



Executive**23rd July 2020**

Report of the Head of Corporate Finance & Commercial Procurement
Portfolio of the Executive Member for Finance & Performance

**Treasury management annual report and review of prudential indicators
2019/20****Summary**

1. The 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).
2. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
3. This report also confirms that the Council has complied with the requirement under the Code to give prior scrutiny to treasury management reports by Audit & Governance Committee.

Recommendations

4. Executive is asked to:

Note the 2019/20 performance of treasury management activity and prudential indicators outlined in annex A.

Reason: to ensure the continued performance of the treasury management function can be monitored and to comply with statutory requirements.

Background and analysis

The Economy and Interest Rates

5. There has been significant market uncertainty since the end of March 2020 but the Bank of England (MPC) and UK Government have introduced unprecedented measures to protect the UK economy and financial markets. This includes a cut in UK Bank Rate to 0.10% and the approval of additional £200bn Quantitative Easing. The Chancellor has also implemented financial support packages for businesses and employees to mitigate some of the initial risks arising from the enforced Covid-19 lockdown during April and May 2020.
6. In the lead up to the end of the 2019/20 financial year, large parts of the UK economy were placed in enforced lockdown to deal with a global Covid-19 pandemic. These restrictions continued throughout April and May 2020 and the Government and Bank of England implemented financial packages to support the UK economy. Even with these measures, UK GDP is expected to fall by circa 14% in this calendar year and whilst there is expected to be a bounce back of circa 15% in GDP in 2021, there is still significant uncertainty in the future path of economic growth, unemployment, fiscal and monetary policy.
7. We will continue to keep members informed on the subsequent impact on the Council's borrowing and investments as the situation evolves.

Overall treasury position as at 31 March 2020

8. The Council's year end treasury debt and investment position for 2019/20 compared to 2018/19 is summarised in the table below:

Debt	31/03/2020	Average Rate	31/03/2019	Average Rate
	£m	%	£m	%
General Fund debt	110.1	3.83	103.4	4.01
Housing Revenue Account (HRA) debt	146.4	3.31	139.0	3.31
PFI	46.3	n/a	47.4	n/a
Total debt	302.8	3.54	289.8	3.61
Investments				
Councils investment balance	13.9	0.74	44.3	0.69

Table 1 summary of year end treasury position as at 31 March 2020

The Strategy for 2019/20

9. 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 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.
10. 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.
11. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

Borrowing requirement and debt

12. The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31 March 2020 Actual £m	31 March 2020 Budget £m	31 March 2019 Actual £m
CFR General Fund	225.1	269.3	214.4
CFR HRA	146.4	139.0	139.0
PFI	46.3	44.9	47.4
Total CFR	417.8	453.2	400.8

Table 2 capital financing requirement

Borrowing outturn for 2019/20

13. During 2019-20, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

14. A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
15. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future. These spare cash balances have now been used and therefore we are starting to borrow again, as was outlined in the 2020/21 budget reports in February 2020.
16. Two new loans were taken during the year, both on 20th March 2020, one PWLB loan of £10m over 47years at 2.77% and one PWLB loan of £10m over 13 years at 2.67%.
17. No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Investment outturn for 2019/20

18. The Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 28th February 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, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
19. The Council maintained an average investment balance of £48.699m in 2019/20 compared to £93.531m in 2018/19. The surplus funds earned an average rate of return of 0.74% in 2019/20 compared to 0.69% in 2018/19.
20. The comparable performance indicator for the Councils investment performance is the average London Inter Bank Bid Rate (LIBID) which represents the average interest rate at which major London banks borrow from other banks. Table 3 shows the rates for financial year 2019/20 and shows that for all cash holdings the rate of return exceeds the levels of the usual 7 day and 3 month benchmarks.

Benchmark	Benchmark Return	Council Performance
7 day	0.53	0.74

3 month	0.63	0.74
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Table 3 – LIBID vs. CYC comparison

21. This compares with a budget assumption of an average investment balance of £21,791m at an average 1.00% investment return.

Consultation

22. The report has been reviewed and scrutinised by Audit and Governance Committee on 15th July 2020.

Options

23. Not applicable.

Council Plan

24. Effective treasury management ensures the Council has sufficient liquidity to operate, safeguards investments, maximises return on those investments and minimises the cost of debt. This allows more resources to be allocated for delivering the Council's priorities as set out in the Council Plan.

Implications

25. This report has the following implications:
- **Financial** are contained throughout the main body of the report.
 - **Human Resources (HR)** There are no HR implications.
 - **One Planet Council / Equalities** There are no One Planet Council or equalities implications.
 - **Legal** Treasury management activities have to conform to the Local Government Act 2003, which specifies that the Council is required to adopt the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice.
 - **Crime and Disorder** There are no crime and disorder implications.
 - **Information Technology (IT)** There are no IT implications.
 - **Property** There are no property implications.
 - **Other** There are no other implications.

Risk Management

26. The treasury function is a high-risk area due to the large value transactions that take place. As a result, there are strict procedures set out as part of the treasury management practices statement. The scrutiny of this and

other monitoring reports is carried out by Audit and Governance Committee as part of the Council's system of internal control.

Contact Details

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	Report Approved		Date
Wards Affected: List wards or tick box to indicate all			All <input checked="" type="checkbox"/>
For further information please contact the author of the report			

Background Papers:

None

Annexes:

Annex A: Prudential Indicators 2019/20

List of Abbreviations Used in this Report

CIPFA - Chartered Institute of Public Finance & Accountancy
MRP - Minimum Revenue Provision
CFR - Capital Financing Requirement
MPC - Monetary Policy Committee
PWLB - Public Works Loan Board
CLG – (Department for) Communities and Local Government
LIBID – The London Interbank Bid Rate