

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

TREASURY MANAGEMENT OUTTURN REPORT 2019/20

1. Purpose

To provide a review of the Council's treasury management activities for the year to 31 March 2020.

Information and Advice

2. Background

- 2.1 Treasury management is defined as 'the management of the council's investments and cashflows; 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'.
- 2.2 The Council's Treasury Management Strategy is approved annually by Full Council and there is also a mid-year report which goes to Full Council. Responsibility for the implementation, scrutiny and monitoring of treasury management policies and practices is delegated to the *Treasury Management Group*, comprising:
- the Service Director (Finance, Infrastructure & Improvement)
 - the Group Manager (Financial Services)
 - the Senior Accountant (Pensions & Treasury Management)
 - the Senior Accountant (Financial Strategy & Accounting)
 - the Investments Officer.
- 2.3 During 2019/20, borrowing and investment activities were in accordance with the approved limits as set out in the Council's Treasury Management Policy and Strategy. The main points from this report are:
- All treasury management activities were carried out by authorised officers within the limits agreed by the Council.
 - All investments were made to counterparties on the Council's approved lending list.
 - Reports have been submitted to Council and the Finance & Major Contracts Management Committee as required.
 - The Council's net borrowing position increased by £16.1m during the financial year.
 - Over the course of the year the Council earned 0.74% on its cash investments, compared with the average 7-day London Interbank BID (LIBID) rate for 2019/20 which was 0.53%.

3. Outturn Treasury Position

- 3.1 The Council's treasury management strategy and associated policies and practices for 2019/20 were approved in February 2019 by Full Council. The

Service Director (Finance, Infrastructure & Improvement) complied with the strategy throughout the financial year.

Table 1. Treasury Position as at 31 March 2020		£m	£m	Average Interest Rate
EXTERNAL BORROWING				
Long-term				
Fixed Rate	PWLB	397.8		4.15%
	LOBOs	60.0		3.85%
	Other	30.0	487.8	3.80%
Short-term				
Fixed Rate	Other	-	-	
Total			487.8	
Other Long-Term Liabilities			114.3	
Total Gross Debt			602.1	
Less: Investments			(44.2)	0.39%
Total Net Debt			557.9	

Notes: PWLB = Public Works Loans Board

LOBOs = Lenders' Option, Borrowers' Option loans

Other = market loans taken directly from banks or via brokers

- 3.2 Table 1 above shows the Council's treasury portfolio position as at 31 March 2020. It can be seen from the snapshot of interest rates shown that it remains in the Council's financial interests to keep debt levels low - relative to the amount required to finance the capital programme – by making use of 'internal borrowing. This also ensures the Council maintains fairly low cash balances, thereby minimising cost and credit risk.

4. Treasury Management Activities 2019/20

- 4.1 The Council manages its cash flows through borrowing and lending activities on the wholesale money markets. The Council has an approved list of counterparties for investment and aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. During 2019/20, all new long-term borrowing was sourced from the PWLB.
- 4.2 The Council's lending of temporary cash balances over the year is summarised in Table 2 below.

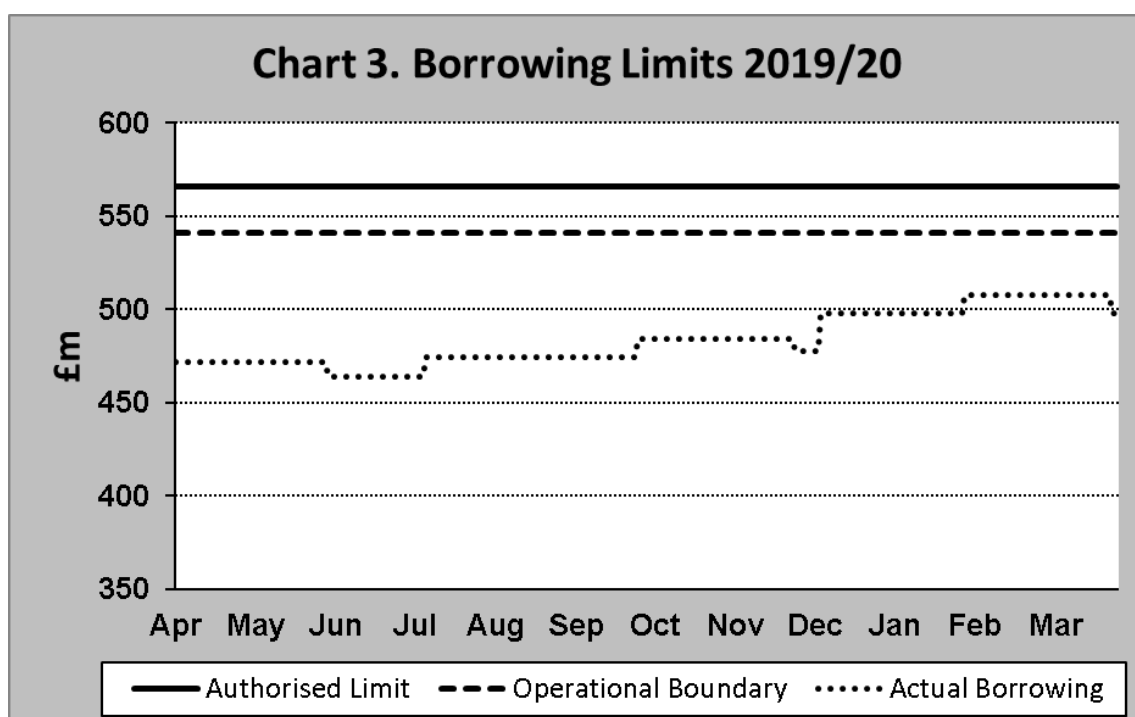
Table 2 Lending of temporary cash balances	£m
Outstanding 31 March 2019	60.3
Amount lent during 2019/20	751.9
Amount repaid during 2019/20	(768.0)
Outstanding 31 March 2020	44.2

- 4.3 The Council's average cash investment level over 2019/20 was £67.7m (compared with £71.5m in 2018/19). The return achieved on this balance over the course of the year was 0.74% against a benchmark of 0.53% (7-day LIBID). Investment rates available in the market remain fairly low as a result of central bank inflation policies.
- 4.4 Table 3 shows the returns achieved by type of deposit. The Council made no fixed-term deposits 2019/20, as part of its strategy of keeping cash balances low but liquid. Hence the fixed-term balances shown in Table 3 relate to investments maturing in 2018/19 but made prior to 2018/19.

Table 3 Returns on Investments	Average Balance	Interest Earned	Average Return
	£000	£000	%
Fixed Term Investments	0	0	n/a
Call Accounts / Money Market Funds	67,709	502.9	0.74

5. Long Term Borrowing

- 5.1 The Treasury Management Strategy for 2019/20 presented to Council in February 2019 outlined the Council's long-term borrowing strategy for the year. Long-term borrowing is sourced from either the market (including other local authorities) or from the PWLB.
- 5.2 The Treasury Management Strategy for 2019/20 identified a need to borrow approximately £7m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. To this was later added some £18m of slippage from 2018/19. This £25m estimate was revised to £40m (it is revised periodically throughout the year). Actual new long-term borrowing was £30m, taken at an average rate of 2.15%, and an average length of 41 years.
- 5.3 Total external borrowing stood at £487.8m on the 31 March 2020 which is within the operational boundary of £541m agreed by the Council. The chart below shows that the level of external debt throughout the year was below the key treasury indicators of the authorised limit and the operational boundary, demonstrating that borrowing was within plan during the year. Further details on these treasury prudential indicators are provided in Appendix D.



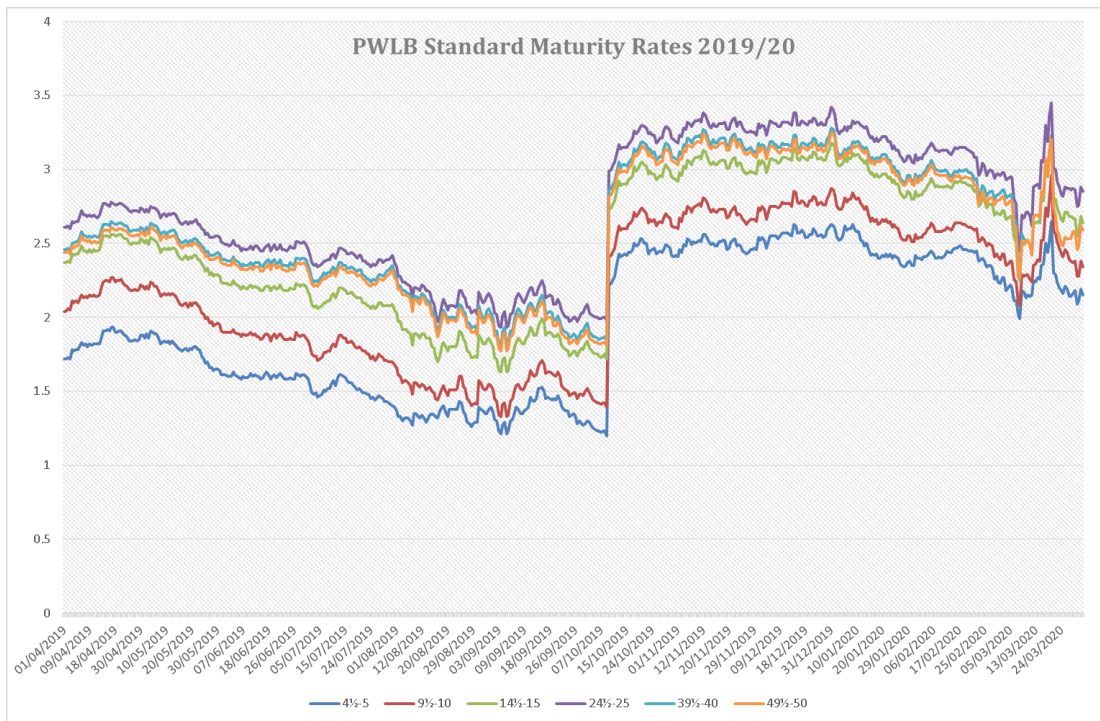
5.4 Table 4 shows the movement in long-term borrowing during 2019/20.

Table 4 Movements in Long-term Borrowing 2019/20

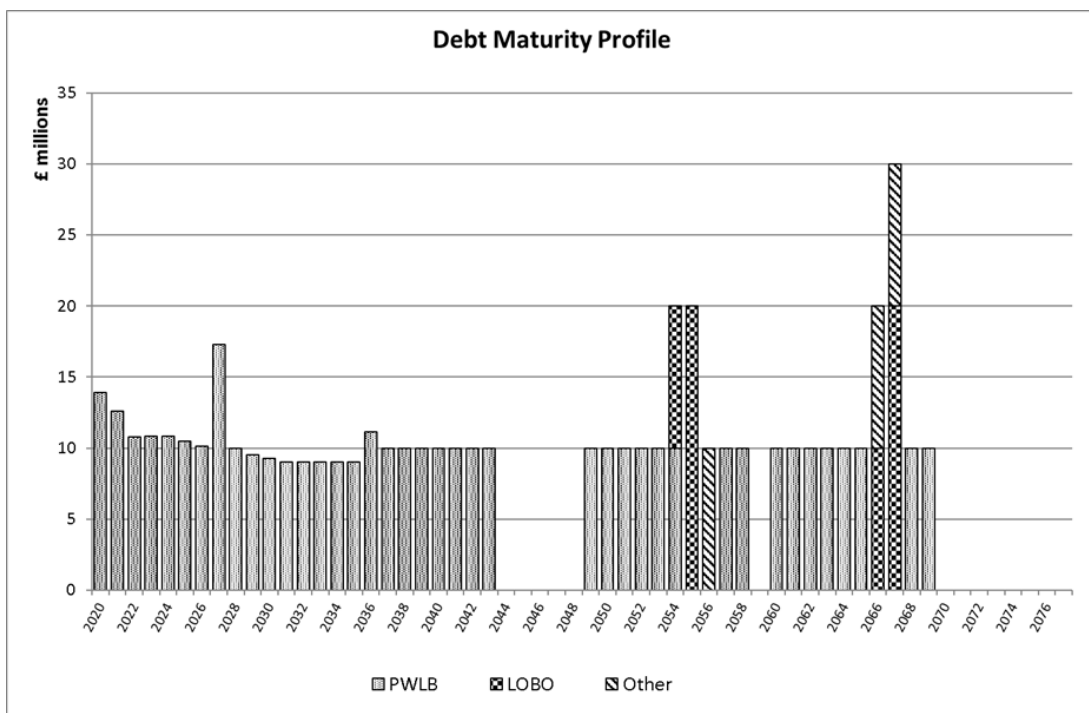
Lender	B/fwd 01/04/19 £m	Advances 2019/20 £m	Normal Repayments 2019/20 £m	Premature Repayments 2019/20 £m	C/fwd 31/03/20 £m
PWLB	381.8	30.0	(14.0)	-	397.8
LOBO	60.0	-	-	-	60.0
Market	30.0	-	-	-	30.0
Total	471.8	30.0	(14.0)	-	487.8

5.5 LOBOs are loans whereby the lender can opt, at specified dates, to increase the interest rate payable and the borrower can either accept the increased rate or repay the loan in full. These options constitute a greater degree of interest rate risk for the Council. The market loans in the table above are ex-LOBOs that have been converted to straightforward maturity loans.

5.6 The movement in PWLB standard maturity rates over the course of 2019/20 is shown in the chart below. This shows that rates declined steadily during the first half of the year, mainly due to Brexit-related concerns, then leapt up in October after a change in PWLB policy, before continuing the steadily downward trajectory. The year-end 'wobble' related to the market's reaction to lockdown.



5.7 The chart below shows the debt maturity profile as at 31 March 2020. This is fairly evenly spread until 2044, thereby minimising refinancing risk. In this chart it is assumed that the remaining LOBO loans will run to maturity, and not be called at an earlier date. The average rate on all outstanding external debt at year-end was 4.09% (compared to 4.22% in 2018/19, and 4.41% in 2017/18), reflecting both the lower rates now available to the Council and the higher rates of the Council’s maturing debt.



5.8 The Council has always had the option of rescheduling its existing PWLB debt should market conditions indicate opportunities for savings. This would be achieved by redeeming fixed rate debt and raising new debt at a lower rate of

interest. However, for a number of years now the PWLB has charged a prohibitive premium on early redemptions. No financially attractive opportunities for debt rescheduling therefore arose over the reporting period.

6. Prudential Indicators for Treasury Management

6.1 Table 6 below shows how the treasury management outturn position compares with the prudential indicators for the year. The objective of these indicators is to manage treasury management risks effectively. No indicators were breached during the year.

Table 6 TREASURY MANAGEMENT INDICATORS 2019/20	Approved limits	Outturn
Authorised Limit for external debt	£566m	£487.8m
Operational Boundary for external debt	£541m	£487.8m
Upper limit for Rate Exposure – Fixed	100%	100%
Upper limit for Rate Exposure - Variable	75%	0%
Upper limit for principal sums invested for over 364 days	Higher of £20m and 15%	£0m

6.2 Table 7 shows how the Council's debt portfolio is managed with regard to maturity structure. The aim here is to ensure that the risk of the Council having to replace maturing debt in any one year is minimised, as part of an overall Treasury Management risk strategy.

Table 7 Maturity structure of fixed rate borrowing	Approved Lower limit	Approved Upper limit	Outturn
under 12 months	0%	25%	3.9%
12 months and within 24 months	0%	25%	2.2%
24 months and within 5 years	0%	75%	6.5%
5 years and within 10 years	0%	100%	11.4%
10 years and above	0%	100%	76.0%
Adoption of CIPFA's Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes			Adopted