Treasury Management Performance 2019/20

Cabinet **Date: 1st July 2020**

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Wards:	All
Parishes Affected:	All

1. Purpose and Reasons

1.1 This report sets out the Treasury Management performance for 2019/20.

1.2 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

2. Recommendations

Cabinet is recommended to:

2.1 Note the 2019/20 Treasury Management performance as detailed at paragraphs 3.1 to 3.23 and the Prudential Indicators shown at Appendix 2.

3. Detail

3.1 The Council is involved in two types of treasury activity:

3.1.1 Borrowing, both long term (for more than 1 year) for capital expenditure purposes and borrowing (for less than 1 year) for temporary cash flow purposes and

3.1.2 Lending, for investment of surplus cash relating to reserves and for cash flow purposes.

3.2 The activity and performance in respect of each of these two activities is summarised in the sections below. Further detail is provided at Appendix 1.

Borrowing

3.3 The Council's Treasury Management Strategy sets out that the Council's long-term borrowing is currently lower than its underlying need to borrow to finance its capital investment, and that this position will be kept under review.

3.4 It should be noted that the government increased the base borrowing rate by 1% across all loans on the 9th October 2019. A total of £26m of new long-term borrowing was undertaken in 2019/20. This comprised five maturity loans (interest only), 3 of £5m each with varying maturities between 2033 and 2035, a loan of £10m maturing in 2070, and a further loan of £1m maturing in 2026. The interest rates ranged from 1.48% to 2.08%, full details are provided in Appendix

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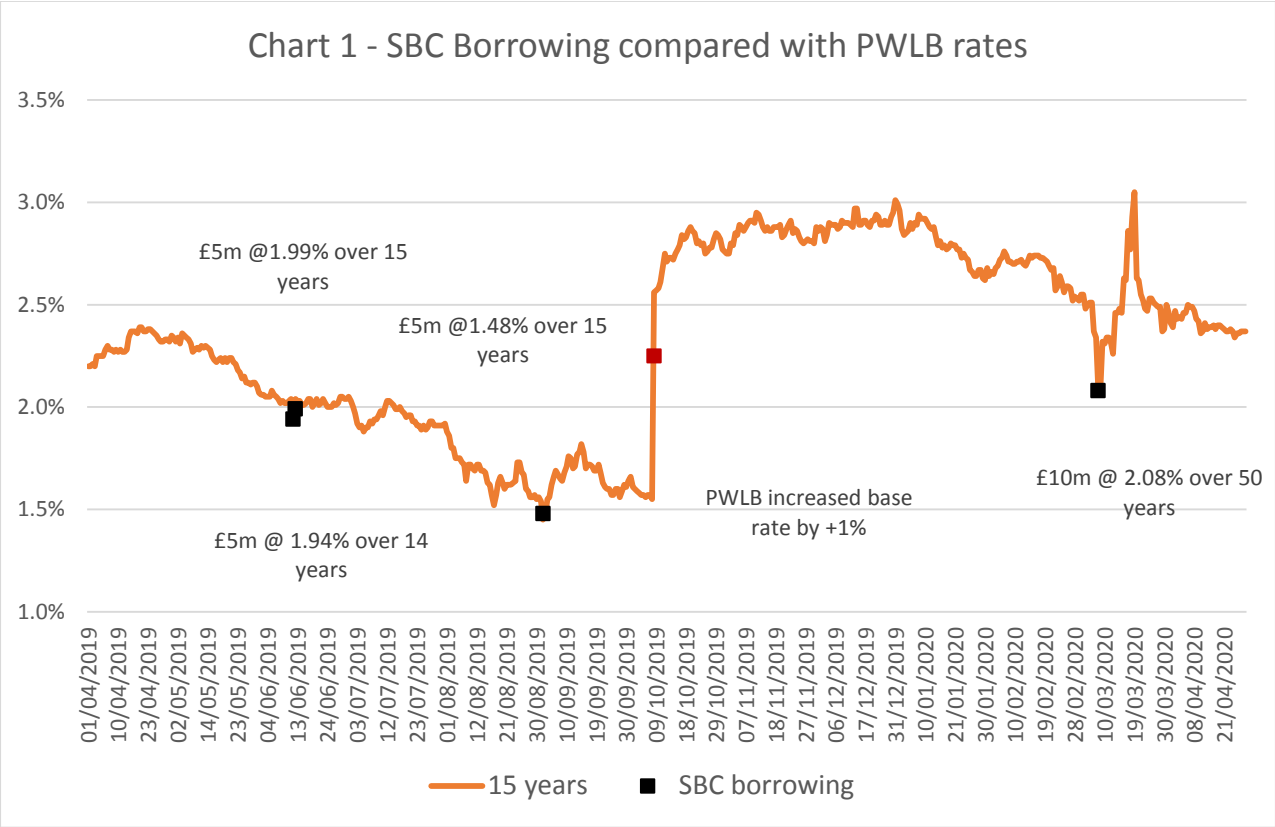
1. The graph below shows where loans were taken out compared with PWLB base rates for the period between April 2019 and March 2020.



3.5 A number of long-term loans totalling £1.501m matured during the year and these were running at an average rate of 3.77%. Total long-term debt has therefore increased from £326.3m to £350.8 over the year. The average maturity period on all existing long-term debt, including the new £26m of new loans, is 17.3 years and the average rate on all long-term debt over the year was 3.24% (18/19 equivalent is 18.1 years/3.36%)

3.6 Short-term borrowing as at 31st March 2020 was £24.5m at an average of 1.13% Short term borrowing fluctuates daily and reflects the Council's daily cash flow requirements which are dependent on the timings of receipts and payments.

3.7 The average rate the Council paid on all external debt (both long term and short term) over the whole of 2019/20 was 3.1%. (2018/19 3.25%)

<u>Investments</u>

3.8 During 2019/20 there was an average daily investment balance of £56 million (18/19 £48m) which was a mixture of internally managed cash investments and an externally managed property fund (Local Authority Property Fund or "LAPF"). The balance at 31st March 2020 of £56.4m was an increase from £45.7m at 31st

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March 2019. This balance is comprised of working capital (where we hold cash temporarily as a result of timing differences between receipts and payments) as well as general reserve balances which are more stable.

3.9 In total, interest of £1.053m was earned in 2019/20 on all investments (cash and LAPF) at an average rate of 1.87%. (2018/19 1.84%). The investment benchmark used by the Council (the 3 month London Interbank Offer Rate) was 0.76% for 2019/20 and therefore this was exceeded.

3.10 The LAPF returned 3.31% in 2019/20 and the valuation of the fund decreased from £15.2m to £14.7m over the year to March 2020. The other investments had an average balance of £41m returning an average rate of 0.86%.

3.11 The Prudential Code also sets out that authorities report their "Non Treasury Investments" which includes loans, shares and investment property. These are set out in Appendix 1.

Prudential Indicators (PIs)

3.12 In order to demonstrate that local authorities have fulfilled the objectives of the CIPFA Prudential Code, the code sets out a basket of indicators that must be prepared and used. It should be noted that the prudential indicators are not for comparison between authorities, but are a means to support and record local decision-making. The PIs do not in themselves indicate either a good or bad financial position, they are merely a statement of fact. Further detail is provided in Appendix 2.

Capital Financing Requirement

3.13 The Council undertakes capital expenditure on long-term assets. These activities may either be:

3.13.1 Financed immediately through the use of capital or revenue resources (such as capital receipts, capital grants or revenue contributions), which has no resultant impact on the Council's borrowing need, or

3.13.2 If insufficient funding is available, or a decision is taken not to apply other funding, the capital expenditure will give rise to a **borrowing requirement** to ultimately fund the expenditure.

3.14 The Council's underlying borrowing requirement is measured through the **Capital Financing Requirement** ("CFR") and is simply the total ultimate borrowing requirement, regardless of whether that borrowing has yet taken place.

3.15 Part of the Council's treasury activity is to address the funding requirements for this borrowing need and the treasury management team organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external

bodies (such as the Government, through the PWLB or the money markets), or utilising temporary cash resources within the Council until that borrowing takes place.

3.16 The CFR (the ultimate borrowing requirement) is always higher than the actual level of borrowing, the difference being termed "internal borrowing" which represents the temporary funding of capital spend from existing cash balances and working capital as a short-term measure.

3.17 The table below shows the CFR and the Gross borrowing position (i.e. actual long term borrowing) for March 2019 and March 2020, this includes PFI liabilities:

CFR and LONG TERM BORROWING POSITION	31/03/2019 Actual £m	31/03/2020 Actual £m	Change £m
CFR General Fund (£m)	£369.7	£390.1	£20.4
CFR HRA (£m)	£109.0	£104.0	(£5.0)
Total CFR	**£478.7**	**£494.1**	**£15.4**
Gross borrowing position	£375.8	£398.4	£22.6
Under / over funding of CFR	**£102.9**	**£95.7**	**(£7.2)**

3.18 This table shows an under-borrowed position of £95.7m i.e. there is a requirement for a further £95.7m of long-term borrowing to finance capital expenditure already incurred. This relates fully to the general fund as the HRA is fully funded.

3.19 As set out in the Capital Outturn report elsewhere on this agenda, the Council incurred general fund capital expenditure of £57.9m in 2019/20. This has been funded from S106 (£3.1m), CIL receipts (£1.1m), and capital grant (£33.6m) plus £20.1m of borrowing. The £20.1m was further reduced by £1.8m of MRP (a revenue provision for repayment of debt) offset by movements in the PFI liability and other treasury items that impact CFR leaving an increase in the General Fund CFR of £20.4m as shown in the table above.

3.20 The HRA made an MRP repayment of £5m reducing its CFR to £104m.

3.21 Appendix 2 contains detailed CFR calculations for both the General Fund and the HRA.

Compliance with Treasury Limits

3.22 During the 2019/20 Financial Year all Treasury activity was carried out within the Council's Treasury limits and Prudential Indicators as set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement, other than as has been detailed at paragraph 3.23 below

TREASURY LIMITS	2019/20 £m
Authorised limit	**£521.3**
Maximum gross borrowing position during the year incl. PFI	£398.4
Operational boundary	**£516.3**
Average gross borrowing position	£387.1

3.23 As shown in Chart 1 earlier in the report there was considerable interest rate volatility during March 2020, linked to market reaction to the developing COVID-19 pandemic. In order to provide the best interest rates for the Council the proportion of borrowing that was short-term was marginally higher (between 0.4% and 0.91%) than the non-statutory local indicator, for a period 8 days. The CIPFA Prudential Code is clear that the use of numerical indicators should not hinder good practice. These indicators will be subject to ongoing review to ensure they enable the Council to protect its financial interests in periods of market volatility.

4. Alternative Options

4.1 Cabinet could choose not to approve the proposed additions to the capital programme.

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

5.1 The report contains full details of the treasury activity undertaken during the year.

5.2 The 2020/21 budget has assumed a similar level of investment balances and interest will be achieved as those in 2019/20

5.3 The Director of Finance (Section 151 officer) has put in place provisions to reduce the dependency on internal borrowing that will take advantage of the historically low long term interest rates, thus protecting the Council from a sudden peak in borrowing costs. This process is in line with the Treasury Management Strategy approved by the Council.

Legal and Human Rights Implications

5.4 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

Climate Change Impact

5.5 The proposals would not bring a change in service delivery and Officers believe that there is no expected effect on the Council's carbon footprint.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

5.6 There are no such direct implications.

Diversity Impact Assessment

5.7 A Diversity Impact Assessment (DIA) has not been done as this report does not make any new recommendations that would affect services.

Risk Management

5.8 There are no direct risks arising from this report.

6. Consultees

6.1 The Corporate Director of Finance and Assets (s151 officer) and Chief Legal Officer (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

7.1 None

8. Appendices

8.1 Appendix 1 – Treasury Portfolio

8.2 Appendix 2 – Prudential Indicators

9. Key Decision/Decision in Cabinet Work Programme and Forward Plan

9.1 This is a key decision and is included in the Cabinet Work Programme for June 2020.

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