

Annual Treasury Management Outturn Report 2019/20

1. Introduction

- 1.1. The council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management. Before the start of every year the Code requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement detailing the policies and objectives of the council's treasury management activities for the forthcoming year. This outturn report compares actual activity to those policies and objectives.
- 1.2. The council borrows and invests 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 these risks are central to the treasury management strategy.

2. Economic Background

- 2.1. **Growth:** Economic growth in the UK and globally has slowed sharply amid the disruption caused by the impact of the Coronavirus Covid-19.
- 2.2. **UK Monetary Policy:** The Bank of England announced "a comprehensive and timely package of measures to help UK businesses and households' bridge across the economic disruption that is likely to be associated with Covid-19." The bank rate was reduced by 0.5% to 0.25% on 11th March 2020 and then, at a special meeting on 19th March reduced again by 0.15% to 0.10%. At the same time the bond buying programme was increased by £200bn to a total of £645bn.
- 2.3. **Inflation:** CPI inflation was at 1.7% at the end of February 2020, down from 1.8% in January and 1.5% at the end of March.

3. Borrowing

- 3.1. The council continues to choose to utilise accessing lower cost short-term loans from other local authorities, should it need to, rather than more expensive longer term debt due to the differential between short and longer-term interest rates. This policy is expected to continue in 2020/21 but should this differential decrease and short term borrowing costs increase, the council will begin securing additional fixed long term debt to fund its borrowing requirements.
- 3.2. In 2019/20 the weighted average interest rate paid on council borrowing was 3.96% (3.90% in 2018/19) with the increase being due to no new borrowing, at a lower interest rate, during the year. This is the weighted average cost of long term borrowing, there was no short term borrowing.
- 3.3. It is council strategy to maintain borrowing and investments below their underlying levels by using "internal borrowing", this means utilising usable reserves to manage the cashflow position. This maintains borrowing and investment balances to a minimum level reducing borrowing costs and restricting investment counterparty exposure.
- 3.4. During 2019/20 Public Works Loan Board (PWLB) lending rates were generally on a falling trend until 9th October 2019 when, without any prior warning, all lending rates were increased by 100 basis points (1%).
- 3.5. The premium charged by the PWLB for the early repayment of PWLB debt remained too expensive for existing loans in the council's portfolio to be repaid and rescheduled. No

Annual Treasury Management Outturn Report 2019/20

rescheduling activity was undertaken in 2019/20, this option will continue to be constantly considered.

3.6. Borrowing activity during the year is summarised below:

Borrowing Activity in 2019/20	01/04/19 Balance £m	New Borrowing £m	Debt Maturing £m	31/03/20 Balance £m
Short-term borrowing	0.0	0.0	0.0	0.0
Long-term borrowing	137.5	0.0	(7.2)	130.3
TOTAL BORROWING	137.5	0.0	(7.2)	130.3
Other long-term liabilities*	53.3	0.3	(2.7)	50.9
TOTAL EXTERNAL DEBT	190.8	0.3	(9.9)	181.2
<i>*Other long term liabilities represent existing commitments under PFI arrangements included in the medium term financial strategy</i>				

3.7. Total borrowing decreased by £7.2m due to repayments exceeding the need to borrow funds through the utilisation of internal borrowing to fund capital programme spend in 2019/20.

3.8. The council's underlying need to borrow as measured by the Capital Financing Requirement (CFR). As at 31/03/2020 this totalled £314.5m. The difference of £133.3m between the CFR and total external debt shown in the table above represents internal borrowing from usable reserves, which totalled £134.3m.

3.9. The council's capital financing costs in 2019/20 were as follows.

Capital financing costs for 2019/20:	Budget	Outturn	Over / (under) spend
	£m	£m	£m
Minimum Revenue Provision (provision for repayment of loan principal)	6.9	6.7	(0.2)
Interest payable on all loans	5.7	5.4	(0.3)
TOTAL	12.6	12.1	(0.5)

3.10. The variances to budget have arisen from an underspend in capital budgets in 2019/20 and previous years resulting in a smaller minimum revenue provision cost and no need to secure additional borrowing delivering an underspend in interest payable.

4. Investments

4.1. The council invests significant funds, representing income received in advance of

Annual Treasury Management Outturn Report 2019/20

expenditure plus balances and reserves. During 2019/20 the council's investment balances averaged at £44m and ranged from £27m in April 2019 to £60m in January 2020.

4.2. Security of capital remained the council's primary objective. Investment income remained low due to the continued low interest rate environment.

4.3. Investments held at the start and end of the year were as follows:

Investments	01/04/19 Balance £m	Investments Made £m	Maturities/ Withdrawals £m	31/03/20 Balance £m
Instant Access Accounts	17.21	301.88	(300.09)	19.00
Notice Accounts	5.00	5.00	(5.00)	5.00
Fixed Term Deposits	5.00	19.00	(10.00)	14.00
Total	27.21	325.88	(315.09)	38.00
Increase in investments				10.79

4.4. Interest received during the year was as follows:

Month	Average amount invested		Average rate of interest earned		Budget £000	Interest earned £000	(Surplus) /deficit £000
	Actual £m	Budget £m	Actual %	Budget %			
Apr-19	37.6	30	0.89	0.67	17	27	(10)
May-19	40.6	30	0.87	0.67	17	29	(12)
Jun-19	39.1	30	0.87	0.67	16	28	(12)
Jul-19	46.3	30	0.83	0.67	17	33	(16)
Aug-19	45.3	30	0.83	0.67	17	31	(14)
Sep-19	42.0	30	0.81	0.67	16	28	(12)
Oct-19	44.3	30	0.80	0.67	17	30	(13)
Nov-19	45.6	30	0.80	0.67	17	30	(13)
Dec-19	43.7	30	0.81	0.67	16	30	(14)
Jan-20	53.2	30	0.78	0.67	17	36	(19)
Feb-20	46.8	30	0.81	0.67	17	30	(13)
Mar-20	38.7	30	0.80	0.67	16	26	(10)
Outturn					200	358	(158)

4.5. The interest received in the year was higher than budget due to higher balances being maintained.

4.6. The average interest rate achieved during 2019/20 was 0.82%, higher than budgeted due to the increase in bank base rate. This compares favourably with the generally accepted

Annual Treasury Management Outturn Report 2019/20

benchmark of the average 7-day London Inter-Bank Bid (LIBID) rate of 0.54%.

- 4.7. In addition to interest earned on balances interest has been accrued in relation to the energy from waste plant loan to Mercia waste. This totalled £2.3m, the net loan position is set aside to fund increased waste disposal costs in future years.

5. Compliance with Prudential Indicators

- 5.1 The Council complied with its Prudential Indicators, Treasury Management Policy Statement and Treasury Management Practices for 2019/20 as detailed in Annex 1. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Annual Treasury Management Outturn Report 2019/20

Annex 1

Performance Indicators**1. Treasury Management Indicators**

The council measures and manages its exposures to treasury management risks using the following indicators.

1.1 Interest Rate Exposures

This indicator is set to control the council's exposure to interest rate risk. The indicator sets upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed.

	2019/20 Approved Limit	2019/20 maximum exposure
Upper Limit for Fixed Rate Exposure	100%	100%
Upper Limit for Variable Rate Exposure	50%	0%

The above indicator relates to net debt, if the council has variable rate investments at the same level as its variable rate debt it is deemed to have no variable rate exposure (all council investments are regarded as being at variable rate because no investments are for more than one year).

1.2 Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Lower Limit %	Upper Limit %	Actual Fixed Rate Borrowing 31/03/20 £m	% Fixed Rate Borrowing 31/03/20
Under 12 months	0%	35%	3.48	3%
12 months and within 24 months	0%	30%	2.37	2%
24 months and within 5 years	0%	25%	15.93	12%
5 years and within 10 years	0%	25%	18.23	14%
10 years and within 20 years	0%	40%	27.41	21%
20 years and within 30 years	0%	40%	20.86	16%
30 years and within 40 years	0%	40%	32.00	24%
40 years and within 50 years	0%	40%	10.00	8%
Total			130.28	100%

Two LOBO ("Lenders Option then Borrowers Option") bank loans of £6m each are repayable in 2054 however if the lenders seek to increase the interest rate charged, currently 4.50%, the council has the opportunity to repay the loans.

1.3 Upper Limit for Total Principal Sums Invested Over 364 Days

The purpose of this limit is to contain exposure to the possibility of financial loss that may arise as a result of the council having to seek early repayment of the sums invested.

Annual Treasury Management Outturn Report 2019/20

Upper Limit for Total Principal Sums Invested Over 364 Days	2019/20 Approved £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m
Total	5	0	5	5

During 2019/20 no long-term investments were made for a period exceeding 364 days.

2. Prudential Indicators

2.1 Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on council tax.

Capital Expenditure	2019/20		2020/21 Estimate £000	2021/22 Estimate £000
	Estimate £000	Actual £000		
Total	88,463	35,820	103,712	25,280

Capital expenditure has been and is expected to be financed or funded as follows:

Capital Financing	2019/20		2020/21 Estimate £000	2021/22 Estimate £000
	Estimate £000	Actual £000		
Capital grants	44,315	24,149	43,899	13,563
Capital receipts	14,571	2,911	2,978	-
Revenue funding	-	-	-	-
Prudential borrowing	29,577	8,760	56,835	11,717
Total	88,463	35,820	103,712	25,280

Generally prudential borrowing finance is provided where the return on the investment exceeds the debt financing cost.

3. Capital Financing Requirement (CFR)

Estimates of the council's cumulative maximum external borrowing requirement for 2019/20 to 2021/22 are shown in the table below:

Capital Financing Requirement	2019/20 Estimate Approved £000	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000
Total CFR	378,018	314,520	380,369	390,149

Total debt is expected to remain at or below the CFR during the forecast period.

4. Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit or Authorised Limit. This is a statutory limit which should not be breached.

Annual Treasury Management Outturn Report 2019/20

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst-case scenario without the additional headroom included within the Authorised Limit.

	2019/20 Approved Operational Boundary £m	2019/20 Approved Authorised Limit £m	Actual External Debt as at 31/03/20 £m
Borrowing	330.0	350.0	130.3
Other Long-term Liabilities	60.0	70.0	50.9
Total	390.0	420.0	181.2

5. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2019/20 Approved %	2019/20 Actual %
Net Revenue Stream	150,987	150,523
Financing Costs	12,999	12,078
Percentage	8.6%	8.0%

6. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the council has adopted the principles of best practice.

The council has incorporated the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* into its treasury policies, procedures and practices.