Report To:	**AUDIT COMMITTEE**	**Date:**	**27th JULY 2020**
Heading:	**TREASURY MANAGEMENT - ANNUAL REPORT 2019/20**		
Portfolio Holder:	**CLLR MADDEN- CABINET MEMBER FOR FINANCE & RESOURCES**		
Ward/s:			
Key Decision:	**NO**		
Subject to Call-In:	**NO**		

Purpose of Report

This report provides information on the Council's Treasury Management activities which the Council carries out to manage both its funding and its cash flow, with the aim of minimising the risks to which the Council is exposed when borrowing and lending monies.

It sets out the performance in 2019/20 against the prudential indicators, which were previously approved by Full Council on the 4th March 2019, as part of the Treasury Management Strategy. This ensures that borrowing and lending are controlled within reasonable limits, in line with good practice.

Recommendation(s)

Members are requested to:

i) Note the performance including the compliant prudential indicators, as outlined in the report.
ii) Recommend consideration of the report by Cabinet, including points raised by the Audit Committee in respect of the report (if any).

Reasons for Recommendation(s)

In accordance with the requirements of the Council's Financial Regulations (C.31), the Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

In accordance with the requirements of the Council’s Financial Regulations (C.30), Cabinet will receive an annual Treasury Management Performance Report.

In accordance with the CIPFA Code of Practice for Treasury Management in Public Services (the “CIPFA TM Code”), Members should approve the annual report for Treasury Management activity in 2019/20 which forms part of this document.

Under CIPFA’s Prudential Code for Capital Finance in Local Authorities, Members have a statutory duty to adopt a set of annual indicators relating to capital expenditure and Treasury Management.

Alternative Options Considered

None.

Detailed Information

TREASURY MANAGEMENT - ANNUAL REPORT 2019/20

1. Introduction

1.1 The Treasury Management Policy Statement includes a requirement for the production of an Annual Report on the Treasury Management activities undertaken during the year. This requirement is also incorporated in the Council's Financial Regulations and is considered as good practice in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management.

2. The Financial Markets during 2019/20

2.1 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%, as it was not expected that the Monetary Policy Committee would be able to deliver 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.

2.2 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 the 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.

2.3 There is likely to be little upward movement in the bank rate and 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 shut down 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.

3. Borrowing

3.1 The borrowing activities undertaken during the year are summarised below:

Type of Loan	Amount Outstanding 01/04/19 £'000	Borrowed £'000	Repaid £'000	Amount Outstanding 31/03/20 £'000
Long Term Loans				
- PWLB	41,248	28,300	(7,012)	62,536
- Mortgage Loan	40,500	0	(6,000)	34,500
- Temporary Loan	0	5,000	0	5,000
Total External Debt	**81,748**	**33,300**	**(13,012)**	**102,036**

3.2 The table represents the actual transactions undertaken and therefore will differ to those shown in the statement of accounts due to the differences between face value and fair value.

4. Prudential Borrowing Limits

4.1 One of the requirements of the CIPFA Prudential Code is to report performance against a range of indicators to Members. Underpinning the Prudential system for borrowing is the fundamental objective that any investment in assets needs to be both affordable and remain within sustainable limits. The Council sets its own targets, boundaries or limits against which it monitors actual performance. For 2019/20 these were approved by Council on 4th March 2019. The comparison of out-turn to those targets are set out in Appendix 1 to this report.

4.2 There was one occasion where the Annual Treasury Management strategy was not adhered to. This was with regards to our deposit account with Barclays, our main bank, where as a result of all the alternative investment options being at full capacity the £5m limit was exceeded for one working day. This was due to large grant funding being received at short notice from central government in response to Covid-19.

5. Loan Interest Payments

5.1 There are two measures of performance used for assessing the Council's borrowing activities. These are the total amount of interest paid compared to estimated figures and the average rate of interest paid on external loans. An analysis of interest payments compared to the revised estimates is given below:

	Revised Estimate	Actual	Variance
	£'000	**£'000**	**£'000**
PWLB	1,485	1,449	(36)
Mortgage Loans	1,887	1,938	51
Temporary Loan	4	15	11
Total	**3,376**	**3,402**	**26**

5.2 The reason for the variances above are as follows:

a) PWLB – the main reason for the underspend on the PWLB interest was due to the Council financing part of its borrowing using temporary loans which incur a lower interest payable rate than the PWLB.

b) Mortgage Loans – there is a variance on the Mortgage loans as the interest paid on the loans was higher than the revised estimate.

c) Temporary Loan - the Council decided to use temporary borrowing rather than longer-term PWLB borrowing to fund some of its day-to-day activities. Temporary borrowing is the cheapest method of borrowing externally.

6. <u>Investments</u>

6.1 Cash flow surpluses are placed in investment accounts or in short-term money market deals. The movement in external investments during the year is given below:

	Temporary Advances £000
Balance at 01/04/19	7,432
New Investments	182,754
Repayments	(180,204)
Balance at 31/03/20	9,982
Annual Return	**0.65%**

6.2 Overall Investment Income achieved compared to the revised budget is as follows:

Revised Estimates £000	**Actual £000**
35	**78**

6.3 The above figures demonstrate that investments are an important element of the Council’s budget. Relatively small movements in interest rates can have a significant impact on the income received. The main reason for the better than expected investment income was due to the Council being able to loan monies on a short-term basis to other Local Authorities and receive a higher return than if the monies were invested in a bank or Money Market Fund.

6.4 During 2019/20, the base rate started at 0.75% and ended the year at 0.10%.

Implications

Corporate Plan:

The reporting of the Council's Treasury Management and Borrowing Activities ensures compliance with the Council's Financial Regulations and the CIPFA best practice. The Council's effective treasury management activities support delivery of the Corporate Plan objectives.

Legal:

The recommendations contained in the report ensure compliance with Financial Regulation C.30 and C.31.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	No direct financial implications arising from this report.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
None Identified	N/A

Human Resources:
No adverse Human Resources implications identified.

Environmental/Sustainability
No adverse Environmental implications identified.

Equalities:
No adverse Equality implications.

Other Implications:

Reason(s) for Urgency

Reason(s) for Exemption

Background Papers

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APPENDIX 1 PRUDENTIAL INDICATORS OUTTURN 2019/20

1. Prudential Indicators of Affordability

a) Ratio of financing costs to net revenue stream split between the Housing Revenue Account and the General Fund

The Council is required to calculate an estimated ratio of its financing costs divided by its net revenue stream for both the General Fund and the Housing Revenue Account.

2019/20	Target %	Actual %
Housing Revenue Account	13.99	13.93
General Fund	12.33	8.58

The variance to target on the General Fund is mainly due to the sale of the Glenrothes Investment Property reducing the Minimum Revenue Provision required in the year.

b) Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels

Authorities are required to estimate the impact on the Council Tax (General Fund) and Rent levels (Housing Revenue Account) of the capital programme including the non-financing costs.

2019/20	Target £	Actual £
Housing Revenue Account (52 Weeks)	0.00	0.00
General Fund (Band D)	27.42	52.80

The target indicators were approved by Council 4th March 2019. After the indicators were set, approval was gained to change the Capital Programme to reflect 2018/19 slippage on investment property purchases and bring forward £20m for investment property purchases to 2019/20 from 2022/23.

c) Net borrowing and the Capital Financing Requirement split between the General Fund and the Housing Revenue Account

In order to ensure that in the medium term borrowing is only undertaken for capital purposes, local authorities are required to ensure that net external borrowing does not exceed, except in the short term, the total of their capital financing requirement. In broad terms the capital financing requirement reflects an authorities need to borrow for capital purposes and is a measure of the assets contained on the balance sheet which have as yet not been fully financed, i.e. there is still some debt outstanding.

31st March 2020	Target £m	Actual £m
Housing Revenue Account	80	80
General Fund	58	81

The main reason for the variance for the General Fund is due to the movement on the investment property capital programme as discussed in b) above, and lower than expected MRP charges as a result of slippage on the 2018/19 capital outturn.

d) **Estimates of capital expenditure split between the General Fund and the Housing Revenue Account**

2019/20	Target £m	Revised Capital Programme £m	Actual £m
Housing Revenue Account	10.7	7.9	6.5
General Fund	26.9	52.9	43.9

The main reasons for the differences between the Housing Revenue Account (HRA) and the General Fund (GF) are as follows:

i) HRA - Delays to works on Council dwellings due to planned works being refused by tenants or structural issues being identified which have slowed progress. These works (and funding) will be re-programmed into the 2020/21 and future years works schedules.

ii) GF – Underspends on Investment Properties, Kings Mill Reservoir and Vehicles. The Council only acquires Investment Properties following full due diligence and when and where they can be purchased at an appropriate price, the Kings Mill Reservoir has been delayed due to Covid-19 and procurement of vehicles purchases have been delayed due to Covid-19 procurement issues.

e) **Authorised Limit of external debt**

The Council is required to set an authorised limit for its total external debt, gross of investments and includes the need to borrow on a short-term basis to cover for temporary shortfalls in cash flow. The Authorised Limit is set at a level which is approximately £10m above the Capital Financing Requirement.

2019/20	Authorised Limit £m	Actual Borrowing £m
Borrowing	150	102

f) **Operational Boundary**

The Operational Boundary is based on the most likely or prudent but not worst-case scenario in relation to cash flow. The reason for the difference between the Operational and Actual Borrowing is due to the Authority using internal reserves e.g. the HRA to fund Capital Expenditure rather than borrowing.

2019/20	Operational Boundary £m	Actual Borrowing £m
Borrowing	140	102

2. Prudential Indicators for Prudence

a) **Interest rate exposure**

This indicator gives the following maximum levels of exposure to fixed and variable interest rate payments. Fixed interest loans charge the same amount of interest from the start of the loan until the loan is repaid. The interest payable for variable rate loans may change from the inception date to the maturity date. The target for fixed rate loans is set at the same level as the Authorised Limit whereas the target for variable rate loans is set at an amount which is 40% of the Authorised Limit.

Principal Outstanding 2019/20	Target £’000	Actual £’000
At Fixed Rates	140,000	82,536
At Variable rates	56,000	19,500

b) **Maturity Structure of fixed rate borrowing**

The Council has numerous fixed rate loans. It is prudent to ensure that these loans do not mature at the same time. Therefore, the Council has set lower and upper limits for the maturity of its fixed rate loans.

Maturity	Lower Limit £’000	Upper Limit £’000	Actual 31st March 2020 £’000
Less than 12 months	0	20,000	5,000
12 months to 24 months	0	20,000	6,500
24 months to 5 years	0	25,000	8,190
5 years to 10 years	0	50,000	9,046
10 year and over	10	100,000	73,300

Principal sums invested for more than 364 days

The below represents the maximum amount the Authority can invest with any institution. This is to reduce the potential exposure to the Authority should any institution become insolvent.

2019/20	Limit £m	Actual £m
Upper Limit	5	0