
ANNUAL TREASURY MANAGEMENT REPORT 2018/19

Report by Chief Financial Officer

AUDIT & SCRUTINY COMMITTEE

23 September 2019

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the annual treasury management activities undertaken during the 2018/19 financial year.**
- 1.2 The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) requires an annual report on treasury management to be submitted to Council following the end of each financial year. This report highlights the Council's treasury activity undertaken in the year ended 31 March 2019 and the performance of the Treasury function.
- 1.3 Appendix 1 is the annual report of treasury management activities for 2018/19 and contains an analysis of performance against targets set in relation to Prudential and Treasury Management Indicators. The performance comparisons reported are based on the revised indicators agreed as part of the mid-year report approved on 29 November 2018.
- 1.4 The Appendix shows the Council's borrowing requirement to fund the capital investment undertaken during 2018/19, how much the council actually borrowed against the sums budgeted and the level of external debt within approved limits.
- 1.5 During the year the Council has again, where possible, deferred borrowing using surplus cash rather than undertaking new borrowing. However, the Council did undertake long term borrowing of £10m during the year, for the purposes of debt rescheduling.
- 1.6 Treasury management activity for the year has been undertaken in compliance with approved policy and the Code. The Council remains under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2019.

2 STATUS OF REPORT

- 2.1 Due to competing deadlines, this report is being issued for consultation and publication on the Council agenda prior to its presentation to the Audit & Scrutiny Committee on 23 September 2019. Comments received from this Committee will be highlighted to Council at this meeting.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Members:**
 - (a) **note that treasury management activity in the year to 31 March 2019 was carried out in compliance with the approved Treasury Management Strategy and Policy as detailed in this report and in Appendix 1;**
 - (b) **agree to increase the investment limit for AAA Money Market Funds from £20m to £25m.**

4 BACKGROUND

- 4.1 The Council approved the Treasury Management Strategy (the Strategy) for 2018/19 at the Council meeting on 20 February 2018. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management in the Public Services (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 4.2 The Council received a mid-year report on 29 November 2018 and approved the revised Prudential and Treasury Management Indicators for 2018/19 following the updating of assumptions, in particular capital expenditure estimates.
- 4.3 As set out in the Strategy, the Audit and Scrutiny Committee has a role to scrutinise the Annual and Mid-Year Reports before submission to Council for final approval.

5 ANNUAL TREASURY MANAGEMENT REPORT TO 31 MARCH 2019

- 5.1 The Annual Treasury Management Report for 2018/19 is shown in Appendix 1.
- 5.2 Appendix 1 shows the Council's borrowing requirement to fund capital investment undertaken during 2018/19, how much the Council actually borrowed against the sums budgeted and the level of external debt carried on the Council's balance sheet within approved limits.
- 5.3 In addition, Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators. All of the 2018/19 target indicators reported are based on the revised indicators agreed as part of the mid-year report on 29 November 2018.
- 5.4 The key Prudential Indicators (PI) and Treasury Management Indicators (TI), detailing the impact of capital expenditure activities during the year to 31 March 2019, with comparators, are as follows:

	2018/19 Actual £m	2018/19 Estimate* £m	Variance £m
Actual Capital Expenditure (PI-1)	47.8	54.9	(7.1)
Total Capital Financing Requirement (CFR) (PI-2)**	315.2	316.4	(1.2)
(Under)/Over Gross Borrowing against the CFR (PI-6) ***	(109.2)	(51.8)	(57.4)

*Revised estimate, approved by Council 29 November 2018 as part of the mid-year report

** The CFR for this calculation is based on expenditure to 31 March 2019 only

*** The CFR for this calculation includes the current year and projected movement for the next two subsequent years.

(a) **PI-2 Total Capital Financing Requirement**

The year-end total CFR varied only marginally from that projected in the mid-year report.

(b) **PI-6 (Under)/Over Gross Borrowing against the CFR**

The reason for the increase in the level of under-borrowing, compared to that projected is due to the actual level of capital expenditure for 2018/19 being less than the projected value in the mid-year report, and an increase to the anticipated levels of capital expenditure in the

next two subsequent years.

(c) **Investments**

Investments held on 31 March 2019 amounted to £2.7m. This is a reduction from the £7.6m at 31 March 2018 as temporary borrowing undertaken at the 2018 year-end to ensure cash was available to pay liabilities due but not physically paid until April, was not required in March 2019.

- 5.5 Treasury management activity for the year has been undertaken in compliance with the approved policy and the Code and the Council remains under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2019.

6 INVESTMENT STRATEGY

- 6.1 The Investment Objectives and Policy states that 'the Council will aim to achieve the optimum return on its investments corresponding with proper levels of security and liquidity'.
- 6.2 The current Sector Limit for Money Market Funds (AAA) is £20m, with an individual Counterparty Limit of £5m for AAA rated Money Market Funds.
- 6.3 Due to high levels of cash held at certain times of the year, the £20m limit on money Market Funds are fully used and excess funds are placed with the DMO. The rates available from DMO are less than the Money Market Funds.
- 6.4 To be able to achieve an optimal return would require a 5th Money Market Fund, and an increase in the Sector Limit to £25m. It is recommended that this change is made to the current Treasury Strategy.

7 IMPLICATIONS

7.1 Financial

There are no further financial implications relating to this report. The outcomes from the Council's treasury management activities are explained in detail within Appendix 1.

7.2 Risk and Mitigations

This report is an account of the outcomes arising from the tightly controlled risk management work that the Council's Treasury staff have carried out. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

7.3 Equalities

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

7.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

7.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

7.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

7.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

8 CONSULTATION

- 8.1 The Service Director Regulatory Services as Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, Communications and the Clerk to the Council have been consulted and their comments incorporated into the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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Background Papers:

Previous Minute Reference: Scottish Borders Council 20 February 2018 and 29 November 2018.

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pension and Investment Team can also give information on other language translations as well as providing additional copies.

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