

MEETING: AUDIT AND GOVERNANCE COMMITTEE

DATE: 30 JULY 2020

TITLE: TREASURY MANAGEMENT 2019/20

PURPOSE: CIPFA's Code of Practice requires that a report on the results of the Council's actual treasury management is produced.

RECOMMENDATION: RECEIVE THE REPORT FOR INFORMATION

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Executive Summary

During the 2019/20 financial year the Council's borrowing remained within the limits originally set and total interest received on deposits was £546,000 which was above the budgeted level of £406,000. There were no defaults by institutions in which the Council had deposited money, and all prudential indicators were met.

1. Introduction

The Council's Treasury Management Strategy for 2019/20 was approved at Full Council on 7th March 2019.

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

This report compares the actual performance against the strategy for the financial year 2019/20 and fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government's Investment Guidance.

2. Year End Position

Balance Sheet Summary

At 31 March 2020 the Council had net borrowing of £100m arising from its revenue and capital activities. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The movements are summarised in the following table:

	31.3.19 Actual £m	2019/20 Movement £m	31.3.20 Actual £m
CFR	178	(1)	177
Less: Other debt liabilities	(2)	0	(2)
Borrowing CFR	176	(1)	175
Less: Usable reserves	(73)	(5)	(78)
Less: Working capital	(29)	32	3
Net borrowing	74	26	100

The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

Treasury Management Summary

	31.3.19 Balance £m	Movement £m	31.3.20 Balance £m	31.3.20 Rate %
Long- term borrowing	(105,924)	1,578	(104,346)	5.6
Short-term borrowing	(2,236)	(18,342)	(20,578)	1.6
PFI	(1,851)	151	(1,700)	n/a
Total borrowing	(110,011)	(16,613)	(126,624)	
Long-term investments	17	0	17	4.0
Short-term investments	19,567	(8,308)	11,259	1.4
Cash and cash equivalents	14,686	214	14,900	0.8
Total investments	34,270	(8,094)	26,176	
Net borrowing	75,741	24,707	100,448	

3. Borrowing Activity

At 31st March 2020, the Council held £124.9m of loans, an increase of £16.7m on the previous year.

The debt interest paid in 2019/20 was £5.9 million on an average debt portfolio of £106.1 million at an average interest rate of 5.6%.

The year-end borrowing position and the year-on-year change is summarised in the following table:

	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	31.3.20 Rate %	31.3.20 WAM* years
PWLB	90.2	(2.0)	88.2	5.84	19.7
Bank (Fixed term)	16.2	0.0	16.2	4.22	58.4
Local Authorities (Short term)	0.0	19.0	19.0	1.58	0.2
Other	1.7	(0.3)	1.5	0.00	3.4
Total borrowing	108.2	16.7	124.9		

*Weighted average maturity

The Council's main objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with a secondary objective of flexibility to renegotiate loans should the Council's long-term plans change.

Further to these objectives, no new long-term borrowing was undertaken in 2019/20, with existing loans maturing without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk.

The short-term loans taken this year was to ensure sufficient cash was available during the period from January to April 2020 rather than taking on long-term borrowing.

4. Treasury Investment Activity

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20 the Council's investment balances have ranged between £23.2 million and £71.2 million.

The Welsh Government's Investment Guidance gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Treasury Investment Position

	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	31.3.20 Rate %	31.3.20 WAM* days
Banks & building societies (unsecured)	15.2	(6.5)	8.7	0.57	122.3
Money Market Funds	9.4	(0.3)	9.1	0.42	10.5
Property Funds	9.6	(1.3)	8.3	3.99	365+
Total investments	34.2	(8.1)	26.1		

*Weighted average maturity

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

£8.3m of the Council's investments are held in externally managed strategic pooled equity and property funds where short term liquidity are lesser considerations, and the objectives instead are regular revenue income and long- term price stability. These funds generated an income return of 3.99%, but an unrealised capital loss of £1.3m in this financial year.

In a relatively short period since the onset of COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown- induced paralysis and the uncharted challenges for governments, businesses and individuals.

As the Council is invested in equity and property funds, the falls in the capital values of the underlying assets were reflected in the 31st March fund valuations with ever fund registering negative capital returns over 12 months to March. These unrealised capital losses will not have an impact on the General Fund as the as the Council has elected to present changes in the funds' fair values in the other comprehensive income (FVOCI).

Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Income Rate of Return
31.03.2019	4.96	A+	92%	41	2.13%
31.03.2020	4.99	A+	100%	31	1.97%
Similar LAs	3.77	AA-	29%	27	0.65%
All LAs	3.94	AA-	56%	20	1.23%

*Weighted average maturity

The average cash balances were £48.9m during the year. The UK Bank Rate had been 0.75% since August 2018, but in light of Covid 19 implications the rate was cut to 0.25%, and subsequently 0.10% in March 2020. Short-term money market rates have remained at relatively low levels. New deposits were made at an average rate of 0.57%. Investments in Money Market Funds generated an average rate of 0.42%.

The Council's budgeted investment income for the year was £0.406m. The Council's investment income outturn for the year was £0.546m.

5. Compliance Report

The Head of Finance is pleased to report that all treasury management activities undertaken during 2019/20 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in the following tables:

Debt Limits

	2019/20 Maximum	31.3.20 Actual	2019/20 Operational Boundary	2019/20 Authorised Limit	Complied
Borrowing	£127m	£127m	£180m	£190m	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Investment Limits

	2019/20 Maximum	31.3.20 Actual	2019/20 Limit	Complied
Any single organisation, except the UK Government	£8m each	£3m	£3.865m	✓
Any group of organisations under the same ownership	£8m per group	£3m	£3.865m	✓
Any group of pooled funds under the same management	£20m per group	£5m	£5m	✓
Negotiable instruments held in a broker's nominee account	£40m per broker	£0m	£0m	✓
Foreign countries	£8m per country	£0m	£2m	✓
Registered providers and registered social landlords	£20m in total	£0m	£0m	✓
Unsecured investments with Building Societies	£8m in total	£0m	£2m	✓
Loans to unrated companies	£8m in total	£0m	£0m	✓
Money Market Funds	£40m in total	£9.135m	£30m	✓
Real Estate Investment Trusts	£20m in total	£0m	£0m	✓

6. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators:

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the time-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment and taking the arithmetic average, weighted by the length of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.20 Actual	2019/20 Target	Complied
Portfolio average credit score	4.99	a score of 6 or lower	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	31.3.20 Actual	2019/20 Target	Complied
Total cash available within 3 months	£14.9m	£10m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	31.3.20 Actual	2019/20 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in fixed interest rates	£0	£761,000	✓
Upper limit on variable interest rate exposure	£0	£0	✓

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.20 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	16.47%	25%	0%	✓
12 months and within 24 months	1.25%	25%	0%	✓
24 months and within 5 years	7.54%	50%	0%	✓
5 years and within 10 years	8.64%	75%	0%	✓
10 years and above	66.10%	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	£10m	£0	£0
Limit on principal invested beyond year end	£20m	£20m	£20m
Complied	✓	✓	✓