

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Treasury and Prudential Indicator Management Report: Quarter 4 (to 31 March 2018)

Final Decision-Maker	Cabinet
Portfolio Holder(s)	Councillor David Reilly – Portfolio Holder for Finance and Governance
Lead Director	Lee Colyer – Director of Finance, Policy and Development
Head of Service	Jane Fineman – Head of Finance and Procurement
Lead Officer/Author	Clare Hazard – Accountancy Manager
Classification	Non-exempt
Wards affected	All

This report makes the following recommendations to the final decision-maker:

That the 2017/18 Treasury Management and Prudential Indicator position be noted.

This report relates to the following Five Year Plan Key Objectives:

This report supports all of the key objectives. Ensuring effective cash flow management is vital in order to support all the services provided by the Council. The interest received from the Council's investments is an important source of income in helping the Council set a balanced budget.

Timetable

<i>Meeting</i>	<i>Date</i>
Management Board	9 May 2018 (Verbal Update)
Discussion with Portfolio Holder	29 May 2018
Cabinet Advisory Board	29 May 2018 (Verbal Update)
Cabinet	21 June 2018

Treasury and Prudential Indicator Management Report: Quarter 4 (to 31 March 2018)

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report monitors compliance with the Treasury Management Policy & Strategy 2017/18 for the period 1 April 2017 to 31 March 2018.
 - 1.2 The report updates Members on investments held by the Council and informs that interest from investments for 2017/18 was forecast to be £717,000, an increase of £87,000 on the approved budget of £630,000 and a further £17,000 from the Quarter 3 forecast.
 - 1.3 The report also updates Members on the borrowed funds held by the Council. The cost of the interest on the PWLB loan for 2017/18 was £145,310 the same as the approved budget.
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2. INTRODUCTION AND BACKGROUND

- 2.1 Under its Financial Procedure Rules, the Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet.
- 2.2 This report monitors, for the period 1 April 2017 to 31 March 2018, compliance with the Treasury Management Policy and Strategy 2017/18 recommended by Cabinet at its meeting 9 February 2017 (CAB160/16) and approved by Full Council at its meeting of 22 February 2017 (FC69/16).

Current Investments

- 2.3 The 2017/18 approved limits on the amount of money and the time period the Council can invest with any given counterparty is shown in **Appendix A**.
- 2.4 As at 31 March 2018 the Council had £32 million of investments and the institution categories and the maturity profile of these investments are shown in **Appendix B**.

Investment Interest

- 2.5 The bank interest rate set by the Bank of England's Monetary Policy Committee has been 0.50% since November 2017 when it was raised from 0.25%, the first rate rise in over a decade.
- 2.6 Link Asset Services, who are the Council's treasury advisors, regularly review interest rates and produce a forecast of the rate over future years. They now predict that interest rates will rise again by the end of 2018 and continue rising slowly during 2019 and 2020.

- 2.7 Investment interest of £630,000 was included in the revenue budget for 2017/18 which was based on a target interest rate of 1.83%. The average rate achieved was 1.62% resulting in investment interest of £717,000, £87,000 above budget and a further £17,000 above the Quarter 3 forecast.
- 2.8 The estimated average funds available for investment in 2017/18 were forecast to be £41.50 million. The actual funds were £44.18 million due to a higher than estimated opening balance, resulting from the rescheduling of the capital programme during 2017/18, and savings achieved in 2016/17 being returned to reserves. Also there has been more cash available during 2017/18 due to further rescheduling of the capital programme and underspends in net revenue costs being transferred to reserves.
- 2.9 The increased funds has resulted in the additional interest achieved but has brought the overall average interest rate down. This is because the additional funds have only been invested short term, as they are mostly as a result of rescheduling the capital programme, and short term investments earn less than the average for the rest of the portfolio. Opportunities for investing short term money are extremely limited although the Council has been investing more with other local authorities who are offering slightly above what banks and building societies are offering.
- 2.10 A summary of the forecast position is shown below:

	Budget 2017/18	Actual 2017/18	Forecast Quarter 3
Equated Investments	£34.50 million	£44.18 million	£41.50 million
Average Interest Rate	1.83%	1.62%	1.69%
Investment Income	£630,000	£717,000	£700,000

Treasury Management Strategy Prudential Indicators and Targets

- 2.11 Details of the Prudential Indicators and Treasury Management Targets compared to the position as at 31 March 2018 are set out in **Appendix C**.
- 2.12 None of the Prudential Indicators were breached in this period. The interest rate achieved from investments was 1.62%, whereas the target was 1.83% but as explained in Paragraph 2.7, due to higher than estimated funds being available the overall interest budget was £87,000 over budget.

Local Authorities' Property Fund

- 2.13 The Council has purchased £9 million worth of units in The Local Authorities' Property Fund. The Fund pays a dividend to the Council on a quarterly basis. The dividend paid for 2017/18 was 6.11% although a management fee of 0.71% was paid back to the Fund resulting in a net interest rate of 5.40%.

- 2.14 The value of the investment is calculated at year end to be included in the Council's Financial Statements at its fair value or market price. The value of the Council's £9 million investment was £10,224,741 as at 31 March 2017. The value of the £9 million invested as at 31 March 2018 is £10,710,232, a further gain of £485,491.
- 2.15 Any gain or loss at year end is transferred to an unusable reserve called the 'Available for Sale Reserve'. The cumulative gain or loss on this reserve will only be recognised in the Income and Expenditure Statement on disposal of the investment.

Other Interest and Investment Income Received

- 2.16 The Council also receives interest and investment income in addition to investment interest from a variety of sources as shown below:

	Actual
Mortgages	£5,035
Local Authority Mortgage Scheme	£23,849
Bank Interest	£27,200
Other Loans	£3,133
Fusion Loan	£84,266
Investment Income	£85,250
Total Other Interest/Invest Income	£228,733

- 2.17 The Council has provided a loan to Fusion Lifestyle, who manage the Council's sports centres, to fund sports centre improvements. This resulted in £84,266 of interest for 2017/18. This was transferred to the Strategic Plan Reserve. This reserve is added to when interest exceeds the budget.
- 2.18 The Council purchased a commercial property in 2016/17 which is held on the balance sheet as an investment property. Investment income received for 2017/18 was £85,250.

Current Borrowing

- 2.19 The Council had £7 million which it had borrowed from the Public Works Loans Board (PWLb) as at 31 March 2017, at a rate of 2.38%. This loan is repaid in sums of £1 million every July and January and therefore £5 million of this loan was outstanding as at 31 March 2018.
- 2.20 The cost of interest on this borrowing for 2017/18 was £145,310.

3. AVAILABLE OPTIONS

- 3.1 This report is essentially for information.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 That Members acknowledge the 2017/18 Treasury Management and Prudential Indicator position and note that investment interest was £717,000, an increase of £87,000 on the budget of £630,000.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The Council takes advice from Link Asset Services on all treasury management activities.

RECOMMENDATION FROM CABINET ADVISORY BOARD

- 5.2 The Finance and Governance Advisory Board were given a verbal update on 29 May 2018 and there were no recommendations.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The investment income and borrowing costs are also included within the Quarter 4 Revenue Management report which is an accompanying report on this agenda.
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7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Legal including Human Rights Act	Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.	Patricia Narebor, Head of Legal Partnership
Finance and other resources	The net investment interest is an important source of income for the Council's revenue budget.	Jane Fineman, Head of Finance and Procurement
Staffing establishment	No implications	Clare Hazard, Accountancy Manager
Risk management	The Treasury Management Policy and Strategy sets out how the Council aims to control the risks associated with treasury management. The security of the Council's investments is the top priority when making investments and is always considered before yield.	Clare Hazard, Accountancy Manager
Environment and sustainability	No implications	Clare Hazard, Accountancy Manager

Community safety	No implications	Clare Hazard, Accountancy Manager
Health and Safety	No implications	Clare Hazard, Accountancy Manager
Health and wellbeing	No implications	Clare Hazard, Accountancy Manager
Equalities	No implications	Clare Hazard, Accountancy Manager

8. REPORT APPENDICES

The following documents are to be published with and form part of the report:

- Appendix A: Treasury Management Investment Limits
- Appendix B: Current Investments
- Appendix C: Prudential Indicators and Treasury Management Targets

9. BACKGROUND PAPERS

- Treasury Management Policy and Strategy 2017/18 – CAB160/16
<http://democracy.tunbridgewells.gov.uk/meetings/documents/s30948/14%20Treasury%20Management%20Policy%20and%20Strategy%202017-18%20-%20Report.pdf>