Report of:	To:	Date
Councillor Alan Vincent, Resources Portfolio Holder Holder and Clare James, Corporate Director Resources (and S151 Officer)	Council	17 September 2020

Treasury Management Activity 2019/20

1. Purpose of report

1.1 To report on the overall position and activities in respect of Treasury Management for the financial year 2019/20.

2. Outcomes

2.1 An informed Council who have an understanding of Treasury Management activity, in line with the approved Treasury Management Policy and Strategy Statements and Treasury Management Practices.

3. Recommendation

3.1 That the Annual report on Treasury Management Activity for the 2019/20 financial be approved.

4. Background

4.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

4.2 During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 04/04/19).
- A mid-year (minimum) treasury update report (Council 09/01/20).
- An annual review following the end of the year describing the activity compared to the strategy (this report).

4.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report, is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved my members. Member training on treasury management issues was undertaken on 9 January 2020.

5. Key Issues and Proposals

5.1 The Council's Capital Expenditure and Financing

5.1.1 The council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.) which has no resultant impact on the council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Description	2018/19 Actual £000	2019/20 Budget £000	2019/20 Actual £000
Capital expenditure	8,085	9,831	5,979
Financed in year	8,085	9,831	5,979
Unfinanced capital expenditure	0	0	0

5.2 Overall Treasury Position as at 31 March 2020

5.2.1 At the beginning and the end of 2019/20 the council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

	31/03/19 Principal £000	Rate/ Return	Avg Life Yrs	31/03/20 Principal £000	Rate/ Return	Avg Life Yrs
Total Debt	1,560	4.43%	28	1,559	4.43%	27
Total Investments	19,517	0.66%	0.01	24,771	0.87%	0.01
Net debt	-17,957			-23,212		
CFR*	11,357			11,261		
Under-borrowing	9,797			9,702		

5.3 The Strategy for 2019/20

5.3.1 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC (Monetary Policy Committee) would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

5.3.2 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

5.3.3 While the council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.3.4 Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5.4 The Borrowing Requirement and Debt

5.4.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The underlying need to borrow for capital purposes is measured by the CFR, while useable reserves and working capital are the underlying resources available for investment. The table below compares the estimated CFR to the debt which exists at 31 March. This gives an indication of the borrowing required. It also shows the estimated resources available for investment. An option is to use these balances to finance the expenditure rather than investing, often referred to as internal borrowing, so the table gives an indication of the minimum borrowing requirement through this method.

	31/03/19 Actual £000	**31/03/20 Budget £000**	**31/03/20 Actual £000**
CFR (£m)	11,357	11,261	11,261
Less external borrowing	1,552	1,552	1,552
Borrowing requirement	9,805	9,709	9,709
Reserves and Balances	24,336	21,517	26,803
Borrowing/(investment) need	-14,531	-11,808	-17,094

5.5 Borrowing Rates and Borrowing Outturn in 2019/20

5.5.1 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels.

5.5.2 However, HM Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019/20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ended on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream. According to the Chartered Institute of Public Finance and Accountancy (CIPFA) "*the underlying rationale for the proposed measures is to first prioritise the use of PWLB for investment in services and local regeneration, and secondly the related aim to dampen the extent to which local authorities undertake borrowing to invest in commercial property purely for commercial gain by removing the PWLB as a borrowing route*".

5.5.3 There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus lockdown period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

5.5.4 No new borrowing was undertaken during the year 2019/20. Capital schemes budgeted for in 2019/20 were funded by grants and contributions, capital receipts and the Capital Investment Reserve. No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable. There were no short-term borrowing transactions (i.e. less than 365 days) during 2019/20.

5.5.5 Interest payments in respect of long-term borrowing for the 2019/20 financial year total £68,830 which was in line with the full year budget of £68,830. The actual interest payments, including miscellaneous payment for the year to 31 March is £68,849 compared to the full year budget of £69,850. This includes £19.88 payable to the Fielden Trust.

5.5.6 The Council incurs charges at 4% over the current base rate for net overdrawn balances with no annual arrangement fee. The Council's net bank account position was not overdrawn during the financial year 2019/20.

5.6 Investments

5.6.1 **Investment Policy** – the council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 4 April 2019. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, (Standard and Poor's (S&P), Moody's and Fitch Ratings) supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

5.6.2 The investment activity during the year conformed to the approved strategy, and the council had no liquidity issues.

5.6.3 Investments held by the council – Internally managed funds earned an average of 0.87%. The comparable performance indicator is the average 7 day LIBID (London Interbank Bid Rate) which was 0.53%. The equated investments are analysed in the table below:

	Equated Investment Principal £	Interest Due £	Rate of Return	Benchmark Return
Santander 35 day Notice	4,509,590	38,332	0.85%	0.53%
Bank of Scotland 95 day Notice	3,616,438	39,782	1.10%	0.53%
Handelsbanken 35 day Notice	1,709,588	11,113	0.65%	0.53%
NatWest 35 day Notice	586,301	4,399	0.75%	0.53%
Qatar Fixed	3,230,136	58,677	0.98%	0.53%
Handelsbanken IA	1,502,887	5,261	0.35%	0.53%
Bank of Scotland Call Account	1,272,310	7,700	0.61%	0.53%
NatWest Liquidity	2,011,499	5,795	0.29%	0.53%
LGIM	1,090,411	7,448	0.68%	0.53%
Prime Rate	5,716,439	41,588	0.73%	0.53%
Total	**25,245,599**	**220,094**	**0.87%**	**0.53%**

5.6.4 Interest receivable from investments for the 2019/20 financial year totals £220,094 compared to the full year budget of £175,400. Interest overall including miscellaneous items, received in the year totalled £222,313 compared to a budgeted figure of £175,500. The increase in interest income over that budgeted figure of £46,813 is owing to an improved cashflow situation towards the end of the year, partly due to external grant monies being received in advance of expenditure.

5.6.5 There have been no occasions of funds over £100,000 remaining in the council's overnight general account since February 2018 when the NatWest roll up facility and control account was activated.

5.7 <u>Other issues</u>

5.7.1 In November 2019, CIPFA published their guide to Prudential Property Investment. The new guidance explains CIPFA's position signalled in the Prudential Code "that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed (see Prudential Code, paragraph 45). This position reflects the circumstances – which are well understood for treasury management activities – that local authorities must not borrow where there is no specific or projected need to borrow, but an opportunity has been identified to make an investment return greater than the authority's cost of borrowing". This guidance will need to be

considered carefully by the Property Investment Board when making decisions.

5.7.2 In April 2020, CIPFA published a Bulletin on Treasury and Capital Management in response to the coronavirus pandemic. The update provided practical advice on cashflow, liquidity, security and various other issues and this informed the approach taken to treasury management at the outset of the pandemic. These issues will be covered in more detail in the mid-year report due later this year.

Financial and legal implications	
Finance	Considered in detail in the report above.
Legal	The approval of the recommendation will ensure that the statutory requirements have been complied with.

Other risks/implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	**✓ / x**
community safety	**x**
equality and diversity	**x**
sustainability	**x**
health and safety	**x**

risks/implications	**✓ / x**
asset management	**x**
climate change	**x**
ICT	**x**
data protection	**x**

Processing Personal Data

In addition to considering data protection along with the other risks/ implications, the report author will need to decide if a 'privacy impact assessment (PIA)' is also required. If the decision(s) recommended in this report will result in the collection and processing of personal data for the first time (i.e. purchase of a new system, a new working arrangement with a third party) a PIA will need to have been completed and signed off by Data Protection Officer before the decision is taken in compliance with the Data Protection Act 2018.

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List of background papers:		
name of document	Date	where available for inspection
None		

List of appendices

Appendix 1 - Prudential and Treasury Indicators

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Appendix 1: Prudential and Treasury Indicators

1. Prudential Indicators	**2018/19 Actual £'000**	**2019/20 Estimate £'000**	**2019/20 Actual £'000**
Capital Expenditure	8,085	9,831	5,979
Ratio of financing costs to net revenue stream	0.14%	-0.07%	-0.39%
Gross Borrowing requirement General Fund	1,560	1,559	1,559
Gross debt	1,560	1,559	1,559
CFR	11,357	11,261	11,261
Annual change in CFR	-96	-96	-96
2. Treasury Management Indicators	**2018/19 Actual £'000**	**2019/20 Estimate £'000**	**2019/20 Actual £'000**
Authorised Limit for external debt borrowing		20,000	
Other long term liabilities		0	
Total		20,000	
Operational Boundary for external debt borrowing		13,452	
Other long term liabilities		7	
Total		13,459	
Actual external debt	1,560		1,559

Maturity structure of fixed rate borrowing during 2019/20	**upper limit**	**lower limit**
Under 12 month	100%	0%
12 months and within 24 months	45%	0%
24 months and within 5 year	75%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%
These gross limits are set to avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time.		