



Report for:	Cabinet
Date of meeting:	20 <sup>th</sup> October 2020
PART:	I
If Part II, reason:	

Title of report:	<b>TREASURY MANAGEMENT OUTTURN AND PERFORMANCE INDICATORS 2019/20</b>
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources Nigel Howcutt, Assistant Director (Finance and Resources) Author: Fiona Jump, Group Manager (Financial Services)
Purpose of report:	To report upon the performance outturn for treasury management in 2019/20.
Recommendations	That Cabinet recommends to Council acceptance of the report on Treasury Management performance in 2019/20 and the Prudential Indicators for 2019/20.
Corporate objectives:	Optimising investment income for General Fund and Housing Revenue budgets whilst managing investment risk is fundamental to achieving the corporate objective of ensuring efficient and modern service delivery.
Financial Implications:	In accordance with the CIPFA Treasury Management in the Public Services Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector.
Risk Implications:	Good corporate governance encompasses risk management and making sure that the Council makes decisions with the full knowledge of the associated risks and opportunities. The risk of not reviewing and updating our corporate governance arrangements have been addressed by this report.
Community Impact Assessment:	A Community Impact Assessment has not been identified as being required for this report.
Health And Safety Implications:	None
Monitoring Officer / S151 Officer Comments:	<b>Monitoring Officer-</b> No comments to add to the report.  <b>Deputy Section 151 officer-</b> This is a Deputy S151 Officer report.
Consultees:	Link Asset Services
Background papers:	Cabinet 12 February 2019 – Treasury Management Strategy (Appendix K to Budget 2019/20 Report)
Glossary of acronyms and any other abbreviations used in this report	CIPFA-The Chartered Institute of Public Finance and Accountancy MPC- Bank of England monetary policy Committee CFR- Capital Financing Requirement

## **1. Regulatory Background**

- 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 in the Public Services (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 During 2019/20 the minimum reporting requirements were that Full Council should receive the following reports:
- an annual Treasury Management Strategy Statement in advance of the year;
  - a mid-year Treasury Management update report;
  - an annual review following the end of the year describing the activity compared to the strategy (this report).
- 1.3 This report provides the outturn position for the Council's treasury activities and highlights compliance with policies previously approved by Members.

## **2. The Economy and Interest Rates**

- 2.1 Investment returns remained low during 2019/20, which was directly linked to the Bank of England base rate ('Bank Rate') which started 2019/20 at 0.75%, dropped to 0.25% on the 11 March 2020 and then reduced again to 0.1% on 19 March 2020. The fall in the Bank Rate during March 2020, represented an emergency move to control the economic impact of the Covid-19 pandemic.
- 2.2 Concerns over the terms under which the UK will leave the EU led to longer term investment rates fluctuating throughout the year. Investment rates, which were low up to October 2019 due to the uncertainty, rose after the end of October deadline was rejected by the Commons. These rates reduced in January before recovering again after the 31 January 2020 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.

## **3. Treasury Position as at 31 March 2020**

### **Borrowing**

- 3.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The Council's CFR was £353.7m at the end of the year (as shown below in 3.4). This includes the borrowing from the Public Works Loan Board following the introduction of HRA Self-Financing and the borrowing taken up in 2015/16 for General Fund capital expenditure requirements. HRA self-financing involved the transfer of national housing debt from central government to local authorities with HRA responsibilities. No rescheduling of debt was undertaken during the year. Details of loans held by the Council as at 31 March 2020 can be found at Appendix A to this report.

### **General Fund**

- 3.2 The General Fund CFR (its need to borrow) is £13.2m. The General Fund has borrowed in advance by £4.9m. This borrowing has utilised the lower interest rates that

have been available in recent years and will be used to fund the ongoing capital programme expenditure.

### Housing Revenue Account

3.3 The HRA's CFR and external borrowing are £340.5m at year end. During 2019/20 £3.6m of external borrowing was repaid in year.

3.4 At the beginning and the end of 2019/20 the Council's treasury position was as follows:

	31 March 2019 Principal	Rate/ Return	Average Life	31 March 2020 Principal	Rate/ Return	Average Life
<b>GENERAL FUND (GF)</b>	£m	%	Years	£m	%	Years
Total external debt	18.6	3.08	21	17.9	3.13	20
Total internal debt	0			0		
Other (finance leases & negative CFR)	0.2			0.2		
Capital Financing Requirement	8.7			13.2		
Over / (under) borrowing	10.1			4.9		

	31 March 2019 Principal	Rate/ Return	Average Life	31 March 2020 Principal	Rate/ Return	Average Life
<b>HOUSING REVENUE ACCOUNT (HRA)</b>	£m	%	Years	£m	%	Years
Total external debt	344.1	3.36	18	340.5	3.37	17
Capital Financing Requirement	344.1			340.5		
Over / (under) borrowing	0			0		

	31 March 2019 Principal	Rate/ Return	Average Life	31 March 2020 Principal	Rate/ Return	Average Life
<b>HRA and GF COMBINED</b>	£m	%	Years	£m	%	Years
Capital Financing requirement	352.8			353.7		
Total external debt*	362.9			358.6		
Total investments	92.1	0.69	0.53	69.1	0.81	0.51
Net external debt	270.84			289.5		

\*including finance lease obligations

3.5 The table at 3.4 shows a reduction in balances available for investment as at 31 March 2019 and as at 31 March 2020, that is, at a specific point in time. More information on average balances available for investment during 2019/20 is captured at 4.2.

#### 4. Investment Outturn

- 4.1 The Council's 2019/20 investment policy, contained in its Treasury Management Strategy approved by Council in February 2019, sets out the approach for choosing investment counterparties. It is based on a system of credit ratings provided by the three main credit rating agencies, and supplemented by additional market data (such as rating outlooks and bank share prices) provided by Link Asset Services, the Council's treasury management advisors.
- 4.2 The Council maintained an average balance of £94.2m of internally managed funds throughout 2019/20, earning an average rate of return of 0.81% compared with the previous year of 0.69%. The Council's capital expenditure being more weighted to the second half of 2019/20 contributed towards the higher than anticipated availability of balances for investment during the year.
- 4.3 The weighted average maturity for investments held by the Council at 31 March 2020 was 72 days. This compares to a weighted average maturity at 31 March 2019 of 93 days.
- 4.4 Investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

#### 5. Prudential and Treasury Indicators

- 5.1 During 2019/20, the Council complied with its legislative and regulatory requirements set out in the Treasury Management Strategy. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2018/19 Actual	2019/20 Original Budget Estimate	2019/20 Actual
	£000	£000	£000
Capital expenditure			
• General Fund	15,348	16,743	18,954
• HRA	24,725	42,289	37,722
• <b>Total</b>	<b>40,073</b>	<b>59,032</b>	<b>56,676</b>
Capital Financing Requirement:			
• General Fund	8,669	16,237	13,181
• HRA	344,104	354,261	340,518
• <b>Total</b>	<b>352,769</b>	<b>370,498</b>	<b>353,699</b>
External debt*	<b>362,747</b>	<b>358,411</b>	<b>358,411</b>
Investments- balance at year end			
• Longer than 1 year	0	0	0
• Under 1 year	92,098	33,893	69,113
• <b>Total</b>	<b>92,098</b>	<b>33,893</b>	<b>69,113</b>

\*excluding finance lease obligations

- 5.2 In order to ensure that borrowing levels are prudent over the medium term, Local Authority external borrowing can only be for capital purposes, i.e. it cannot be used to support revenue expenditure. Gross borrowing should not, therefore, except in the short term, exceed its CFR i.e. the Council's need to borrow. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The advance borrowing shown above by external debt exceeding the CFR is due to the General Fund borrowing in advance of need in the short-term to take advantage of historically low interest rates, and the impact of slippage in the capital programme in prior years. Note the actual 2019/20 HRA CFR reflects self-financing debt repaid during the year which was not accounted for in the estimated CFR.
- 5.3 The **Authorised Limit** - the authorised limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. During 2019/20 the Council has maintained gross borrowing within its authorised limit.
- 5.4 The **Operational Boundary** – the operational boundary reflects the current borrowing position with an allowance for additional borrowing for cash flow purposes during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	<b>2019/20</b>
Authorised limit	£379.000m
Operational boundary	£362.935m

- 5.5 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

<b>Ratio of financing costs to net revenue stream</b>	<b>31 March 2019 Actual</b>	<b>2019/20 Original Limits</b>	<b>31 March 2020 Actual</b>
Non - HRA	0.60%	1.23%	0.57%
HRA	20.12%	27.95%	20.08%

- 5.6 The reduction on HRA ratio since the original estimate reflects higher investment balances and interest rates than assumed in the original estimate, and therefore higher interest received due to slippage on the HRA capital programme. The reduction in GF ratio since the original estimate relates to higher interest rates than assumed in the original estimate.
- 5.8 The following table shows the **net debt position** for the Council. There has been no material change to debt year on year but the net debt has increased by £19m due to an increase in capital expenditure compared to 2018/19.

	31 March 2019 Principal	Rate/ Return	Average Life	31 March 2020 Principal	Rate/ Return	Average Life
Fixed rate funding:	£m	%	Years	£m	%	Years
PWLB and Finance Leases	362.9	3.34		358.6	3.35	
<b>Total external debt</b>	<b>362.9</b>	<b>3.34</b>	<b>18</b>	<b>358.6</b>	<b>3.35</b>	<b>17</b>
<b>CFR</b>	<b>352.8</b>			<b>353.7</b>		
<b>Over/ (under) borrowing</b>	<b>10.1</b>			<b>4.9</b>		
<b>Total investments</b>	<b>92.1</b>	<b>0.70</b>	<b>0.53</b>	<b>69.1</b>	<b>0.81</b>	<b>0.51</b>
<b>Net debt</b>	<b>270.8</b>			<b>289.5</b>		

5.9 The following table shows the **maturity structure of the debt portfolio**:

	31 March 2019 actual	31 March 2020 actual
Under 12 months	£4.7m	£5.1m
12 months and within 24 months	£4.9m	£3.8m
24 months and within 5 years	£8.2m	£8.0m
5 years and within 10 years	£26.6m	£31.0m
10 years and above	£318.7m	£310.7m

5.10 The following table shows the **maturity structure of the investment portfolio**:

	2018/19 Actual £	2020/19 Actual £
Investments		
Longer than 1 year	-	-
Under 1 year	92.1m	69.1m
<b>Total</b>	<b>92.1m</b>	<b>69.1m</b>