Gateshead Council

REPORT TO CABINET
16 October 2018

Title of report: **Treasury Management – Performance to 30 September 2018**

Report of: **Darren Collins – Strategic Director, Corporate Resources**

Purpose of the Report

1. The purpose of this report is to review Treasury Management performance for the six months to 30 September 2018, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. Cabinet will receive half yearly performance reports on the agreed Treasury Management budget identifying any variances. This report sets out the monitoring position at 30 September 2018.

3. Council agreed the Treasury Policy Statement and Treasury Strategy 2018/19 to 2022/23 which provided a framework for the Strategic Director, Corporate Resources to exercise his delegated powers on 22 March 2018.

4. Council also agreed the original General Fund budget for Treasury Management for 2018/19 on 22 February 2018. This was set at £11.710m.

Proposals

5. The projected outturn for 2018/19 at 30 September 2018 is £10.297m compared to the estimate of £11.710m, an underspend on budget of £1.413m.

6. The Audit and Standards Committee reviewed the Treasury Management performance to 30 September 2018 on 1 October 2018 and raised no comments for submission to Council.

7. It is important that effective budget monitoring and action planning is in place to ensure that spending in 2018/19 is contained within approved budgets as this will contribute to a sustainable financial position for the Council.

Recommendation

8. Cabinet is asked to note the Treasury Management Performance to 30 September 2018; to contribute to sound financial management and the long-term financial sustainability of the Council.

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Appendix 1

Policy Context

1. The proposals in this report are consistent with Council priorities and in particular they ensure that effective use is made of the Council's resources to ensure a sustainable financial position and support of the framework for achieving the Council's new strategic approach 'Making Gateshead a Place Where Everyone Thrives'. The Council recognises there are huge financial pressures on not just council resources, but those of partners, local businesses and residents. This requires the Council's decision-making to be policy and priority led and driven.

Background

2. The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

3. In December 2017 CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code (the Code) which represents best practice. The Council fully complies with the Code and this contributes towards achieving good practice.

4. Part 1 of the Local Government Act 2003 specifies the powers of a local authority to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Borrowing is linked to the CIPFA Prudential Code for Capital which sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent and sustainable. The Prudential Code refers to the need for a clear and integrated treasury strategy.

5. In addition, under Section 15 of the Local Government Act 2003, authorities are required to have regard to the MHCLG's guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Council's Treasury Strategy.

6. Under Part 4 of the Council's Constitution the Strategic Director, Corporate Resources will produce a Treasury Policy Statement annually, setting out the general policies and objectives of the Council's treasury management function.

7. The Council also provides a treasury management service to the Gateshead Housing Company through a Service Level Agreement.

Mid-Year Performance to 30 September 2018

8. This report sets out the latest position on the 2018/19 Treasury Management budget as at 30 September 2018 and projects interest on borrowing and investment income to the end of the financial year.

9. The projected outturn for 2018/19 at 30 September 2018 is £10.297m compared to the estimate of £11.710m, a projected under spend of £1.413m. The underspend is made up of several elements:

   a) Borrowing costs are lower than budget due to lower levels of borrowing taken in the year to date and at lower rates than estimated due to management of cash flows and reliance on internal borrowing.
   b) Investment interest achieved in the year to date has exceeded budgeted estimates, primarily due to increases in base rate and higher rates of return available in the market.
   c) Investment interest received from loans to the Council trading companies is more than anticipated in budgeted estimates.

10. Appendix 2 details the budget for 2018/19 compared to an assessment of the projected outturn for the year.

Consultation

11. The Leader of the Council has been consulted on this report.

Alternative Options

11. There are no alternative options, as the Treasury Management mid-year performance report recommended for approval is required to comply with the policy on delegation, review requirements and reporting arrangements as outlined in the Treasury Policy Statement and Treasury Strategy.

Implications of recommended options

12. **Resources:**

   a) Financial Implications - The Strategic Director, Corporate Resources confirms that the financial implications are set out in this report. There are no additional financial implications associated with the report itself.

   b) Human Resources Implications - There are no human resources implications arising from this report.

   c) Property Implications – There are no property implications arising from this report.

13. **Risk Management Implications**

   The Treasury Policy and Treasury Strategy which informs activity in this area were prepared with the primary aim of minimising risk to ensure that the Council's principal sums are safeguarded. Maximising income is considered secondary to this main aim.

14. **Equality and Diversity Implications**

There are no equality and diversity implications arising from this report.

15. **Crime and Disorder Implications**

There are no crime and disorder implications arising from this report.

16. **Sustainability Implications**

There are no sustainability implications arising from this report.

17. **Human Rights Implications**

There are no human rights implications arising from this report.

18. **Area and Ward Implications**

There are no direct area and ward implications arising from this report.

Appendix 2

Mid-Year Report - Performance to 30 September 2018

1. Investment Performance

1.1 The latest projection of gross investment income for 2018/19 based on interest earned to date and expected interest to March 2019 is £0.559m, compared to the original estimate of £0.417m.

1.2 This gross investment interest is adjusted to account for £0.254m interest payable to third parties and interest receivable of £1.591m from various third parties, the most significant of which is Newcastle International Airport. This gives a projected net interest to the General Fund 2018/19 of £1.896m compared to the budget of £1.525m. The current variance to budget is mainly as a result of higher levels of interest received on loans to third parties than anticipated when the 2018/19 budget was set.

2. Rate of Return

2.1 The average rate of return is monitored for each investment type that the Council enters into and these are used to calculate an average rate of return for the Council for the year to date. The current rate of return is 0.70%, which is greater than the original estimate of 0.59%.

2.2 As a means of benchmarking, the average rate of return for the month and year to date is compared to the equivalent 7-day London Inter-Bank Bid Rate (LIBID), which is the rate that banks are willing to borrow money from each other. The monthly return of 0.06467% exceeds the LIBID 7-day rate equivalent of 0.04849%. The Council's year to date rate of return of 0.70050% is also well in excess of the equivalent LIBID 7-day year to date rate of 0.40245%.

2.3 The quarterly LINK Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across other authorities. In the most recent report received, September 2018, the Council achieved a weighted average rate of return of 0.72% on its investments for Quarter 1 2018/19 which is in line with the risk adjusted expectations (0.61% to 0.74%) defined in the Benchmarking Report for our Group.

2.4 The rate of return would be expected to decrease during the year as investment balances reduce and current deposits are replaced with shorter, lower yielding deposits.

2.5 The investment market remains very difficult in terms of actuarial earning levels with much dependent in the near future on achieving a reasonable Brexit agreement which benefits both the UK and the EU. Given this scenario investment returns are likely to remain relatively low for the remainder of the year.

3. Borrowing

3.1 The total borrowing for the Council and the Housing Revenue Account (HRA) as at 30 September 2018 was £641.915m, which was within the operational borrowing limit of £850m. This borrowing is made up of £516.915m PWLB loans and £125m market loans.

3.2 The Treasury Strategy estimates for the 2018/19 financial year were based on a borrowing requirement of £78.363m. To date this year the Council has taken £5m long term borrowing from the PWLB. The timing of further borrowing will depend on a combination of cash flow requirements to support the capital programme and achieving preferential borrowing rates at the time.

3.3 The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

	General Fund	**HRA**
Interest Payable	£12.193m	£13.942m
Average rate of interest	3.66%	4.15%

3.4 This represents a gross saving of £1.936m on the original estimate, of which £1.042m is a saving for the General Fund and £0.894m is for the HRA.

4. Summary of Mid-Year Performance

4.1 The projected net impact of investment and borrowing activity on the revenue budget in 2018/19 is an underspend of £2.307m, comprising £1.413m General Fund and £0.894m HRA.

General Fund	**Estimate £m**	**Projected Outturn £m**	**Variance £m**
Investments	(1.525)	(1.896)	(0.371)
Borrowing	13.235	12.193	(1.042)
Net Position	11.710	10.297	(1.413)

4.2 Investment returns are likely to remain relatively low during 2018/19 and beyond and interest rates are expected to be below long term borrowing rates therefore value for money considerations indicate that best value can be obtained by delaying new external borrowing and by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing).

4.3 The current approach of borrowing internally provides benefits in terms of reduced credit risk, as the Council has less cash invested than if it had gone to the markets and borrowed externally. This means that cash balances and investment returns, are historically low resulting in reduced levels of income, which is significantly outweighed by the savings achieved from avoiding external borrowing.

4.4 Internal borrowing does incur an additional element of interest rate risk on the overall treasury management position, but this is being taken into account and mitigated by the monitoring and review of potential borrowing options and overall market conditions.