Harrow COUNCIL LONDON

REPORT FOR: CABINET

Date of Meeting:	20 June 2019
Subject:	Treasury Management Outturn 2018/19
Key Decision:	No
Responsible Officer:	Dawn Calvert, Director of Finance
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Resources
Exempt:	No
Decision subject to Call-in:	No
Wards affected:	All
Enclosures:	Appendix 1 – Economic Update for 2018/19

Section 1 – Summary and Recommendations

This report sets out the summary of treasury management activities for 2018/19.

Recommendation

Cabinet is asked to:

(a) Note the outturn position for treasury management activities for 2018/19.

(b) Refer this report to the Governance, Audit, Risk Management and Standards Committee for review.

Reasons

(a) To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.
(b) To keep Cabinet Members informed of treasury management activities and performance.

Section 2 – Report

1.1 Background

1.1.1. The purpose of this report is to present the Council's Annual Treasury Management Outturn Report for 2018/19 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Council by the 30 September each year. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS) as the treasury management function has operated within the Treasury Limits and Prudential Indicators as set out in the TMSS and set out in this report.

1.1.2. Treasury management comprises:

- Managing the Council's borrowing to ensure funding of the Council's future Capital Programme is at optimal cost;
- Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.

1.1.3. The annual revenue budget includes the revenue costs that flow from capital financing decisions. Under the Treasury Management Code, increases in capital expenditure should be limited to levels whereby increases in interest charges and running costs are affordable within the Council's revenue account.

1.1.4. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation to ensure the security and liquidity of the Council's treasury investments.

1.1.5. The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of the Treasury Management Code.

1.2 Reporting Requirements

1.2.1 The Council and/or Cabinet are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Treasury Management Strategy Statement report - The first, and most important report is presented to the Council in February and covers:

- the Treasury Management Strategy Statement (TMSS), how the investments and borrowings for capital expenditure are to be organised) including Treasury Limits and Prudential Indicators .
- The Annual Investment Strategy which forms part of the TMSS, (the parameters on how investments are to be managed).
- the MRP Policy (how capital expenditure is charged to revenue over time).

Mid-year Review report – This is presented to Cabinet in the autumn and updates Members on the progress of the Capital Programme, reporting on Prudential Indicators to give assurance that treasury management function is operating within the Treasury Limits and Prudential Indicators set out in the TMSS.

Treasury Management Outturn report (this report) – This is presented to Cabinet in June and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the Strategy.

Scrutiny - The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet / Council, with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMSC). The Council has complied with the Code to the extent that all Treasury Management reports have been properly scrutinised though the efficient conduct of the Council's business may require consideration by GARMSC subsequent to consideration by Cabinet/Council.This report will be considered by GARMSC on 16 July 2019.

1.2.2. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151 Officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions monthly.

1.3 Matters covered in report

1.3.1. This report covers the following:

- Treasury Management Outturn Summary (section 2).
- Capital Outturn and Authorised Limits (section 3)
- Investment Outturn and Investment Limits (section 4)

- Compliance with Treasury Limits and Prudential Indicators (section 5)
- Minimum Revenue Provision (section 6)
- Economic update for 2018/19 (Appendix 1)

1.4 Options considered

1.4.1. The report is in accordance with the reporting requirements of the CIPFA. Treasury Management Code.

2 Treasury Management Outturn Summary

2.1. The Treasury Management Strategy Statement agreed by Council in February 2018 stated that for the next three years the Capital Programme would continue to be funded to a large extent from grants and revenue resources but that substantial borrowing would also be required. The only other foreseen circumstance in which new long term borrowing in the next three years might be needed would be, if part of the Lender Option Borrower Option (LOBO) market loan portfolio had to be refinanced early and if decisions were made to increase capital investment.

2.2. During the year the Council negotiated the early repayment of £30 m LOBO loans which cost an average of 3.75% interest. The loans were replaced with £30m Public Works Loan Board (PWLB) borrowing at 2.71%. Consideration was given as to the cost and benefits of the premature repayment of debt and the premium which would be incurred. However, in view of the high exit cost no other debt restructuring was considered to be affordable.

2.3. On 31 March 2019, net borrowing was £319.933m, an increase of £12.507m on the position on 31 March 2018, as shown below.

Table 1: Net Borrowing Summary

	31 March 2018	31 March 2019	Movement
	£000	£000	£000
Total Borrowing	324,261	346,261	22,000
Total Cash Invested	-16,835	-26,328	-9,493
Net Borrowing	307,426	319,933	12,507

2.4. The Council's borrowing position (excluding borrowing by PFI and finance leases) as at 31 March 2019 is set out in table below:

Table 2: External Borrowing

	31 March 2018	Average Rate at 31 March 2018	31 March 2019	Average Rate at 31 March 2019
	£m	%	£m	%
Fixed Rate Borrowing				
Public Works Loans Board (PWLB)	218,461	4.09	248,461	3.93
Market	105,800	4.29	65,800	4.19
Temporary Borrowing	0	0	32,000	0.97
Total Debt	**324,261**	**4.15**	**346,261**	**4.10**

2.5. In 2019/20, overall debt has increased by £22m (net). PWLB borrowing has increased by £30m which was used to refinance £30m of LOBO market loans which had a positive impact on average interest rates. £32m of temporary borrowing was taken in year, £10m of which was used to repay a market loan and the remaining to fund the Capital Programme.

2.6 There was a favourable variance of £0.788m on the capital financing budget as set out in the table below reflecting the deferral of long term borrowing into 2019/20.

Table 3: Net Cost of Borrowing Summary

	Budget	Outturn	Variation	
	£000	£000	£000	%
Interest Receivable	-1,400	-1,311	89	6.36%
Cost of Borrowing	8,045	7,168	-877	-10.90%
Total	**6,645**	**5,857**	**-788**	**-11.86%**

3. Capital Expenditure Outturn and Authorised Limits

3.1 During the year the Council operated within the TMSS authorised limits as set out in the table below.

Table 4: Authorised Limits

	2018/19	2018/19
	Estimate	Actual
	£,000	£,000
Authorised Limit for external debt (CFR)		
Borrowing and finance leases	658,246	517,532
Operational Boundary for external debt		
Borrowing	505,013	346,261
Other long term liabilities	15,501	15,501
Total	520,514	361,762
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing	505,013	346,261
Upper limit for variable rate exposure		
Net principal re variable rate borrowing	0	0
Upper limit for principal sums invested over 364 days	60,000	0

3.2. The Council's external borrowing was well within the Prudential Indicator for external borrowing which requires that borrowing should not exceed the estimated Capital Financing Requirement (CFR) for 2018/19 of £658.246.The final CFR for 2018/19 was £517.532m. See Table 5 below.

3.3 The Council is 'underborrowed' because it has used mainly internal funding resources to finance borrowing for capital expenditure. £32m short- term borrowing was taken in 2018/19 which has been replaced by longer term borrowing, taken in April 2019.

Table 5: Capital Financing Requirements and Borrowing Limits

	2017/18	2018/19	2018/19
	Actual	Estimate	Actual
	£'000	£'000	£'000
Capital Financing Requirement	494,223	658,246	517,532
Gross borrowing	341,061	520,514	361,762
Under borrowing	**153,162**	**137,732**	**155,770**

3.4. Total spend on the Capital Programme for the year is £57.782m against the approved budget of £217.565m as set out in a separate report on this agenda; Revenue and Capital Outturn 2018/19**.** The table below shows budgeted and actual capital expenditure for the year and sources of finance. The balance, the net financing need for the year is met from borrowing.

Table 6: Capital Financing

	2017/18	2018/19	2018/19
	Actual	Budget	Actual
	£'000	£'000	£'000
Capital Expenditure:			
Non HRA	**82,254**	**196,226**	**50,691**
HRA	11,877	21,339	7,091
	94,131	**217,565**	**57,782**
Funding:			
Grants	13,309	20,784	13,063
Capital Receipts	8,137	6,148	1,120
Revenue Financing	8,753	8,666	6,191
Section 106 / Section 20 contributions	5,456	1,388	337
TOTAL	**35,655**	**36,986**	**20,711**
Net financing need for the year (Borrowing)	**58,476**	**180,579**	**37,071**

4. Investment Outturn

4.1. The Bank of England Base Rate was raised from 0.25% to 0.50% in November 2017 and again in August 2018 to 0.75% and rates have improved slightly but remain low.

4.2. The Council manages its investments in-house and invests with the institutions listed in the Council's approved Counterparty List. The treasury strategy permits investments for a range of periods from overnight to three years, dependent on the Council's cash flows, its interest rate view and the interest rates on offer.

4.3. As at 31 March 2019, most of the investment portfolio was invested with two banks, Lloyds (46%) and RBS (36%). The counterparty policy permits up to 50% to be invested with Lloyds. and 60% with RBS.

4.4. All of the cash investments were held for less than seven days by year-end, to ensure liquidity and to mitigate the need for further temporary borrowing. The investment portfolio achieved an average return of 0.40%. reflecting the short duration of investments and the low level of deposit rates during the year.

4.5. The table below sets out the investment balances as at 31 March 2019.

Table 7: Investment Balances

	31st March 2018		31st March 2019	
	£,000	**%**	**£,000**	**%**
Specified Investments				
Banks & Building Societies	0	0	0	0
Money Market Funds	1,584	9.5	1,604	6.1
Local Authority	0	0.0	0	0.0
Non –Specified Investments				
Banks & Building Societies	15,251	89.6	24,724	93.9
Enhanced Money Market Funds	0	0.9	0	0.0
Total	**16,835**	**100.0**	**26,328**	**100.0**

4.6 Investment balances have reduced due to the strategy to defer borrowing by using cash balances. Average balances above £30m were maintained during the year as this is the approved operational cash balance required for the Council and the trigger point for external borrowing.

5. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

.5.1. The prudential framework for local authority capital investment was introduced through the Local Government Act 2003. The prudential system provides a flexible framework approach within which capital assets can be procured, managed, maintained and developed. Under this framework, individual authorities are responsible for deciding the level of their affordable borrowing for the Council's capital investment plans that is demonstrated to be affordable, prudent and sustainable.

5.2. The Act and the supporting regulations require the Council to have regard to the Prudential Code and to set Prudential Indicators for the next three years. The indicators for 2018/19 were approved by the Council on 22 February 2018. During the financial year the Council operated within the treasury limits and Prudential Indicators as shown in in the table below.

Table 8: Prudential Indicators Summary

Table	Indicator	2018/19 Estimate	2018/19 Actual	Indicator "Met"
6	Capital Expediture GF	£196.226m	£50.691m	met
6	Capital Expediture HRA	£21.339m	£7.091m	met
5	Capital Financing Requirement (CFR)	£658.246m	£517.532m	met
5	Debt vs CFR (underborrowing	(£137.732m)	(£158.614m)	met
	Ratio of Financing costs to revenue stream	Non HRA 14.8% HRA including depreciation 43.1%	Non HRA 10.5% HRA including depreciation 43.1%	met
4	Authorised limit for external debt	£658.246m	£520.376m	met
4	Operational debt boundary	£520.361m	£361.762m	met
7	Upper limit for fixed interest rate borrowing	£505.013m	£346m	met
7	Upper limit for investments made over 1 year	£60m	£0m	met

5.3. External borrowing was well within the Capital Financing Requirement, the Authorised Borrowing Limit and the Operational Debt Boundary.

The Authorised Borrowing Limit is a level for which the external borrowing cannot be exceeded without reporting back to Council. It therefore provides sufficient headroom such that in the event that the planned capital programme required new borrowing to be raised over the medium term, if interest rates were deemed favourable within the revenue account and a thorough risk analysis determined, the cost of carry was appropriate, this borrowing could be raised ahead of when the spend took place.

The Operational Boundary is set at a lower level and should take account of the most likely level of external borrowing.

6. MINIMUM REVENUE PROVISION (MRP)

6.1. Under the statutory regulations the Council must determine for the current financial year an amount of minimum revenue provision (MRP) which it considers to be prudent. The MRP is the means by which capital expenditure which is financed by borrowing or credit arrangements is funded by the revenue account over the useful life of the asset. The budget provision for MRP in 2018/19 was £16.556m. At outturn the MRP actual charge was £10.918m.

7. ECONOMIC UPDATE

29. The Council has engaged Link (previously Capita) Asset Services, Treasury Solutions as its external treasury management adviser. A short commentary follows, provided by Link in April 2019 summarising their views on developments in the world economy and interest rates during 2018/19 is set out in Appendix 1.

8 IMPLICATIONS OF THE RECOMMENDATIONS

8.1. The recommendations are asking the Cabinet to note the position on treasury management activities. They do not affect the Council's staffing

/ workforce and have no equalities, procurement, data protection or community safety impact.

9. PROCUREMENT IMPLICATIONS

31. There are no procurement implications arising from this report.

10. LEGAL IMPLICATIONS

32. The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

11. FINANCIAL IMPLICATIONS

33. In addition to supporting the Council's revenue and capital programmes the Treasury Management interest budget of £6.6m is an important part of the revenue budget. Any savings achieved, or overspends incurred, have a direct impact on the financial performance of the budget. There is no direct financial impact of paying the London living Wage (LLW) arising from treasury management activity.

12. PERFORMANCE ISSUES

34. The Council meets the requirements of the CIPFA Code of Practice for Treasury Management and therefore is able to demonstrate best practices for the Treasury Management function.

35. As part of the Code the Council must agree a series of prudential indicators and measure its performance against them. These indicators and performance are detailed in the report and reported to Council

13. ENVIRONMENTAL IMPACT

36. There are no direct environmental impacts.

14. RISK MANAGEMENT IMPLICATIONS

14.1. Risk included on Directorate risk register? Yes. Risk 9: Loss of an investment/deposit

14.2. The identification, monitoring and control of risk are central to the achievement of the treasury objectives. Potential risks are identified, mitigated and monitored in accordance with treasury practice notes approved by the Treasury Management Group.

15. EQUALITIES IMPLICATIONS/PUBLIC SECTOR EQUALITY DUTY

15.1. There is no direct equalities impact.

16. CORPORATE PRIORITIES

16.1. This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 28 May 2019	✓	Chief Financial Officer
Name: Chris Cuckney Date: 4 June 2019	✓	on behalf of the * Monitoring Officer

Name: Nimesh Mehta Date: 28 May 2019	✓	Head of Procurement

Name: Charlie Stewart Date: 4 June 2019	✓	Corporate Director
Ward Councillors notified:		**No**
EqIA carried out:		**No**

EqIA cleared by:	**N/A**

Section 4 - Contact Details and Background Papers

Contact: **Iain Millar** (Treasury and Pensions Manager) Tel: 020-8424-1432/ Email: iain.millar@harrow.gov.uk

Background Papers: N/A

Call-In Waived by the Chair of Overview and Scrutiny Committee	**NO**

Economic Update Appendix 1

The Council has engaged Link (previously Capita) Asset Services, Treasury Solutions as its external treasury management adviser. A short commentary follows, provided by Link in April 2019 summarising their views on developments in the world economy and interest rates during 2018/19

After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4.

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit. The EU has set a Brexit deadline of 31October 2019It appears unlikely that there would be a Commons majority which would support no deal or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were to happen, then it increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.