Treasury Management Outturn 2019/20

Report of the Finance Portfolio Holder

Recommended:

That the Annual Treasury Management Report for 2019/20 and the Prudential Indicators for the year as shown in the Annex to the report be noted.

SUMMARY:

- This report reviews the performance of the Treasury Management function in 2019/20 compared with the forecasts and policies set out for last year.
- Investment income for the year was £25,700 more than included in the forecast.

1 Introduction

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 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 Council's policies previously approved by members.

2 The Council's Capital Expenditure and Financing

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

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	**2018/19 Actual**	**2019/20 Forecast**	**2019/20 Actual**
Capital expenditure	28.5	15.0	7.8
Financed in year	22.6	13.4	6.2
Unfinanced capital expenditure	**5.9**	**1.6**	**1.6**

3 The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

3.2 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council 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 Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2019/20. The table in Annex 1 highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

4 Treasury Performance in 2019/20

4.1 The Council managed all the investments in-house in 2019/20.

4.2 Most investments during the year were placed in call-accounts or fixed-term deposits for durations of up to one year, with the exception of investments to a Local Authority totalling £5M for five years.

4.3 The average return on investments for the year was 0.94% compared to the average 7 day Libid benchmark of 0.53%, an out-performance of 0.41%.

4.4 The Council's investment position at the end of the year is detailed below.

	Principal at 31/03/20 £M	Principal at 31/03/19 £M	Rate of Return 2019/20 %	Benchmark Return %	Variance %
Internally Managed Investments	71.5	57.2	0.94	0.53	0.41

4.5 Of the principal invested at 31 March 2020, £38M was invested in fixed rate, fixed term deposits and the remainder was invested in call accounts with access ranging from immediate to 95 days' notice.

4.6 A comparison of the investment interest earned with the original budget and forecast is shown in the table below.

	Original Budget 2019/20 £000	Forecast 2019/20 £000	Actual 2019/20 £000	Variance to Original £000
Interest on Investments	540.8	701.0	726.7	185.9

4.7 Income received on the Council's cash balances was higher than forecast due to higher income from rents and slippage in the Capital Programme and Asset Management Plan. This resulted in a favourable variance of £185.9k when measured against the original budget, and £25.7k when compared to the budget forecast prepared in February 2020.

5 The strategy for 2019/20

5.1 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.

5.2 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. However, on the 19 March, the Bank of England (BoE) cut interest rates twice in one week in an emergency move to support the UK economy. The Base Rate is now 0.1%, the lowest it has ever been in the BoE's 325-year history.

5.3 As a result of Government action, it was necessary to temporarily increase the investment group limits to £30M due to increased cash flow relating to government grants issued to alleviate the effects of the coronavirus. This will be reviewed as necessary.

5.4 The primary objective for investments placed was, and continues to be, the security of the investment. The impact of this is that returns continue to be low, but the Council remains well placed to take advantage of increases in interest rates when they eventually come.

6 Prudential Indicators and Treasury Limits

Prudential Indicators

6.1 The prudential indicators and borrowing limits are shown in Annex 1 and are relevant for setting an integrated treasury management statement.

6.2 The first indicator is the ratio of financing costs to net revenue stream. This compares the Council’s net investment income and borrowing expenditure as a ratio of the budget requirement. A negative figure shows that investment income is greater than borrowing costs.

6.3 The second indicator is the Capital Financing Requirement (CFR). This is the total amount by which the funding of capital expenditure is reliant on external borrowing.

7 Consultations/ Communications

7.1 The Council’s treasury advisors, Link Asset Services, have been consulted in the preparation of this report.

8 Equality Issues

8.1 An EQIA screening has been completed in accordance with the Council’s EQIA methodology and no potential for unlawful discrimination or low level negative impact have been identified, therefore a full EQIA has not been carried out.

9 Conclusion and reasons for recommendation

9.1 The Council achieved an average investment income rate of 0.94% in the year compared with an average benchmark figure of 0.53%.

9.2 Actual income for the year exceeded the original estimate by £185,900.

9.3 The report summarises performance during 2019/20. It does not propose any changes in respect of Treasury Management in the future and therefore the recommendation is that the report be noted.

<table>
<tr><td colspan="4"><u>Background Papers (Local Government Act 1972 Section 100D)</u>
None</td></tr>
<tr><td colspan="4"><u>Confidentiality</u>
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.</td></tr>
<tr><td>No of Annexes:</td><td>1</td><td>File Ref:</td><td>N/A</td></tr>
<tr><td colspan="4">(Portfolio: Finance) Councillor M Flood</td></tr>
<tr><td>Officer:</td><td>Laura Berntsen</td><td>Ext:</td><td>8204</td></tr>
<tr><td>Report to:</td><td>Cabinet</td><td>Date:</td><td>17 June 2020</td></tr>
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