

**Report of Chief Officer Financial Services**

**Report to Executive Board**

**Date: 26 June 2019**

**Subject: TREASURY MANAGEMENT OUTTURN REPORT 2018/19**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. This report sets out for Members' approval the Treasury Management Outturn Report for 2018/19.
2. This report shows that net external debt at 31<sup>st</sup> March 2019 was £2,063m, £63m lower than the February 2019 forecast. This movement is due to higher than anticipated revenue balances of £90m and an increase in the borrowing required for the capital programme of £27m. The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £5.6bn as at 31<sup>st</sup> March 2019.
3. The level of debt has remained within the authorised limit and operational boundary as approved by the Council in February 2019.
4. Savings of £539k have been generated against the original budget. These savings are principally due to continuing to fund short term borrowing at low short term rates and from internal resources.
5. The average rate of interest paid on the Council's external debt was 3.28% for 2018/19 compared to 3.32% for 2017/18.

**Recommendations**

6. Executive Board are asked to note the Treasury Management outturn position for 2018/19 and that treasury activity has remained within the Treasury Management Strategy and policy framework.

## 1 Purpose of this report

- 1.1 This report provides members with a final update on Treasury Management Strategy and operations in 2018/19.

## 2 Background information

- 2.1 The operation of the treasury management function is governed by provisions set out under part 1 of the Local Government Act 2003, whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities 2017 in particular:

- The amended 2017 Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of prudential indicators.
- Any in year revision of these limits must be agreed by Council.
- Policy statements are prepared for approval by the Council at least twice a year.

- 2.2 These codes have been updated and re-issued late in 2017/18 together with the Ministry of Housing, Communities and Local Government (MHCLG) guidance in relation to Investments and Minimum Revenue Provision (MRP). In line with guidance issued CIPFA codes and MHCLG guidance have now been formally adopted.

## 3 Main Issues

### 3.1 Review of Strategy 2018/19

- 3.1.1 Table 1, below shows that net borrowing in 2018/19 was £2,063m, £63m lower than the February 2019 forecast. This movement is due to higher than anticipated revenue balances of £90m and an increase in the borrowing required for the capital programme of £27m.

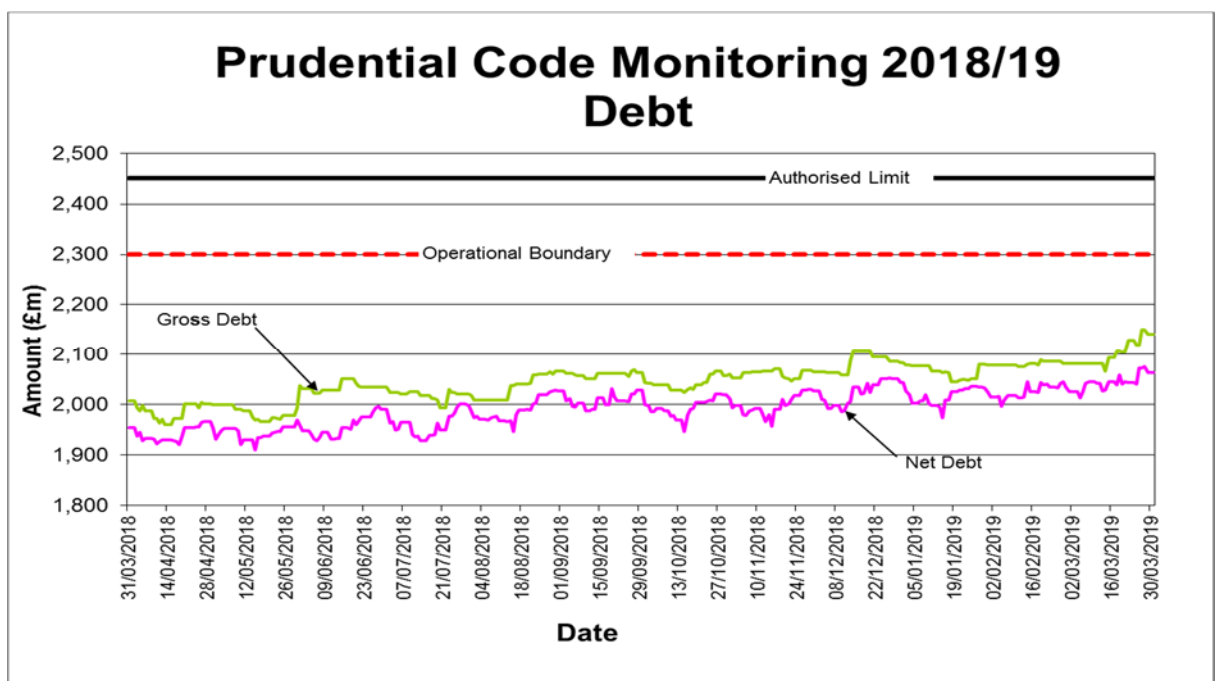
**TABLE 1**

	<b>2018/19 Nov 18 Report</b>	<b>2018/19 Feb 19 Report</b>	<b>2018/19 This Report</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>ANALYSIS OF BORROWING 2017/18</b>			
<b>Net Borrowing at 1 April</b>	1,954	1,954	<b>1,954</b>
New Borrowing for the Capital Programme – GF	141	137	<b>155</b>
New Borrowing for the Capital Programme – HRA	2	1	<b>1</b>
Debt redemption costs charged to Revenue (Incl HRA)	(18)	(17)	<b>(13)</b>
Reduced/(Increased) level of Revenue Balances	37	52	<b>(34)</b>
<b>Net Borrowing at 31 March</b>	<b>2,116</b>	<b>2,127</b>	<b>2,063</b>
<b>Capital Financing Requirement*</b>			<b>2,354</b>
<b>Other long term liabilities capital financing requirement</b>			<b>588</b>
Net Borrowing 31st March comprised as follows			
Long term Fixed	1,639	1,684	1,774
Variable (less than 1 Year)	15	0	0
New Borrowing	162	173	109
Short term Borrowing	310	300	257
Total External Borrowing	2,126	2,157	2,140
Less Investments	10	30	77
<b>Net External Borrowing</b>	<b>2,116</b>	<b>2,127</b>	<b>2,063</b>
% borrowing funded by short term and variable rate loans	23%	22%	17%
Limit for variable rate Borrowing	40%	40%	40%

\* The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

- 3.1.2 The level of debt and liabilities should be viewed in the context of the Council's assets which are valued at approximately £5.6bn as at 31st March 2019. The Capital programme outturn position is reported in the June Financial Performance - Outturn Report to Executive Board elsewhere on the agenda.
- 3.1.3 Graph 1, below shows that the level of debt during 2018/19 remained within Authorised limits during the year. The Authorised Limit is the maximum permitted amount of borrowing the Council can have outstanding at any given time and has not been breached during 2018/19. The operational boundary is a key management tool and can be breached temporarily depending on cash flow. This limit acts as a warning mechanism to prevent the Authorised limit from being breached. Treasury management activity has resulted in no breach of its prudential indicators which are detailed in Appendix A. All of these other prudential indicators are within normal tolerance levels of treasury management.

**Graph 1**

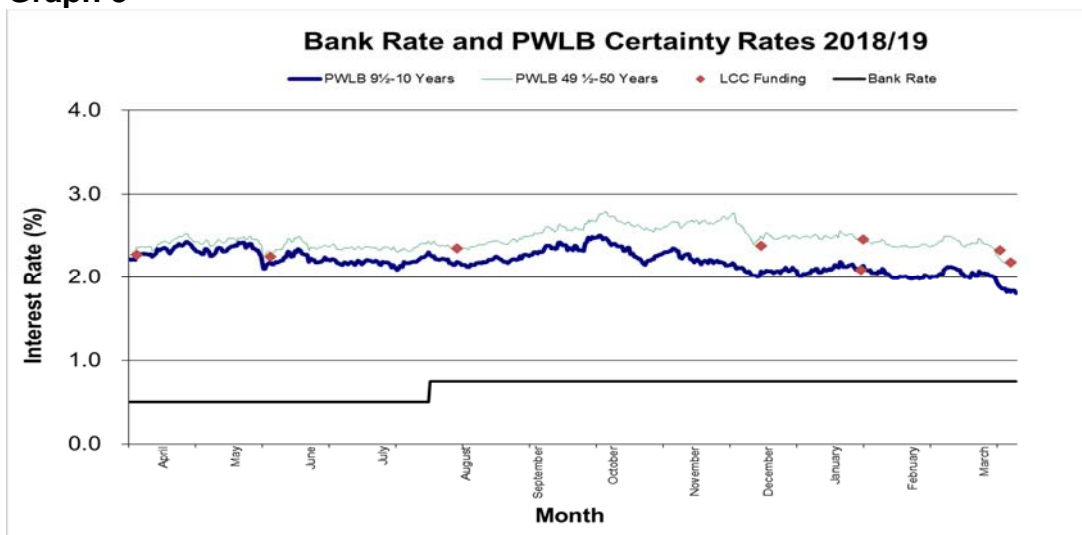


- 3.1.4 The 2018/19 borrowing strategy continued to fund the capital programme borrowing requirement from short dated loans and internal cash balances whilst looking for opportunities to lock into attractive longer dated funding. Whilst this approach continues to deliver lower costs of financing, the proportion of borrowing funding by short terms loans has reached 17% (Table1). This exposure to interest rate refinancing has decreased from 2017/18 however it is expected to keep on rising to approximately 22% in 2021/22.
- 3.1.5 Since the economic update to Members in February, the uncertainty surrounding Brexit has continued and provide the backdrop for the economic performance outlined below. The key movements are:
- Inflation as measured by the CPI index has been on a falling trend since peaking at 3.1% in November 2017 and reached a new low of 1.8% in January. Average earnings however remain a key indicator of domestic inflation and have increased with the 3 months to December reaching a peak of 3.5% excluding bonuses. The fall in inflation and increase in average earnings together represent an increased in household disposable income which is supportive of the wider economy.

- Unemployment continues to fall with the rate falling to 3.9% which is the lowest since 1975.
- In August the Monetary Policy Committee (MPC) increased the bank base rate from 0.50% to 0.75% which is the highest rate since May 2009
- The US economy grew at an average of 2.9% in 2018 following on from the easing of fiscal policy implemented in the US. The Federal Open Markets Committee (FOMC) increasing rates 4 times during 2018 end at a rate of 2.25% to 2.5% from December 2018. However, forecasts are for up to 2 rate cuts by the end of 2020 as the economic cycle is expected to turn.
- In Europe growth of 1.8% was achieved however the ECB has begun to scale back its Quantitative Easing program and growth is expected to ease further. The ECB is expected to keep rates on hold “at least through the end of 2019.
- In China economic growth continues to weaken and is viewed against a backdrop of the trade issues currently being experienced with the US. The problems of excess industrial capacity, stock of un-sold property and non-performing loans in the bank and credit systems remain.
- GDP growth in Japan continues to struggle however inflation again remains below target despite continued monetary and fiscal stimulus.
- The Councils treasury management advisors, Link Asset Services are currently forecasting Q2 2020 for the next rise from its current 0.75%. This will of course be dependent on economic performance both here and abroad over the near to medium term and is being kept under review. It should be noted the equity markets are currently concerned about the synchronised general weakening of growth in the major world Economies.

3.1.6 Graph 3 below shows the movement in PWLB interest rates over the year. Gilt yields have largely remained range bound at the longer maturity dates and PWLB rates have mirrored this trend. Longer term (49½-50 year) have varied during the year and ended the year at lower levels than the start and achieved a low point which occurred in late March. Shorter term rates (9½-10 year) have risen from the start of the year and again finished lower again in late March. Commentators following the lead of the Bank of England are expecting a series of steady increases over the next few years and the last rise occurred in August to 0.75% which is the highest since May 2009. The graph below also shows the long term funding activity undertaken as detailed in table 2 below.

**Graph 3**



3.1.7 Net debt savings of £539k have been generated against the original budget. These savings are principally due to continuing to fund short term borrowing at low short term rates and from the use of internal resources to defray external borrowing.

3.1.8 Table 2 shows £220m of longer term funding was secured during the year. The table also shows that no market loans options were exercised during the entire year, however £15m of Market loans were repaid at maturity together with £26m PWLB loans which likewise reached maturity during the period. Approximately half of market loans outstanding are termed Lenders Option Borrowers Option (LOBO) and contain clauses which allows the lender, at pre-determined dates, to vary the interest rate on the loan. If one of these options is exercised and the new rate is not accepted, the borrower then has the option to repay the loan without penalty. Members should note that the 2016/17 Council Statement of Accounts were challenged on the use of LOBOs however these have been signed off by the Council's external auditors during 2018/19.

**Table 2**

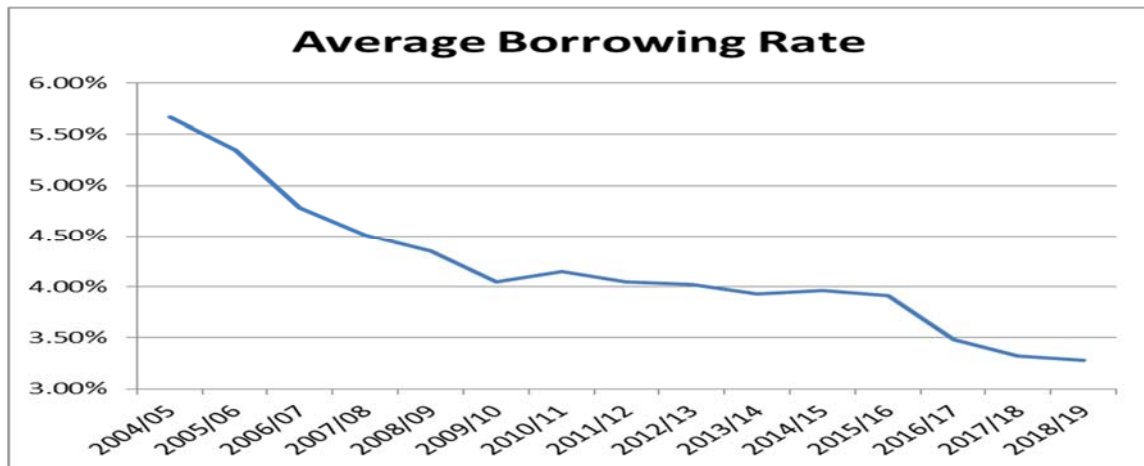
Loan repayments and borrowing 2018/19							
Loan Repayments				New Borrowing			
Date	Amount	Original Rate	Discount Rate	Date	Amount	Term	Interest Rate
	(£m)	(%)			(£m)	(Years)	(%)
PWLB Loans				PWLB			
15/06/2018	26.436	3.57		05/04/2018	20.000	50	2.27
				31/05/2018	50.000	50	2.25
				14/08/2018	30.000	50	2.35
				13/12/2018	30.000	49	2.38
				28/01/2019	15.000	10	2.09*
				28/01/2019	15.000	50	2.46*
				22/03/2019	30.000	46	2.33
				27/03/2019	30.000	44	2.18
<b>Sub Total</b>	<b>26.436</b>				<b>220.000</b>		
Non PWLB Loans				Non PWLB Loans			
16/10/2018	10.000	1.35					
05/12/2018	5.000	2.20					
<b>Sub Total</b>	<b>15.000</b>				<b>0</b>		
<b>Total</b>	<b>41.436</b>			<b>Total</b>	<b>220.000</b>		

\* Taken for the HRA account

### **3.2 Interest Rate Performance and Average Maturity Profile**

- 3.2.1 The average rate of interest paid on the Council's external debt was 3.28% (down from 3.32%) as shown in Graph 3. This fall is due to the increasing level of the Council debt, both long and short term, which is being funded at historically low levels.

**Graph 3**



- 3.2.2 Whilst the average borrowing rate remains low it is important to note the average maturity profile of the Council's debt. The average length of all loans to final maturity including temporary loans is 39.1 years. The average length of all loans to the next option date including temporary loans is 28.1 years. This provides a large degree of funding certainty within the overall debt portfolio. Appendix B analyses debt as at 31<sup>st</sup> March 2019 by interest rate band and the year of maturity or first option date for LOBO loans. The final maturity of LOBO loans is shown as a memo item in the table at the bottom of Appendix B.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 This report is an update on strategy as presented to Executive Board in February, as such no consultation has taken place. However, consultation with the Council's treasury advisors takes place regularly throughout the year.
- 4.1.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the February capital programme report.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 Equality, diversity, cohesion and integration requirements are addressed as part of individual capital scheme and programme approvals. The borrowing to deliver these capital schemes is executed through treasury strategy and as such there are no further equality, diversity, cohesion and integration issues.

### **4.3 Council Policies and Best Council Plan**

- 4.3.1 Treasury management strategy secures funding for the council's capital programme that supports the authority's policies and priorities as set out in the Best Council Plan. These include our Best Council ambition to be an efficient and enterprising organisation.

### **4.3.2 Climate Emergency**

The Council declared a Climate Emergency at full Council in March 2019. As the Treasury Management strategy secures funding for the Council's capital programme the impact of the Council's activity and implications for the climate emergency will be considered in each individual capital programme and scheme project report.

### **4.4 Resources and Value for Money**

4.4.1 This update on the treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the General Fund and HRA.

4.4.2 Net debt savings of £539k against the budget have been delivered.

### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury management Policy Statement are approved by Council. Monitoring reports are considered by Executive Board and are subject to call in. There are no further legal, access to information or call in issues.

### **4.6 Risk Management**

4.6.1 This report sets out performance against the 2018/19 treasury strategy. The execution of strategy and associated risks are kept under regular review through:

- Monthly monitoring of debt costs and reporting forms part of the monthly update on the Council's Revenue position to Executive Board.
- Quarterly strategy meetings with the Director of Resources and the Council's treasury advisors.
- Regular market, economic and financial instrument updates and access to real time market information.

## **5 Conclusions**

5.1 This Treasury Management Outturn Report for 2018/19 provides a final update on loans undertaken to fund the capital programme requirements for both General Fund and HRA. Treasury activity during the year was conducted within the approved borrowing limits for the year and resulted in overall savings to the revenue budget as detailed in 3.1.9.

## **6 Recommendations**

6.1 Executive Board are asked to note the Treasury Management outturn position for 2018/19 and that treasury activity has remained within the treasury management strategy and policy framework.

## 7 Background documents <sup>1</sup>

None

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<sup>1</sup> The background documents listed in this section are available for download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.



## Leeds City Council - Prudential Indicators 2018/19

No.	PRUDENTIAL INDICATOR	Feb 18 Report	Feb 19 Report	Outturn (This Report)
<b>(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS</b>				
<b>Ratio of Financing Costs to Net Revenue Stream</b>				
1a	General Fund (Borrowing Only)	12.66%	11.54%	10.93%
1b	General Fund (Borrowing and Other Long Term Liabilities)	22.20%	20.99%	20.39%
2a	HRA (Borrowing Only)	11.40%	11.47%	11.50%
2b	HRA (Borrowing and Other Long Term Liabilities)	18.38%	18.45%	18.53%
5	<b>Gross external borrowing requirement (Gross Debt and CFR)</b> The Net Borrowing Requirement should not exceed the capital financing requirement (Note 3)	2,050,000 OK	2,157,000 OK	2,142,000 OK
<b>Estimate of total capital expenditure (including PFI)</b>				
6	General Fund	£'000 288,496	£'000 257,865	£'000 271,042
7	HRA	92,387	90,066	92,747
	TOTAL	380,883	347,931	363,789
<b>Capital Financing Requirement (as at 31 March)</b>				
8	General Fund	£'000 2,121,677	£'000 2,110,660	£'000 2,132,214
9	HRA	811,599	809,787	810,312
	TOTAL	2,933,276	2,920,447	2,942,526

No.	PRUDENTIAL INDICATOR	Feb 18 Report	Feb 19 Report	Outturn (This Report)
<b>(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>				
10	<b>Authorised limit for external debt - (Note 3)</b>	£'000	£'000	£'000
	borrowing	2,450,000	2,450,000	2,450,000
	other long term liabilities	720,000	720,000	720,000
	TOTAL	3,170,000	3,170,000	3,170,000
11	<b>Operational boundary - (Note 3)</b>			
	borrowing	2,300,000	2,300,000	2,300,000
	other long term liabilities	700,000	700,000	700,000
	TOTAL	3,000,000	3,000,000	3,000,000
14	<b>Upper limit for fixed interest rate exposure</b> expressed as either:- Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%
15	<b>Upper limit for variable rate exposure</b> expressed as either:- Net principal re variable rate borrowing / investments OR:- Net interest re variable rate borrowing / investments	40%	40%	40%
17	<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	£'000 150,000	£'000 150,000	£'000 150,000
18	<b>Net Debt as a Percentage of gross Debt</b>	99.51%	98.61%	96.33%

16	Maturity structure of fixed rate borrowing 2018/19	Lower Limit	Upper Limit	Actual 31/03/19	
	under 12 months	0%	15%	2%	
	12 months and within 24 months	0%	20%	4%	
	24 months and within 5 years	0%	35%	12%	
	5 years and within 10 years	0%	40%	4%	
	10 years and within 20 years			0%	
	20 years and within 30 years			0%	
	30 years and within 40 years	25%	90%	36%	78%
	40 years and within 50 years			35%	
	More Than 50 Years			7%	
				100.0%	

## Notes.

- The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the External Borrowing costs only and Borrowing and Other long term Liabilities (PFI and leasing)
- The Changes to the Prudential Code 2017 retired the Indicator 3 and 4 on the incremental impact of New Capital decision on HRA and GF as well as Indicator 13 the need to explicitly adopt the Code of Practice. In addition Indicator 9 the relating to the MHCLG imposed HRA borrowing debt ceiling has been recinded and is therefore no longer reported
- In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council should ensure that gross external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence and was changed from Net Borrowing to gross borrowing under the update to the Codes in 2017.
- Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.
- Indicators 14 and 15 are no longer explicit within the updated codes however these have been but have been retained pending further review
- Indicator 17 relates solely to Treasury Management investments made under Section 12 of the Local Government act 200

Debt as at 31st March 2019					Appendix B	
Table below shows a breakdown of the maturity structure of the authority giving totals						
Year Ending 31st March	to 2%	2% to 2.99%	3% to 3.99%	4% to 4.99%	Greater Than 5%	Principal
<b>Fixed Rate Loans - LOBO to First Option</b>						
2020	-	-	46,436	35,000	-	81,436
2021	-	-	13,812	55,000	-	68,812
2022	-	-	41,436	20,000	-	61,436
2023	-	20,000	27,624	-	-	47,624
2024	-	-	30,000	71,436	-	101,436
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	5,675	-	28,812	-	-	34,487
2028	-	-	-	-	-	-
2029	-	15,000	20,000	-	-	35,000
2034	-	-	-	-	-	-
2035	-	-	5,000	-	-	5,000
2052	-	-	-	28,727	-	28,727
2053	-	-	-	145,396	-	145,396
2054	-	-	-	49,347	-	49,347
2055	-	-	5,000	75,782	-	80,782
2056	-	-	10,000	72,173	-	82,173
2057	-	-	-	115,436	-	115,436
2058	-	-	-	102,218	14,099	116,317
2059	-	-	-	-	-	-
2060	-	-	-	-	-	-
2061	-	-	-	17,624	-	17,624
2062	-	-	17,624	-	-	17,624
2063	-	20,000	-	-	-	20,000
2064	-	70,000	10,000	-	-	80,000
2065	-	70,000	-	-	-	70,000
2066	-	40,000	10,000	35,000	-	85,000
2067	-	55,000	30,000	5,000	-	90,000
2068	-	100,000	-	-	-	100,000
2069	-	115,000	-	-	-	115,000
2077	-	-	20,000	-	-	20,000
2078	-	-	-	85,000	-	85,000
2079	-	-	-	20,000	-	20,000
<b>Sub Total</b>	<b>5,675</b>	<b>505,000</b>	<b>315,743</b>	<b>933,137</b>	<b>14,099</b>	<b>1,773,654</b>
<b>Temporary Loans</b>						
2019	366,500	-	-	-	-	366,500
<b>Sub Total</b>	<b>366,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>366,500</b>
<b>CABP</b>	<b>372,175</b>	<b>505,000</b>	<b>315,743</b>	<b>933,137</b>	<b>14,099</b>	<b>2,140,154</b>
<b>Memo : LOBO Variable Rate Loans to Maturity</b>						
2047	-	-	-	-	-	-
2055	-	-	-	15,000	-	15,000
2056	-	-	-	45,000	-	45,000
2066	-	-	10,000	10,000	-	20,000
2067	-	-	25,000	15,000	-	40,000
2077	-	-	40,000	15,000	-	55,000
2078	-	-	-	55,000	-	55,000
2079	-	-	-	-	-	-
<b>Sub Total</b>	<b>-</b>	<b>-</b>	<b>75,000</b>	<b>155,000</b>	<b>-</b>	<b>230,000</b>