



PART A:	MATTERS DEALT WITH UNDER DELEGATED POWERS
REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	22 OCTOBER 2020
REPORT OF THE:	CHIEF FINANCE OFFICER (s151) – ANTON HODGE
TITLE OF REPORT:	TREASURY MANAGEMENT ANNUAL REPORT 2019-20
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 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).

2.0 RECOMMENDATIONS

- 2.1 That Council is recommended to:
- (i) Note the annual treasury management report for 2019/20; and
 - (ii) Approve the actual 2019/20 prudential and treasury indicators in this report.

3.0 REASON FOR RECOMMENDATIONS

- 3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

4.0 SIGNIFICANT RISKS

- 4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

5.0 POLICY CONTEXT AND CONSULTATION

5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.

5.2 The Council uses the services of Link Asset Services – Treasury Solutions (Link) to provide treasury management information and advice.

REPORT

6.0 REPORT DETAILS

6.1 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 21 February 2019)
- A mid year (minimum) treasury update report (Audit, Overview & Scrutiny Committee 24 October 2019)
- An annual review following the end of the year describing the activity compared to the strategy (this report).

6.2 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 by Members.

6.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council.

6.4 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Summary of interest rate movement in the year;
- Detailed borrowing activity;
- Detailed investment activity.

The Council's Capital Expenditure and Financing 2019/20.

6.5 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.

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

	2019/20 Actual (£)	2018/19 Actual (£)
Total Capital Expenditure	1,145,556	842,383
Resourced by:		
Capital receipts	56,855	18,592
Capital grants and contributions	590,524	615,307
Reserves	313,076	208,484
S106 Commuted Sums	185,101	-
External Borrowing		-
Total	1,145,556	842,383

The Economy and Interest rates

6.7 The Council's treasury advisors Link Asset Services – Treasury Solutions (Link) summarised the key points associated with economic activity in 2019/20 as follows:

- the focus in the House of Commons was to agree a way forward for the UK over Brexit;
- the general election in December, which gave the Conservative Party an overall majority, enabled the UK to leave the EU on 31 January 2020;
- the uncertainties around Brexit, resulted in the MPC maintaining Bank Rate at 0.75% until March 2020 when two emergency cuts in Bank Rate from 0.75% to 0.25% and then to 0.10% were made as a result of the coronavirus outbreak. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn, and
- the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down due to the coronavirus outbreak. It also put in place a other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses).

6.8 Deposit rates continued into the start of 2019/20 at previously depressed levels and then fell sharply following the cut to base rate in March 2020.

Overall Treasury Position as at 31 March 2020

6.10 The Council's opening and closing treasury position for the financial year was as follows (excluding finance leases):

	31 March 2020	31 March 2019
Total Debt	£1.553m	£1.592m
CFR	£1.702m	£1.865m
Over/(Under) borrowing	-£0.149m	-£0.273m
Total Investments	£26.208m	£22.600m
Net Debt	-£26.059m	-£22.327m

The Strategy for 2019/20

6.11 The Treasury Management Strategy for 2019/20 was approved by members at full Council on 21 February 2019.

6.12 The expectation for interest rates incorporated within the Annual Treasury Management Strategy for 2019/20 was based on officers' views at that time, prepared with assistance from the Council's Treasury Management Advisor (Link Asset Services) and supported by a selection of City forecasts.

6.13 The interest rates for the UK were expected to be as follows:

Bank Base Rate was expected to rise from 0.75% to 1.00%. It was not expected that Bank Rate would increase again in 2019/20 as a result of the major uncertainty surrounding Brexit.

PWLB Borrowing rates were forecast to rise gradually throughout the next three years in all periods. Variable and short term rates were expected to be the cheaper form of borrowing over the period.

6.14 Based on the above, the Strategy adopted by the Council for 2019/20 was as follows:

a) Long Term Debt to Finance Capital Expenditure (borrowing strategy 2019/20)

2019/20 was expected to continue as a year of low bank interest rates, extending the current opportunity for the Council to utilise an internal borrowing strategy. Borrowing in advance of need within the constraints of the Prudential Code and approved Prudential Indicators would only be considered in exceptional circumstances.

Consideration would be given to financing capital expenditure by taking borrowing from PWLB/money markets, but the key treasury strategy was to postpone borrowing and maintain an under borrowed position to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

In considering this option however, day to day cash flow constraints and the loss of longer term interest stability would also be taken into account together with the possibility of having to replace the internal borrowing with external borrowing in a subsequent year at higher interest rates.

b) Investment of Surplus cash (investment strategy 2019/20)

The Council's investment priorities are firstly the security of capital and secondly the liquidity of its investments. The highest return would then be sought provided that proper levels of security and liquidity are achieved. The investment risk appetite of the Council is low in order to give priority to the security of investments.

The Borrowing Requirement and Debt

6.13 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) (excluding borrowing by finance leases).

	31 March 2019 Actual	31 March 2020 Budget	31 March 2020 Actual
Total CFR	£1.624m	£1.589m	£1.589m

Borrowing Rates in 2019/20

6.14 The movement in relevant UK market interest rates for the year was as follows:

a) For Bank Rate

Period	%
1 April 2019 – 10 March 2020	0.75
11 March 2020 – 18 March 2020	0.25
19 March 2020 – 31 March 2020	0.10

b) For PWLB rates (Inclusive of the 0.20% discount rate)

Item	Range during Year %	Start of Year %	End of Year %	Average in Year %
Fixed Interest Maturity				
1 Year	1.17 - 2.47	1.46	1.90	1.70
5 Years	0.99 - 2.48	1.55	1.96	1.98
10 Years	1.15 - 2.79	1.88	2.17	2.23
25 Years	1.73 - 3.25	2.41	2.65	2.76
50 Years	1.57 - 3.05	2.24	2.38	3.60

Borrowing Outturn for 2019/20

6.15 No new borrowing was undertaken during the year and scheduled repayments were made. At the end of the financial year the debt portfolio was as follows:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£1.00m	Maturity	3.69%	44 years
PWLB	£0.55m	EIP	2.99%	13 years

Investment Rates in 2019/20

- 6.16 Deposit rates continued into the start of 2019/20 at previously depressed levels and then fell sharply following the cuts to base rate in March 2020.

Item	Range during Year	Start of Year	End of Year	Average during Year
	%	%	%	%
7 day LIBID	0.00 – 0.58	0.56	0.00	0.53
1 month	0.11 – 0.61	0.60	0.12	0.56
3 month	0.26 – 0.72	0.72	0.47	0.63
6 month	0.31 – 0.83	0.83	0.60	0.70
1 year	0.39 – 0.98	0.94	0.74	0.80

Investment Outturn for 2019/20

- 6.17 The Council's investment policy is governed by MHCLG guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 21 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).
- 6.18 The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- 6.19 The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the internally managed funds against the 7-day LIBID un-compounded rate benchmark:

	Average Total Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary & On-Call Investments	£4.610m	0.65%	n/a	n/a
Fixed Term Deposits	£23.450m	0.98%	n/a	0.53%

- 6.19 **The interest received by the Council from investments in 2019/20 totalled £262k; this compares to an original estimate of £198k.**

- 6.20 The Council's investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities and security of investments. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Treasury Management Practices. At the beginning and the end of 2019/20 the Council's investments position was as follows:

	31 March 2020 (£)	31 March 2019 (£)
Internally Managed Investments	26,208,398	22,250,142

- 6.21 The maturity of the investment portfolio was as follows;

	31 March 2020 (£)	31 March 2019 (£)
On-call Investments	4,708,398	350,142
Fixed Term Deposits:		
Repayable within 1 month	1,000,000	1,000,000
Repayable 1 month to 3 months	2,900,000	6,400,000
Repayable 3 months to 6 months	13,600,00	10,500,000
Repayable 6 months to 12 months	4,000,000	4,000,000
Repayable 12 months to 24 months	0	0
Total	26,208,398	22,250,142

- 6.22 Investments were placed with the following institutions:

Type of Institution	31 March 2020 (£)	31 March 2019 (£)
UK Clearing Banks	9,208,398	4,475,142
Foreign Banks	-	3,000,000
Building Societies	-	3,000,000
Local Authorities	17,000,000	11,500,000
Total	26,208,398	22,250,142

Compliance with Treasury Limits

- 6.23 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (annex B).

7.0 IMPLICATIONS

- 7.1 The following implications have been identified:

- a) Financial
The results of the investment strategy effect the funding of the capital programme.
- b) Legal
There are no legal implications within this report
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder, Climate Change)
There are no additional implications within this report.

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Background Papers: None