that are for greater than one year) and loans repaid during the year, including those associated with Third Party Loans. No new loans were drawn during the year. A total of £10.510m scheduled principal repayments were made.

Maturity profile of borrowing:

4.3 Chart 1 below show the maturity profile of the Council's loan portfolio (including those associated with Third Party Loans), per loan, at 31st March 2019. The Councils long-term loans have fixed interest rates, which gives balance against short-dated loans and partly protects the Council from exposure to interest rate fluctuation.

Chart 1: Loan Portfolio at 31st March 2019



Loan restructuring:

4.4 When market conditions are favourable, long term loans may be restructured in order to:

- generate cash savings;
- reduce the average interest rate; and / or
- enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility (volatility is determined by the fixed/variable interest rate mix).

4.5 During the year, there were no opportunities for the Council to restructure its borrowing due to the composition of the Council's borrowing portfolio compared to prevailing market conditions and redemption rates. Debt rescheduling in 2019/20 will continue to be kept under review and considered subject to conditions being favourable. If and when opportunities for savings do arise, debt rescheduling will be undertaken to meet business needs.

Funding the Capital Programme

4.6 The Treasury Management Strategy Statement (TMSS) set out the plan for treasury management activities over the year. It identified the expected level of borrowing and investment levels. When the 2018/19 TMSS was set, it was anticipated that the Capital Financing Requirement (CFR) – the Council's liability for financing the agreed Capital Programme – would be £322.973m. This calculated amount is naturally subject to change as a result of any changes to the approved capital programme financing or MRP policy.

4.7 The outturn position was:

- the Council's 2018/19 outturn CFR was £310.421m, which was:
    - £63.570m greater than total outstanding borrowing of £246.851m at 31st March 2019 – this represents internal borrowing, that is the temporary use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally.

- £23.579m below the statutory Authorised Borrowing Limit of £334.000m set by Council.

5. INVESTMENTS

5.1 Investment activity is carried out using the framework of the Council's counterparty policies and criteria, with a clear strategy of risk management. This ensures that the principle of considering security, liquidity and yield (in that order) is consistently applied. The Council therefore aims to achieve the optimum return on investments commensurate with proper levels of security and liquidity. Any variations to agreed policies and practices are reported to Council

5.2 As described in paragraph 4.7, the strategy of internal borrowing also has the effect of limiting the Council's investment exposure to the financial markets, thereby reducing credit risk.

5.3 The level of cash available for investment is made up of reserves, balances and working capital that the Council holds. As at 31st March 2019 investments totalled £97.807m. This includes total third party loans as listed below:
- £45.273m of PWLB loans advanced to University of Northampton (UoN). These loans are fully guaranteed by HM Treasury;
- £4.400m loans to Northampton Town Rugby Football Club (NTRFC). These loans are over collateralised/secured against land assets at Franklins Gardens;
- £0.090m loan to Unity Leisure.
- £48.044m was held in treasury management investments profiled in order to meet the liquidity demands, and long-term investment of units in the pooled CCLA Property Fund.

5.4 Table 2 below compares the return performance on the Council's treasury management investment against relevant benchmarks for each quarter during the 2018/19 financial year.

Table 2: Benchmark Investment Performance – 2018/19

	Benchmark	Benchmark Return	Council Performance
Q1	**3m LIBID**	0.55%	0.59%
Q2	**3m LIBID**	0.66%	0.68%
Q3	**3m LIBID**	0.73%	0.89%
Q4	**3m LIBID**	0.75%	1.25%
ANNUAL	**3m LIBID**	0.68%	0.84%

5.5 It can be seen from the table above that treasury management investments returned 0.84% for the year, which is 16bps more than the 3 month LIBID benchmark. Returns were boosted significantly from November 2018 as the Council invested £8m into the CCLA Property Fund which achieves a stable return of c. 4.2% annually.

5.6 Leaving market conditions to one side, the Council's return on investment is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument. Credit risk is a measure of the likelihood of default and is controlled through the creditworthiness policy approved by Council. The duration of an investment introduces liquidity risk; the risk that funds can't be accessed when required, and interest rate risk; the risk that arises from fluctuating market interest rates. These factors and associated risks are actively managed by the LGSS Integrated Treasury team together with the Council's treasury advisers.

6. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

6.1 With effect from 1st April 2004, the Prudential Code (as amended) became statute as part of the Local Government Act 2003. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable. To ensure compliance with this the Council is required to set and monitor a number of Prudential Indicators.

6.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators, which were:

Table 3: Prudential Indicators

Prudential Indicator	2018/19 Indicator	2018/19 Outturn
Authorised limit for external debt (Inc' Third Party Loans)	----- £334.000m -----	
Operational boundary for external debt (Inc' Third Party Loans)	----- £324.000m -----	
Actual external debt (Inc' Third Party Loans)	----- £246.851m -----	
Capital Financing Requirement (CFR) (Inc' Third Party Loans and Finance Lease Liabilities)	£322.973m	£310.421m
Ratio of financing costs to net revenue streams: GF	6.13%	6.02%
Ratio of financing costs to net revenue streams: HRA	40.71%	36.89%
Principal sums invested > 365 days (Exc' Third Party Loans)	£15.000m	£7.446m
Maturity structure of borrowing limits:-		
Under 12 months	Max. 50% Min. 0%	2.2%
12 months to 2 years	Max. 50% Min. 0%	14.0%
2 years to 5 years	Max. 50% Min. 0%	6.5%
5 years to 10 years	Max. 50% Min. 0%	16.1%
10 years to 20 years	Max. 50% Min. 0%	2.9%
20 years to 30 years	Max. 60% Min. 0%	2.1%
30 years to 40 years	Max. 80% Min. 0%	1.9%
40 years and above	Max. 100% Min. 0%	54.3%