

AUDIT COMMITTEE

24th November 2020

Subject: Annual Report on the Treasury Management Service and Actual Prudential Indicators 2019/20

1 Purpose of Report

The annual treasury report is a requirement of the Council's reporting procedures. It covers both the treasury activity and the actual Prudential Indicators for 2019/20.

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

2 Links to Council's priorities and objectives

The scrutiny and approval of the Council's Treasury Management activity is linked to the Council's priority of a Commercial and Democratically Accountable Council through sound financial management.

3 Recommendations:

1. That following scrutiny, the Treasury Management Activity Report for 2018/19, including the prudential indicators reported in Annexe D, is approved for onward submission to Cabinet.

Resolution required.

4 Background

- 4.1 The 2019/20 Treasury Management Strategy summarises the Council's obligations defined in the Code of Practice for Treasury Management in the Public Services, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 4.2 During 2019/20 the Council complied with its legislative and regulatory requirements.

5 Treasury Report for 2019/20 and scrutiny of treasury activity

- 5.1 As required by the Code, the activity report for 2019/20 is submitted at Annexe A for scrutiny by Audit Committee, prior to submission to Cabinet on 18 November 2020.
- 5.2 It is important to ensure that the Council's treasury management activities are subject to a robust process of scrutiny. This report provides Members with information on treasury management activity and variances in order to fulfil this process.

6 Corporate Implications

a Legal implications

This report is the responsibility of the Strategic Director (Resources) – the Officer appointed by the Council as section 151 Officer to have responsibility for the Council's financial administration. Submission of such a report is a requirement of CIPFA's Standard of Professional Practice on Treasury Management.

Under the revised Code of Practice, Cabinet was nominated at Special Council 16th February 2010 to ensure effective scrutiny of the treasury management strategy and policies.

b Financial implications

There are no new implications.

c Human resources and equality implications

There are no new implications.

d Timescale for implementation and risk factors

No new targets applicable.

Report Author: Rob Greenfield - Accountant

Background Papers:

Chartered Institute of Public Finance and Accountancy: *Code of Practice for Treasury Management in the Public Services*.

CPBC: *Treasury Management Strategy Statement for 2019/20*.

CPBC: *Working paper: external loan calculation 2019/20*.

Treasury Management Activity Report for 2019/20

1 Introduction

- 1.1 This report summarises the Council's treasury management activity for 2019/20 and compares actual interest transactions with the revised estimates set for 2019/20.
- 1.2 The Council must comply with the Code of Practice on Treasury Management in the Public Services, issued by CIPFA and updated in 2017. The code requires the Council to annually set a Treasury Management Strategy. The Strategy for the 2019/20 financial year was approved by Council on 20 February 2019.
- 1.3 This report confirms that all Treasury Management activity during the year was undertaken in accordance with this strategy and in consultation, where appropriate, with our external advisers, Capita.

2 The Economy

- 2.1 **Short-term interest rates.** The Bank of England base rate started the year at **0.75%** and dropped to **0.25%** then **0.10%** in March 2020 where they are forecast to stay until 2023-24. The Council therefore continues to earn very low rates on its investments, while facing the challenge of increased counterparty risk.

3 Borrowing

- 3.1 A summary of external borrowing at 31st March 2020 is in Annexe B. The principal amounts are shown in this annexe but in the statement of accounts the amounts for borrowing also include interest outstanding.
- 3.2 The Council operated within treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement throughout the year. The outturn for the Prudential Indicators is shown in Annexe D.
- 3.3 In October 2020 the Council borrowed £9m from Public Works Loan Board to fund the purchase of the Knightswick Shopping Centre. The loan is a 10-year equal instalment loan at a fixed rate of 1.08%. The balance of the £11.225m purchase price and costs and planned improvements, all totalling £4.5m, is being funded from internal borrowing.
- 3.4 Annexe B shows that interest paid on borrowings was almost exactly as budgeted.

4 Investments

- 4.1 The Council's investment policy is governed by MHCLG Guidance, which was implemented in the annual Investment Strategy approved by Council on 20 February 2019. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity issues.
- 4.2 Annexe C summarises the Council's activities for the year relating to the temporary investment of surplus funds. The average daily balance was **£34.7m** in 2019/20

(£32.1m in 2018/19). Only the principal amounts are shown in this annexe but in some areas within the Statement of Accounts the investment balances include interest outstanding.

- 4.3 Annexe C also shows that the amount of interest received on these investments was over budget by **£61k** (31%). The variance was due to prudent budgeting and average interest rates and balances being moderately higher than estimated. The average interest achieved was 0.74% compared to the 7-day LIBID average of 0.53%.

5 Benchmarking

- 5.1 Three benchmark indicators for 2019/20, explained in the Annual Treasury Management Strategy, are reported as follows:

- **Security – Weighted Credit Rating Score for the year of 6.0 exceeded the target of 4.0.**
- **Liquidity – Weighted Average Life was at a highly liquid level, averaging 42 days over the year.**
- **Yield – Interest received on investments – income was over budget, as reported in paragraph 4.3 above.**

6 Regulatory Framework, Risk and Performance

- 6.1 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance, including:

- The Local Government Act 2003, and associated Statutory Instruments;
- The CIPFA Prudential Code for Capital Finance in Local Authorities;
- The CIPFA Code of Practice for Treasury Management in the Public Services.

- 6.2 The Council has complied with all of the relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

Summary of Loan Transactions and Interest Payable (accrued daily) for the year to 31st March 2020

Loan transactions activity for the year

	Amount o/s 01/04/2019 £000's	New Loans £000's	Amount o/s 31/03/2020 £000's
Public Works Loan Board			
General Fund	5,250	9,000	14,250
HRA	36,451	0	36,451
Totals for the Council	41,701	9,000	50,701

Interest payable Comparison of estimate with actual

Budget Profile to 31/03/2020 £000's	Actual Interest to 31/03/2020 £000's	Variance 31/03/2020 £000's
256	255	1 0.4%
1,087	1,087	0 0.0%
1,343	1,342	1 0.1%

Interest rates for the year

	Range of loans From	To	Average
General Fund	1.08%	4.10%	2.63%
HRA	2.31%	3.49%	2.98%
Totals for the Council	1.08%	4.10%	2.91%

Base rate history

08/01/2009	1.50%
05/02/2009	1.00%
05/03/2009	0.50%
04/08/2016	0.25%
02/11/2017	0.50%
02/08/2018	0.75%
11/03/2020	0.25%

Summary of Temporary Investments and Interest Received (accrued daily) for the year to 31st March 2020

Type of Borrower	Amount Invested 01/04/2019 £000's	Made in the Year £000's	Repaid in the Year £000's	Amount Invested 31/03/2020 £000's
Investments by Value:				
Treasury bills	3,986	8,478	10,471	1,993
Local Authorities	6,500	17,000	15,000	8,500
Money Market Funds	17,680	125,154	124,204	18,630
Notice accounts	2,000	0	0	2,000
Investments	30,166	150,632	149,675	31,123
Lloyds current account	484	0	286	198
Cash equivalents	484	0	286	198
Total	30,650	150,632	149,961	31,321
Number of Investment Transactions:				
	Number	Number	Number	Number
Treasury bills	4	8	10	2
Local Authorities	3	8	7	4
Money Market Funds	23	174	187	10
Notice accounts	2	0	0	2
Investments	32	190	204	18
Lloyds current account	1	0	0	1
Cash equivalents	1	0	0	1
Total	33	190	204	19

Interest Received on Temporary Investments for the year to 31st March 2020

	£000's
Actual Interest Received	257
Revised estimate	196
Variance	61 31%

Temporary Investments

	£000's
Average Balance for the Period	34,659
Average Interest Rate for the Period	0.74%
Benchmark: Average 7-Day LIBID Rate	0.53%

Prudential Indicators

Indicator 1 - Key indicator of prudence - Gross Debt and the Capital Financing Requirement

"In order to ensure that over the medium term debt (i.e. gross external borrowing) will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

The requirement is met for the current year and is expected to be met for the forthcoming two financial years.

Indicator 2 - Capital Expenditure

	2019/20 Revised Estimate £000s	2019/20 Actual £000s
General Fund	14,908	14,326
Housing Revenue Account	3,791	2,421
Total	18,699	16,748

Indicator 3 - Indicator of Ratio of Financing Costs to Net Revenue Stream

	2019/20 Revised Estimate %	2019/20 Actual %
General Fund	4	4
Housing Revenue Account	37	37

This indicator shows financing costs such as interest charges and the minimum revenue provision as a percentage of the net General Fund and HRA revenue budgets.

Indicator 3B - Local Indicator of Ratio of Financing Costs to Net Revenue Stream

	2019/20 Revised Estimate %	2019/20 Actual %
General Fund	9	9
Housing Revenue Account	39	37

This is a variation on the above indicator, which includes in the financing costs any revenue contributions made to fund capital expenditure.

Indicator 4 - Indicator of Capital Financing Requirement (CFR)		
	2019/20 Revised Estimate £000s	2019/20 Actual £000s
General Fund	18,893	18,457
Housing Revenue Account	36,350	36,418
The CFR is a measure of the capital expenditure incurred historically by the Council that has yet to be financed.		

Indicator 5 - Authorised Limit for External Debt		
	2019/20 Revised Estimate £000s	2019/20 Final £000s
Borrowing	58,459	58,141
Other Long-Term Liabilities	0	0
Total	58,459	58,141
This indicator shows the overall limit for total external debt, including allowances for changes in the CFR, contingencies, risks, unusual cash flow movements and so on.		

Indicator 6 - Operational Boundary for External Debt		
	2019/20 Revised Estimate £000s	2019/20 Final £000s
Borrowing	57,156	56,836
Other Long-Term Liabilities	0	0
Total	57,156	56,836
This indicator shows a similar calculation to the previous indicator, without all of the above allowances for contingencies, etc.		

Indicator 7 - Upper Limits of Fixed and Variable Exposure		
	2019/20 Revised Estimate £m	2019/20 Actual £m
Upper Limit - Fixed Rates	56	51
Upper Limit - Variable Rates	(22)	(30)

This indicator identifies upper limits for net investment / borrowing at variable and fixed rates. Currently all borrowings are at fixed rates and our investments are generally at variable rates. Because of this the fixed rate limit is a positive amount and the variable rate is a negative amount. Both indicators were within the limits at year end.

Indicator 8 - Maturity Structure of Fixed Rate Borrowing			
	Upper Limit %	Lower Limit %	Actual %
cumulative within 1 year	50	0	3
cumulative within 2 years	50	0	18
cumulative within 5 years	60	0	35
cumulative within 10 years	80	0	58
after 10 years	100	0	42

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

For further information on prudential indicators including revised estimates for 2019/20 please refer to sections 11, 12 and 13 of the Policy Framework and Budget Setting report for 2020/21, presented to the Special Meeting of the Council on 19 February 2020