AUDIT & ACCOUNTS COMMITTEE
30 SEPTEMBER 2020

TREASURY MANAGEMENT OUTTURN REPORT 2019/20

1. Purpose of Report

1.1. The purpose of this report is to give Members the opportunity to review the annual Treasury Outturn report which will be presented to Council on 13 October 2020 (copy attached at **Appendix A**).

2. Introduction

2.1. In January 2010 the Council formally adopted the CIPFA Code of Practice on Treasury Management which requires that the Council receives regular reports on its treasury management activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

2.2. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit and Accounts Committee and for the execution and administration of treasury management decisions to the section 151 officer, who will act in accordance with the Council's policies and practices.

2.3. The Treasury Strategy and Prudential Indicators for 2019/20 were approved by Council on 7 March 2019 and the Outturn report is the last report for the financial year, required by the Code. It has been prepared on the basis of the draft final accounts which appear elsewhere on the agenda. If there are significant changes resulting from the audit of the accounts they will be reported at the next meeting of this Committee.

2.4. The report in section 6 details that there were no breaches of the approved prudential indicators during 2019/20.

3. RECOMMENDATION

That the Treasury Outturn position for 2019/20 be considered.

Background Papers

Nil

For further information please contact Andrew Snape on extn. 5532

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APPENDIX A

ANNUAL TREASURY REPORT 2019/20

1. Background

1.1 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).

1.2 Treasury management is defined as: 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

1.3 Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management strategy.

2 Economic Background

2.1 **UK Brexit.** The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Teresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

2.2 **Economic growth** in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

2.3 After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in **quantitative easing (QE),** essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government in April and beyond. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lock down is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lock down is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

2.4 **Inflation** has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

2.5 **Employment** had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.

2.6 **WORLD GROWTH.** The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

3.0 Local Context

3.1 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.

3.2 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.

3.3 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 when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

3.4 The Council's Capital Financing Requirement (CFR) at 31 March 2020 was £133m, while usable reserves and working capital which are the underlying resources available for investment were £58.028m**.**

3.5 The Council has an increasing CFR over the next 2 years of £25m, due to the borrowing requirement of £33.4m (GF £18.6m / HRA £14.7m) for financing the capital programme over the forecast period, if reserve levels permit internal borrowing will be considered. The CFR reduces when Minimum Revenue Provision (MRP) are made and the repayment of debt, over the forecast period there are two loans due for repayment with a combined total value of £4m.

4 Borrowing Strategy

4.1 Borrowing Activity in 2019/20

	Balance 1/4/19 £000	**New Borrowing £000**	**Debt Maturing £000**	**Balance 31/3/20 £000**
CFR	131,627			132,900
Short Term Borrowing	4,983	12,787	16,700	8,597
Long Term Borrowing	90,081	3,300	2,024	83,830
Total Borrowing	**95,064**	**16,087**	**18,724**	**92,427**
Other Long Term Liabilities	224	0	0	224
Total External Debt	**95,288**	**16,088**	**18,724**	**92,651**
Increase/(Decrease) in Borrowing £000				(2,637)

4.2 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

4.3 The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the Council's borrowing need based on realistic projections, it was decided to take a combination of medium-term borrowing maturity loan during the year, details of which are below.

Long-dated Loans borrowed	Amount £000	Rate %	Period (Years)
Other Local Authority Loan	3,300	1.5	3

4.4 **LOBOs**: The Council holds £3.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of the £3.5m of LOBOS had options during the year, none of which were exercised by the lender.

4.5 **Debt Rescheduling**: The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

5 **Investment Activity**

5.1 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 7 March 2019. The 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.). During 2019/20 the Council's investment balances have ranged between £37.9 and £64.2 million.

	Balance 1/4/19 £000	New Investments £000	Investments Redeemed £000	Balance 31/3/20 £000
Short Term Investments	41,370	170,441	180,852	30,459
Long Term Investments	0	7,500	0	7,500
Total Investments	**41,370**	**177,941**	**180,852**	**38,459**
Increase/(Decrease) in Investments £000				(2,911)

5.2 Security of capital remained the Council's main objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20.

5.3 Counterparty credit quality is assessed and monitored by Link, the Council's treasury advisors, with reference to credit ratings; credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. Link provide recommendations for suitable counterparties and maximum investment periods.

6 **Compliance with Prudential Indicators**

6.1 The Council can confirm that it has complied with its Prudential Indicators for 2019/20, which were set on 7 March 2019 as part of the Council's Treasury Management Strategy Statement.

6.2 **Interest Rate Exposure:** These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates for both borrowing and investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Approved Limit for 2019/20 %	**Maximum during 2019/20 £m**
Fixed Rate		
Borrowing	100%	99%
Investments	75%	21%
Compliance with Limit		*Yes*
Variable Rate		
Borrowing	20%	1%
Investments	100%	79%
Compliance with Limit		*Yes*

6.3 **Maturity Structure of Fixed Rate Borrowing.** This indicator is to limit large concentrations of fixed rate debt and control the Council's exposure to refinancing risk.

	Upper Limit %	**Fixed Rate Borrowing 31/03/20 £m**	**Fixed Rate Borrowing 31/3/20 %**	**Compliance?**
Under 12 months	15%	16.009	17%	Yes
12 months to 2 years	15%	3.029	3%	Yes
2 years to 5 years	30%	18.403	19%	Yes
5 years to 10 years	100%	24.336	25%	Yes
10 years and above	100%	35.040	36%	Yes

6.4 **Principal Sums Invested for over 364 Days.** All investments were made on a short-term basis and there were no investments for more than 364 days.

6.5 **Authorised Limit and Operational Boundary for External Debt.** The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The s151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2019/20; borrowing at its peak was £93.3m.

	Approved Operational Boundary 2019/20 £m	Authorised Limit 2019/20 £m	Actual External Debt 31/03/20 £m
Borrowing	137.6	142.6	92.4
Other Long Term Liabilities	0.4	0.6	0.2
Total	**138.0**	**143.2**	**92.6**

6.6 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary of the treasury management activity during 2019/20. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

6.7 The Council also confirms that during 2019/20 it complied with its Treasury Management Policy Statement and Treasury Management Practices.