

Treasury and Prudential Indicator Management Report: Quarter 3 (to 31 December 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/Report Author	Clare Hazard – Accountancy Manager
Classification	Non-exempt
Wards affected	All

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

1. That the 2018/19 Treasury Management and Prudential Indicator position be noted.
2. That a further increase in the forecast for investment and bank interest of £30,000, which increases the forecast budget from £693,000 to £723,000, 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	30 January 2019 (Verbal update)
Discussion with Portfolio Holder	12 February 2019
Cabinet Advisory Board	12 February 2019 (Verbal update)
Cabinet	7 March 2019

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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report monitors compliance with the Treasury Management Policy & Strategy 2018/19 for the period 1 April 2018 to 31 December 2018.
 - 1.2 The report updates Members on investments held by the Council and informs that interest from investments and bank interest for 2018/19 is forecast to be £723,000, an increase of £100,000 on the approved budget, and an additional £30,000 from the Quarter 2 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 2018/19 is forecast to be £97,710 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 2018 to 31 December 2018, compliance with the Treasury Management Policy and Strategy 2018/19 recommended by Cabinet at its meeting 1 February 2018 (CAB131/17) and approved by Full Council at its meeting of 21 February 2018 (FC64/17).

Current Investments

- 2.3 The 2018/19 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 September 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 was increased from 0.50% to 0.75% on 2 August 2018.
- 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 don't expect another increase this year but forecast that interest rates will rise again in 2019 and continue rising slowly during 2020.

- 2.7 When the 2018/19 budget was set the average funds expected to be available for investments during the year was £33,100,000. The target interest rate to be earned on these funds was set at 1.88%. Applying this to the funds available resulted in an interest budget of £623,000. This was made up of £611,000 of investment income and £12,000 of bank interest, which is earned when short term balances are kept in the Council's bank account.
- 2.8 The estimated average funds available for investment in 2018/19 are now projected to be £40,100,000. The increase is due to a higher than estimated opening balance, resulting from the rescheduling of the capital programme during 2017/18 and 2018/19, and savings achieved in 2017/18 being returned to reserves.
- 2.9 As at Quarter 2 the increased funds were projected to earn an additional £70,000 over the year, increasing the interest forecast from £623,000 to £693,000. Since then the Council has continued to invest at improved rates, including in its 95 day notice call account, which enables short term funds to be invested. The investment with the Local Authorities' Property Fund, as described in Paragraph 2.13 has also achieved more interest than budgeted. Therefore an additional amount of interest of £30,000 is now forecast to be achieved.
- 2.10 A summary of the forecast position is shown below:

	Budget 2018/19	Forecast Quarter 2	Forecast Quarter 3
Equated Investments	£33.10 million	£40.10 million	£40.10 million
Average Interest Rate	1.88%	1.73%	1.80%
Investment Interest	£611,000	£659,000	£680,000
Bank Interest	£12,000	£34,000	£43,000
Total Interest	£623,000	£693,000	£723,000

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 December 2018 are set out in **Appendix C**.
- 2.12 None of the Prudential Indicators were breached in this period. The interest rate forecast to be achieved from investments had been reduced from an original amount of 1.88% to 1.73% but has now been increased closer to target to 1.80% in Quarter 3.

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 April to December 2018 was 5.84% although a

management fee of 0.73% was paid back to the Fund resulting in a net interest rate of 5.11%.

- 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 £10,710,232 as at 31 March 2018. The value of the £9 million invested as at 31 December 2018 is £10,943,225, a further gain of £232,993.
- 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:

	Budget
Mortgages	£4,700
Other Loans	£2,200
Fusion Loan	£64,860
Investment Property Income	£85,250
Total Other Interest/Invest Income	£157,010

- 2.17 The Council has provided a loan to Fusion Lifestyle, who manage the Council's sports centres, to fund sports centre improvements. This will result in £64,860 of interest for 2018/19. This will be transferred to the Strategic Plan Reserve. This reserve has been added to in previous years when interest received has exceeded 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 2018/19 is expected to be £85,250. The purchase of the property was not funded by reserves and was paid for using borrowed funds. This will therefore need to be repaid from revenue over the estimated life of the asset. Therefore the investment income from the property will be used to meet the cost of this repayment.

Current Borrowing

- 2.19 The Council had £5 million borrowed from the Public Works Loans Board (PWLb) as at 31 March 2018, at a rate of 2.38%. This loan is repaid in sums of £1 million every July and January and therefore £4 million of this loan was outstanding as at 31 December 2018.
- 2.20 The cost of interest on this borrowing for 2018/19 will be £97,710.
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3. AVAILABLE OPTIONS

3.1 This report is essentially for information.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 That Members acknowledge the 2018/19 Treasury Management and Prudential Indicator position and note that investment and bank interest is forecast to be £723,000, an increase of £100,000 on the budget of £623,000 and a further £30,000 from the Quarter 2 forecast.

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 12 February 2019 and there were no recommendations.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 The investment income and borrowing costs are also included within the Quarter 3 Revenue Management report which is an accompanying report on this agenda.

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 this report 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 2018/19 – CAB131/17

<http://democracy.tunbridgewells.gov.uk/meetings/documents/s36318/12%20Treasury%20Management%20Policy%20and%20Strategy.pdf>