

Treasury Management Update

Period Ended 31 May 2019

This report is intended for the use and assistance of customers of Link Asset Services. It should not be regarded as a substitute for the exercise by the recipient of its own judgement. Link Asset Services exists to provide its clients with advice primarily on borrowing and investment. We are not legal experts and we have not obtained legal advice in giving our opinions and interpretations in this paper. Clients are advised to seek expert legal advice before taking action as a result of any advice given in this paper. Whilst Link Asset Services makes every effort to ensure that all information provided by it is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. Furthermore, Link Asset Services shall not be held liable in contract, tort or otherwise for any loss or damage (whether direct, or indirect or consequential) resulting from negligence, delay or failure on the part of Link Asset Services or its officers, employees or agents in procuring, presenting, communicating or otherwise providing information or advice whether sustained by Link Asset Services customer or any third party directly or indirectly making use of such information or advice, including but not limited to any loss or damage resulting as a consequence of inaccuracy or errors in such information or advice. All information supplied by Link Asset Services should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision.

Link Asset Services is a trading name of Link Treasury Services Limited (registered in England and Wales No. 2652033). Link Treasury Services Limited is authorised and regulated by the Financial Conduct Authority only for conducting advisory and arranging activities in the UK as part of its Treasury Management Service, FCA register number 150403. Registered office: 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

Contents

| | | |
|----|--|---|
| 1. | Annual Investment Strategy | 3 |
| 2. | New Borrowing | 7 |
| 3. | Debt Rescheduling | 7 |
| 4. | Compliance with Treasury and Prudential Limits | 7 |
| | APPENDIX 1: Prudential and Treasury Indicators as at 31 May 2019 | 8 |

Treasury Management Update

Period Ended 31 May 2019

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1. Annual Investment Strategy

The Investment Strategy (integrated Capital and Treasury) for 2019/20, which includes the Annual Investment Strategy, was approved by the Council on 7th February 2019. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in higher rates in periods up to 24 months.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the first two months of 2019/20.

The average level of funds available for investment purposes during April and May was **£34.4m**. The Council holds **£20.5m** core cash balances for investment purposes (i.e. funds available for more than one year). The investment portfolio yield for the first two months of the year is 1.03%.

Investments at 31st May 2019

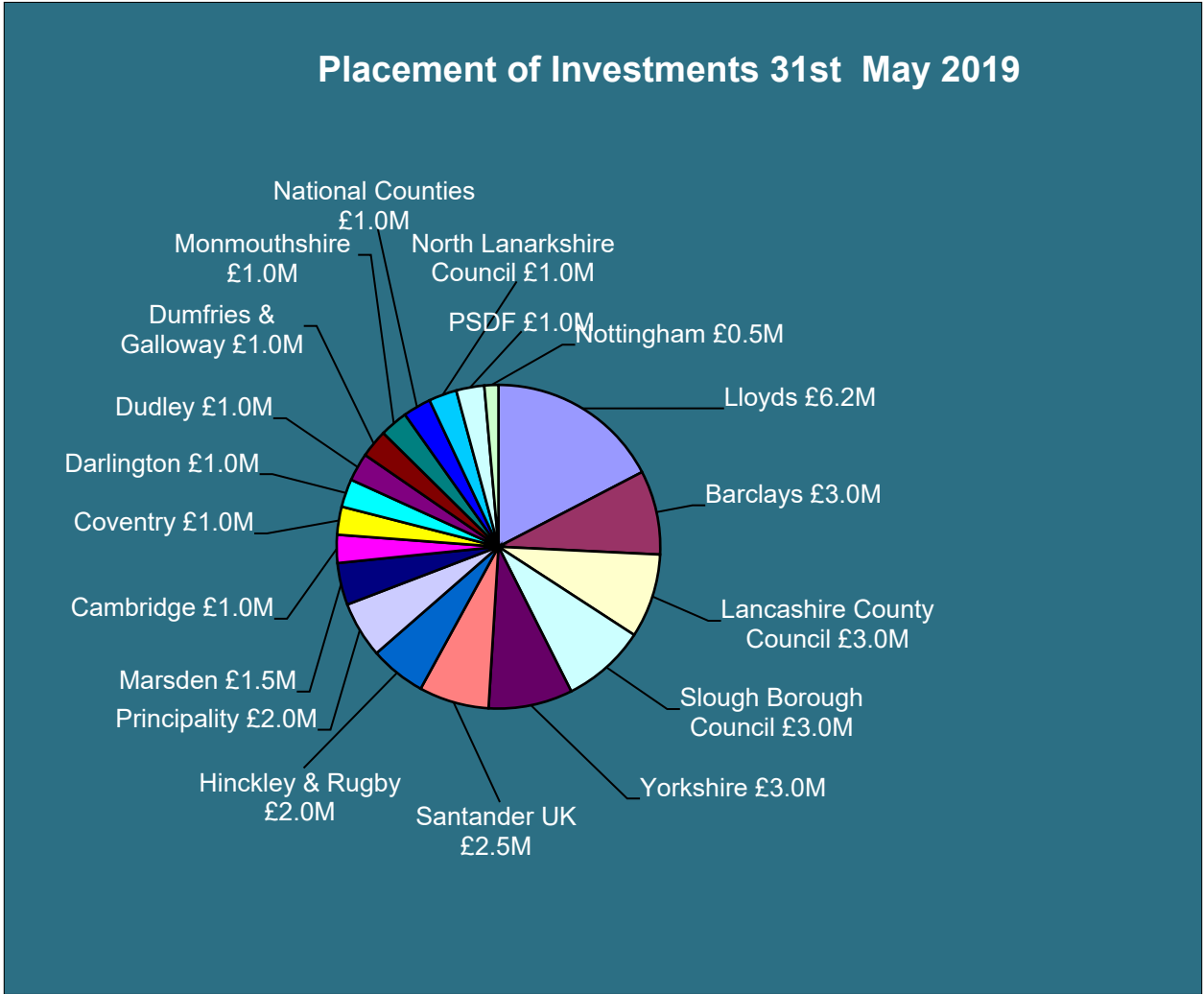
| | Amount | Average |
|-----------------------------|-------------------|-----------------|
| | £ | Interest Rate % |
| Managed By NHDC | | |
| Banks | 11,700,000 | 0.99 |
| Building Societies | 6,500,000 | 0.98 |
| Local Authorities | 8,000,000 | 1.02 |
| Money Market Fund | 1,000,000 | 0.87 |
| NHDC To Total | 27,200,000 | 1.00 |
| Managed by Tradition | | |
| Building Societies | 8,500,000 | 1.40 |
| Tradition Total | 8,500,000 | 1.40 |
| TOTAL | 35,700,000 | 1.17 |

In percentage terms, this equates to:

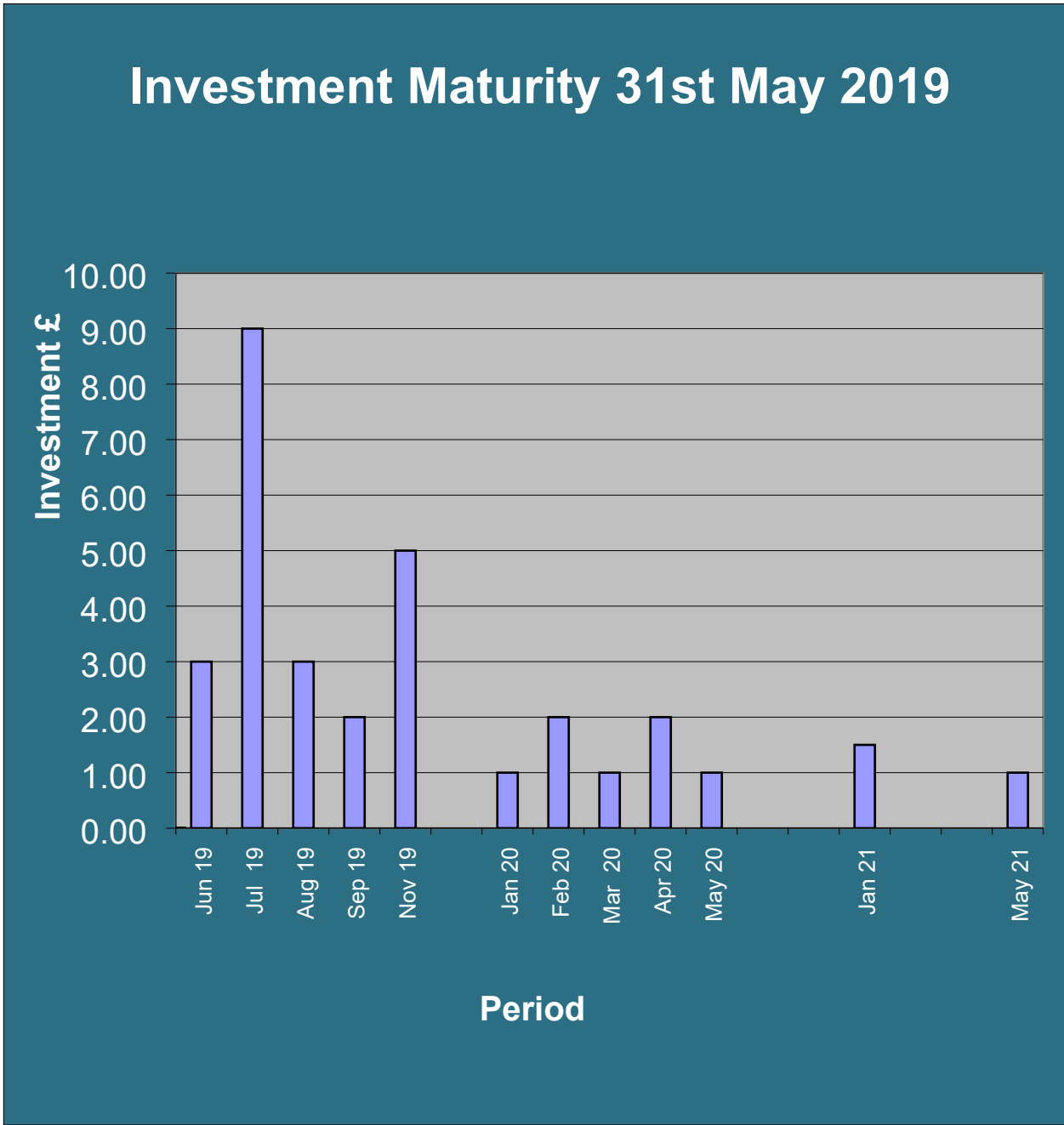
| | Percentage |
|--------------------|------------|
| Money Market Funds | 3 |
| Local Authorities | 22 |
| Banks | 33 |
| Building Societies | 42 |

The approved 19/20 strategy is that no more than 60% of investments should be placed with Building Societies with a maximum value of £18M. The value at 31st May was £15M

The pie chart below shows the spread of investment balances as at 31 May 2019. This is a snapshot in time that demonstrates the diversification of investments.

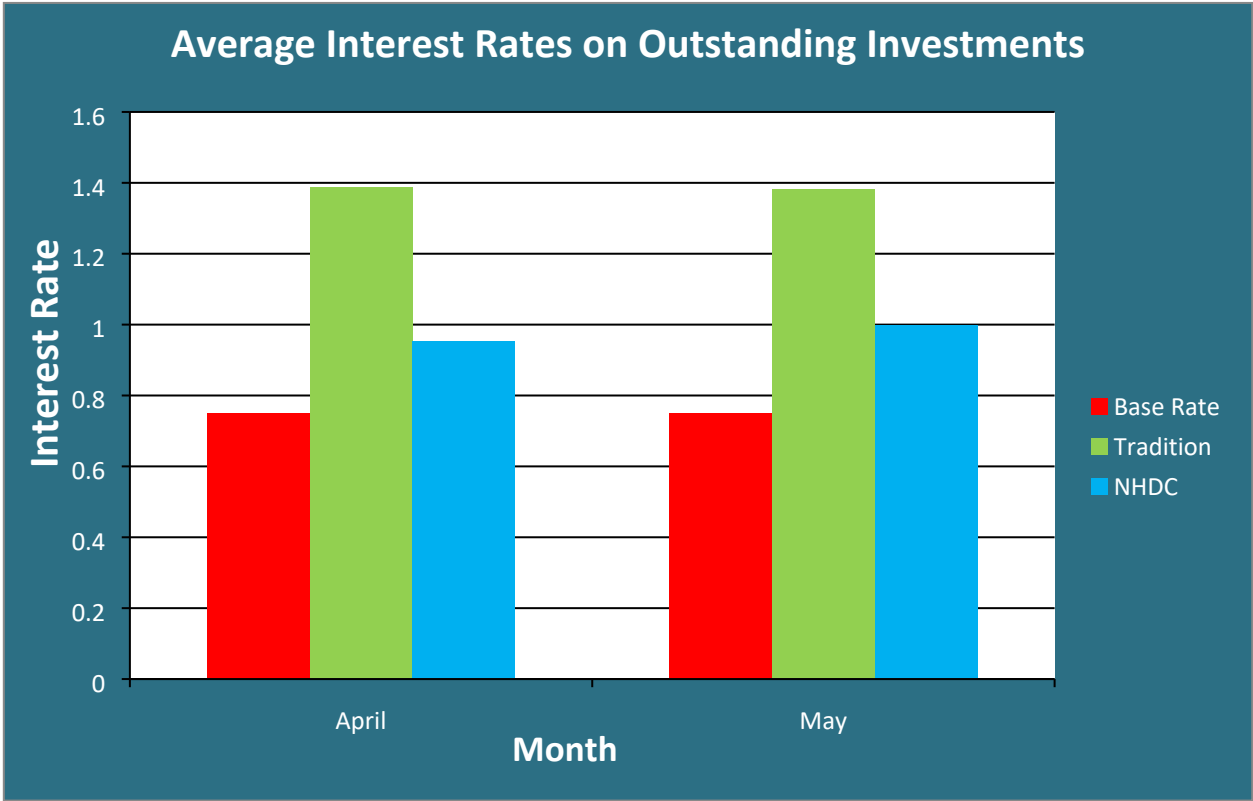


The chart below shows the Council’s investment maturity profile. (This does not include the £1.0M held in the Public Sector Deposit Fund Money Market account or £3.2M held in the Lloyds current account which can be called back on any day).



The Council’s Original budgeted investment return for 2019/20 was £0.300M. The projection at end of May was £0.372M. The increase is mainly due to a higher level of balances which means investments can be made for longer periods and achieve a higher interest rate.

The graph below shows the average rate of interest on outstanding investments at 31st May.



The higher rates achieved through Tradition reflect that these are longer-term investments. In general, the Council can currently achieve similar rates for the same length of investment. The Council only undertakes new investments through Tradition where the rate achieved (after fees) are greater than what the Council could achieve for a similar investment.

The Service Director - Resources confirms that the approved limits within the Annual Investment Strategy were not breached during April and May.

Treasury indicator below shows the capital value and expected income from Capital Investment assets, alongside any borrowing that is attached to those assets and the expected cost of that borrowing.

| Year | Capital value of investment assets £m | Expected annual income from investment assets £m | Loans linked to investment assets £m | Expected annual borrowing costs for loans linked to investment assets £m |
|---------|---------------------------------------|--|--------------------------------------|--|
| 2019/20 | 18.899 | 1.089 | 0 | 0 |
| 2020/21 | 18.899 | 1.139 | 0 | 0 |
| 2021/22 | 18.899 | 1.189 | 0 | 0 |
| 2022/23 | 18.899 | 1.189 | 0 | 0 |
| 2023/24 | 18.899 | 1.189 | 0 | 0 |

2. New Borrowing

No borrowing was undertaken during April and May.

The Council's capital financing requirement (CFR) for 2019/20 is expected to be -£1.596M - £5.91M at the end of 18/19). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances (internal borrowing). The CFR is negative as the Council has more cash investments than borrowing. The balance of external and internal borrowing is generally driven by market conditions.

It is anticipated that long term borrowing will not be undertaken during this financial year.

Loans Outstanding at 31 May 2019

| | Amount | Average Interest Rate |
|--------------------------|--------|-----------------------|
| | £ | % |
| Public Works Loans Board | £440k | 9.70 |

Estimated outstanding debt:

| Year | Forecast Borrowing £m | Forecast other long-term liabilities £m * | Forecast External £m | Total Debt | Operational Boundary £m | Authorised Limit £m |
|--|-----------------------|---|----------------------|------------|-------------------------|---------------------|
| 31 st March 2019 (Actual) | 0.440 | 2.724 | 3.164 | | 4.1 | 10 |
| 31 st March 2020 (Forecast) | 0.423 | 2.270 | 2.693 | | 3.6 | 9 |
| 31 st March 2021 (Forecast) | 0.405 | 1.816 | 2.221 | | 3.1 | 9 |
| 31 st March 2022 (Forecast) | 0.387 | 1.362 | 1.749 | | 2.6 | 8 |
| 31 st March 2023 (Forecast) | 0.367 | 0.908 | 1.275 | | 2.0 | 7 |
| 31 st March 2024 (Forecast) | 0.347 | 0.454 | 0.801 | | 1.5 | 7 |

* Comprises the finance lease relating to Letchworth Multi-storey car park and the forecast impact of the finance lease for waste vehicles.

The external borrowing forecast can be used to give an indication of the borrowing that may be required, which is combined with outstanding existing borrowing. The Council will also borrow for short-term cash-flow needs if required. The actual borrowing that is taken out will depend on the latest forecasts and the offers that are available at the time that it is required. There will also be a consideration of when any other borrowing becomes due, with the aim of achieving a spread of these dates. This is to try and avoid refinancing risk. The Council is required to set indicators for the maturity structure of its borrowing. Given the low level of borrowing that the Council currently has and is forecast to have, it is considered appropriate to maintain full flexibility as to the exact duration of any borrowing undertaken.

To manage refinancing risk, the Council sets limits on the maturity structure of its borrowing. However these indicators are set relatively high to provide sufficient flexibility to respond to opportunities to repay or take out new debt (if it was required), while remaining within the parameters set by the indicators. Due to the low level of existing borrowing, the under 12 months limits have a broad range to allow for cash-flow borrowing (if it was required).

| Maturity Period | Lower % | Upper % |
|----------------------|---------|---------|
| Under 12 months | 0 | 100 |
| 12 months to 2 years | 0 | 50 |
| 2 years to 5 years | 0 | 60 |
| 5 years to 10 years | 0 | 70 |
| 10 years to 20 years | 0 | 80 |
| 20 years and above | 0 | 100 |

The Council does not have a need to borrow, so therefore does not currently need to apply a Minimum Revenue Provision (MRP).

There is a prudential indicator that compares the net cost of financing (i.e. borrowing costs less income generated from investments) with the net revenue budget of the Council. This will be looked at later in this document after considering investments and their forecast returns. However the indicator below considers the cost of borrowing as a % of the net revenue budget of the Council.

| Year | Estimated cost of borrowing £m | Forecast net revenue budget | Estimated cost of borrowing as a % of net revenue budget |
|---------|--------------------------------|-----------------------------|--|
| 2019/20 | 0.042 | 15.558 | 0.27 |
| 2020/21 | 0.041 | 14.808 | 0.28 |
| 2021/22 | 0.040 | 14.911 | 0.27 |
| 2022/23 | 0.039 | 15.021 | 0.26 |
| 2023/24 | 0.037 | 15.021 | 0.25 |

The Council is required to set a prudential indicator that estimates financing costs (cost of borrowing less income from investments) as a percentage of its net revenue budget.

| Year | Estimated cost of borrowing £m | Less: Forecast of interest earned £m | Net Financing Costs £m | Forecast net revenue budget | Estimated cost of borrowing as a % of net revenue budget |
|---------|--------------------------------|--------------------------------------|------------------------|-----------------------------|--|
| 2019/20 | 0.042 | 0.372 | -0.330 | 15.558 | -2.121 |
| 2020/21 | 0.041 | 0.417 | -0.376 | 14.808 | -2.539 |
| 2021/22 | 0.040 | 0.516 | -0.476 | 14.911 | -3.192 |
| 2022/23 | 0.039 | 0.526 | -0.487 | 15.021 | -3.242 |
| 2023/24 | 0.037 | 0.584 | -0.547 | 15.021 | -3.642 |

3. Debt Rescheduling

No debt rescheduling was undertaken during the quarter.

4. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators, (affordability limits), are included in the approved TMSS.

During April and May the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 1.

APPENDIX 1: Prudential and Treasury Indicators for 2019-20 as at 31 May 2019

| Treasury Indicators | 2019/20 Budget £'000 | 31.05.19 Actual £'000 |
|--|-------------------------|--------------------------|
| Authorised limit for external debt | 9,000 | 440 |
| Operational boundary for external debt | 3,600 | 440 |
| Gross external debt | 2,548 | 440 |

| | | |
|---|-----|-----|
| Maturity structure of fixed rate borrowing - upper and lower limits | | |
| Under 12 months | 17 | 17 |
| 12 months to 2 years | 18 | 18 |
| 2 years to 5 years | 58 | 58 |
| 5 years to 10 years | 82 | 82 |
| 10 years to 20 years | 15 | 15 |
| 20 years to 30 years | 250 | 250 |

| Prudential Indicators | 2019/20 Budget £'000 | 31.05.19 Actual £'000 |
|--|-------------------------|--------------------------|
| Capital expenditure The budget is the expected capital expenditure during the year. The actual total is spend to date. Only at the end of the year will actuals get close to the budget. | 9,220 | 271 |
| Capital Financing Requirement (CFR) The total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The year end position reflects the budgeted capital spend during the year. A negative total means that there is no borrowing requirement. | -0,063 | -5,919 |
| In year borrowing requirement | 0 | 0 |
| Ratio of financing costs to net revenue stream Net expenditure/ (income) from borrowing and investments, as a % of the Council's net revenue. This is negative as the Council is currently receiving a net income from investments. | -1,969 | -2,51 |