APPENDIX C TO REPORT RC/20/9

REPORT REFERENCE NO.	**N/A**
MEETING	**URGENCY DECISION**
DATE OF MEETING	**2 JUNE 2020**
SUBJECT OF REPORT	**TREASURY MANAGEMENT – QUARTER FOUR AND ANNUAL REPORT 2019-20**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2019-20 including the fourth quarter, as set out in this report, be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, requires that the Authority receives a report in respect of borrowing and investment activities during the year, and compares this performance against the treasury management strategy adopted. The report includes a performance report relating to the final quarter of the 2019-20 financial year and a summary of annual performance.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY RISK AND BENEFIT ASSESSMENT (ERBA)	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Prudential indicators 2019-20 B. Glossary of Terms
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report to budget meeting held on the 19th February 2019.

1. INTRODUCTION

1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). The Authority fully complies with the primary requirements of the Code, which includes:

- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.
- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.
- The receipt by the Authority of an annual strategy report for the year ahead, a mid-year treasury update report and an annual review report of the previous year.
- The delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Authority is the Resources Committee.
- Minimum reporting requirements, in addition, the Resources Committee has received quarterly treasury management update reports (although this final report of the year will not be delivered via formal committee due to Coronavirus situation).

1.2 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

The Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Resources Committee before they were reported to the full Authority. Members have been supported in their scrutiny role through regular updates and the attendance at Committee meetings by the Authority's Treasury Management advisors, Link Asset Services.

1.3 A glossary of terms and acronyms used is provided at Appendix B of this report

2. OVERALL TREASURY POSITION AS AT 31 MARCH 2020

2.1 The Authority's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Authority's Treasury Management Practices.

At the end of 2019-20 the Authority's treasury position was as follows:

SUMMARY	31st March 2019 Principal	Rate/ Return	31st March 2020 Principal	Rate/ Return
Total Debt - PWLB (All fixed rate funding) -Other Long Term Liabilities Total	*£25.537m* *£1.209m* *£26.747m*	*4.235%*	*£25.444m* *£1.112m* *£26.556m*	*4.221%*
CFR	*£26.747m*		*£26.556m*	
Over/(under) borrowing	*£0.000m*		*£0.000m*	
Total Investments	*£38.476m*	*0.83%*	*£37.421m*	*0.70%*
NET DEBT	***£(11.729)m***		***£(10.865)m***	

The maturity structure of the debt portfolio was as follows:

	31 March 2019 actual	2019-20 original limits	31 March 2020 actual
Under 12 months	£0.093m	30% = £7.633m	£0.593m
12 months and within 24 months	£0.593m	30% = £7.633m	£0.093m
24 months and within 5 years	£1.080m	50% = £12.722m	£1.445m
5 years and within 10 years	£3.831m	75% = £19.083m	£3.454m
Over 10 years	£19.940m	100% = £25.444m	£19.859m

3. STRATEGY FOR 2019-20

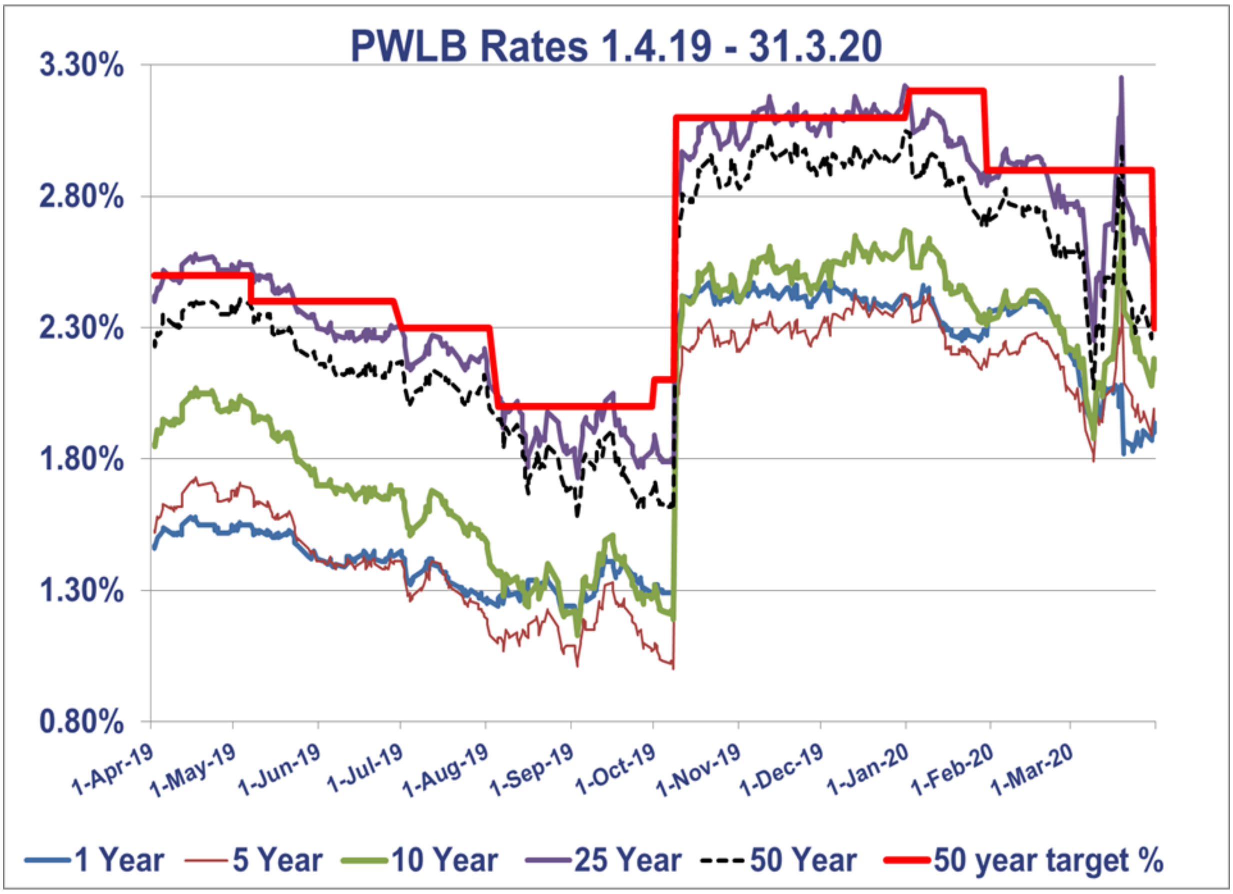
3.1 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue 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.

3.2 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. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

4. BORROWING

Public Works Loan Board (PWLB) borrowing rates 2019-20

4.1 The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%

5 DSFRA Borrowing Strategy

Prudential Indicators

5.1 It is a statutory duty for the Authority to determine and keep under review the "Affordable Borrowing Limits". The Authority's' approved Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy.

5.2 During the financial year the Authority operated within the treasury limits and Prudential Indicators set out in its annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix A.

Authority borrowing during and at the end of 2019-20

5.3 No new borrowing was taken out in 2019-20 to support capital spending and therefore, because repayments of £0.093m loan principal have been made in year, the value of loans outstanding has decreased to £25.444m during the year. A summary of the loan (debt) position of the Authority is given in the table below. All existing borrowing has been taken out at Fixed Interest Rates.

5.4 In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2018-19) plus the estimates of any additional capital financing requirement for the current (2019-20) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allowed the Authority some flexibility to borrow in advance of its immediate capital needs in 2019-20.

It is noted that the external borrowing figure of £26.556m as 31 March 2020 is the same as the Capital Financing Requirement (CFR), which means that there is no over-borrowing position at the year-end. The Authority has complied with this prudential indicator. The table below demonstrates how the CFR is calculated and shows the CFR for 2019-20.

Capital Financing Requirement (£m)	31 March 2019 Actual	31 March 2020 Budget	31 March 2020 Actual
Opening balance	26.930	26.747	26.747
Add borrowing applied in year	1.911	1.961	2.004
Less MRP/VRP*	2.004	2.054	2.097

Capital Financing Requirement (£m)	31 March 2019 Actual	31 March 2020 Budget	31 March 2020 Actual
Less PFI & finance lease repayments	0.090	0.098	0.098
Closing balance	26.747	26.556	26.556

5.5 No rescheduling was done during the year as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Summary of loan movements during 2019-20	**Amount £m**
Value of loans outstanding as at 1/4/2019	**25.537**
Loans taken during 2019-20	0.00
Loans repaid upon maturity during year	(0.093)
Loans rescheduled during year	0.00
Total value of loans outstanding as at 31/3/2020	**25.444**

6. INVESTMENTS

Authority Investment Strategy

6.2 The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

6.3 The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Authority Investments during and at the end of 2019-20

6.4 No institutions in which investments were made during 2019-20 had any difficulty in repaying investments and interest in full during the year and the Authority had no liquidity difficulties.

6.5 A full list of investments held as at 31 March 2020 are shown in the table below:

Counterparty	Maximum to be invested	Amount Invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Aberdeen Standard Investments		2.720	C	Instant Access	Variable
Bank of Scotland	7.000	2.000	T	9 mths	1.09%
		5.000	T	12 mths	0.85%
Barclays Bank	8.000	8.000	C	Instant Access	Variable
		0.001	C	Instant Access	Variable
Belfast City Council	7.000	5.000	T	10 mths	0.90%
Central Bedfordshire Council	7.000	2.000	T	1 mths	0.83%
Coventry Building Society	7.000	1.200	T	9 mths	0.85%
Goldman Sachs	7.000	2.000	T	12 mths	1.05%
London Borough of Enfield	7.000	5.000	T	12 mths	1.25%
Mid & East Antrim Borough Council	7.000	1.500	T	12 mths	0.96%
Standard Chartered Bank	7.000	3.000	T	6 mths	0.91%
Total amount Invested		**37.421**			

6.6 Funds available for investment are on a temporary basis, the level of which are dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark – 3 month LIBID	**Average level of funds available for Investment £m**	**Benchmark Return**	**Authority Performance**	Investment Interest Earned £m
Quarter 1	37.486	0.68%	0.81%	£0.063m
Quarter 2	45.904	0.66%	0.85%	£0.098m
Quarter 3	43.209	0.66%	0.85%	£0.080m
Quarter 4	40.143	0.66%	0.70%	£0.157m
2019-20	**42.304**	**0.67%**	**0.80%**	**£0.398m**

6.8 The amount of investment income earned of £0.98m has exceeded the target by £0.127m as a result of levels of fund available for investment during the year being higher than anticipated and returns exceeding benchmark. The target was re-baselined during the year to reflect this strong performance.

7. SUMMARY

7.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides Members with a summary report of the treasury management activities during 2019-20. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken during the year, with priority being given to liquidity and security over yield.

7.2 Continued uncertainty in the aftermath of the 2008 financial crisis and with unusual Brexit conditions promoted a cautious approach, whereby investments continued to be dominated by risk considerations resulting in relatively low returns compared to borrowing rates. Even so, the Authority is able to report that its returns are above the London Inter-Bank Bid Rate 3 month rate, the benchmark return for this type of short term investments.

AMY WEBB
Director of Finance (Treasurer)

APPENDIX A

PRUDENTIAL INDICATOR	2018-19 £m actual	2019-20 £m approved	2019-20 £m Actual
Capital Expenditure			
TOTAL	2.878	8.813	2.303
Ratio of financing costs to net revenue stream			
Non – HRA	3.83%	4.09%	3.83%
Capital Financing Requirement as at 31 March (borrowing only)			
TOTAL	26.747	26.556	26.556
Annual change in Cap. Financing Requirement			
TOTAL	(0.182)	(0.191)	(0.191)
TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	£m	£m	£m
Authorised Limit for external debt -			
Borrowing	27.007	26.910	
other long term liabilities	1.359	1.265	
TOTAL	28.367	28.174	
Operational Boundary for external debt -			
Borrowing	25.731	25.637	
other long term liabilities	1.299	1.209	
TOTAL	27.029	26.847	
Actual external debt	26.747		26.556

	Actual 31st March 2020	upper limit %	lower limit %
Limits on borrowing at fixed interest rates	71%	100%	70%
Limits on borrowing at variable interest rates	29%	30%	0%
Maturity structure of fixed rate borrowing during 2019-20			
Under 12 months	2.32%	30%	0%
12 months and within 24 months	0.37%	30%	0%
24 months and within 5 years	5.66%	50%	0%
5 years and within 10 years	13.52%	75%	0%
10 years and above	77.76%	100%	50%

ABBREVIATIONS USED IN THIS REPORT

This is an optional area which clients may wish to include in their report if they feel that members would appreciate having this list of abbreviations and definitions.

ALMO: an Arm's Length Management Organisation is a not-for-profit company that provides housing services on behalf of a local authority. Usually an ALMO is set up by the authority to manage and improve all or part of its housing stock.

LAS: Link Asset Services, Treasury solutions – the council's treasury management advisers.

CE: Capital Economics - is the economics consultancy that provides Link Asset Services, Treasury solutions, with independent economic forecasts, briefings and research.

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

ECB: European Central Bank - the central bank for the Eurozone
EU: European Union
EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

LIBID: the London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

MHCLG: the Ministry of Housing, Communities and Local Government -the Government department that directs local authorities in England.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).