

AUDIT AND GOVERNANCE COMMITTEE

24 July 2020

TREASURY MANAGEMENT – REVIEW OF PERFORMANCE 2019/2020

Report of the Executive Director of Corporate Services

1 Purpose of the Report

- 1.1 To report on the Treasury Management borrowing and investment performance for 2019/2020.

2 Description of Decision (Recommendation)

- 2.1 The Committee is requested to note the Treasury Management performance for 2019/2020.

3 Introduction

- 3.1 This report sets out the annual borrowing and investment performance for the financial year 2019/2020 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 6th March 2019. The Treasury Management Strategy comprises the approved Council strategy for borrowing and its policies for managing its investments (which give priority to the security and liquidity of those investments).
- 3.2 The TM Policy Statement and Strategy complies with best practice, including the Ministry of Housing, Communities and Local Government's 'Statutory Guidance on Local Government Investments' updated in February 2018 and also incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, updated in December 2017.

4 Review of Performance 2019/2020

Summary

- 4.1 The performance of the Council's Treasury Management function continues to maximise financial savings. The average interest rate of the Council's borrowing at 2.90% is low and the Council's treasury management advisor reports this compares favourably with their other local authority clients as does the 1.01% rate of return achieved on investments.
- 4.2 The worldwide response to Covid-19 that has developed since mid-March has had a significant impact on financial markets and economic forecasting. To stimulate the economy and ease the impact of the pandemic, the Bank of

England cut the base rate by 0.50% on 11th March 2020 to 0.25% and followed this with a further cut to 0.10%, a historic low, on 19th March 2020. However, as the crisis only developed late in the financial year, the impact on the treasury management strategy and policy in 2019/2020 has been minimal.

Borrowing Strategy and Performance – 2019/2020

- 4.3 The basis of the agreed Borrowing Strategy was to:
- continuously monitor prevailing interest rates and forecasts;
 - secure long-term funds to meet the Council's future borrowing requirement when market conditions were favourable;
 - use a benchmark financing rate of 3.50% for long-term borrowing (i.e. all borrowing for a period of one year or more);
 - take advantage of debt rescheduling opportunities as appropriate.
- 4.4 The Borrowing Strategy has been reviewed by this Committee in July and September 2019 and February 2020 and was updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2019/2020 was based upon internal expertise, supplemented with market data, market information and leading economic forecasts provided by the Council's treasury management adviser, Link Asset Services.
- 4.5 The strategy for 2019/2020 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 3.50% for long-term borrowing was set for 2019/2020 in light of the views prevalent at the time the Treasury Management policy was set in March 2019.
- 4.6 There have been high levels of volatility in the financial markets during 2019/2020. 50-year Public Works Loan Board (PWLB) interest rates for maturity loans started the financial year 2.44%, fell to 1.77% in early September 2019 before peaking at 3.25% at the end of December 2019. This peak, in part being as a consequence of the 1% increase to PWLB loan rates imposed by government on the 9th October. Rates then fell significantly during March 2020 ending the financial year at 2.59%. The table below shows the average PWLB borrowing rates for each quarter in 2019/2020.

2019/2020	Qtr 1 (Apr - June) %	Qtr 2 (July – Sept) %	Qtr 3 (Oct – Dec) %	Qtr 4 (Jan – Mar) %
7 days notice	0.57	0.56	0.57	0.43
1 year	1.48*	1.32*	2.30*	2.22*
5 year	1.54*	1.21*	2.18*	2.17*
10 year	1.85*	1.42*	2.38*	2.35*
25 year	2.41*	2.02*	2.95*	2.86*
50 year	2.26*	1.89*	2.79*	2.67*

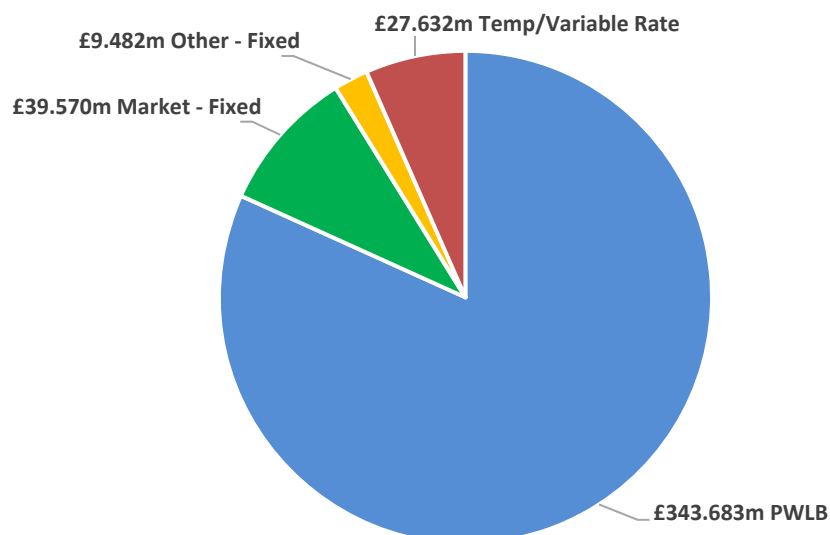
* Rates take account of the 0.2% discount to PWLB rates available to eligible authorities (including the Council) from 1st November 2012.

- 4.7 In line with discussions with the Council's economic advisors, the Council took advantage of the low borrowing rate troughs that occurred and which will benefit the revenue budget over the longer term. The Council has taken out £50 million of new borrowing during the financial year as these rates were considered opportune. The new borrowing is summarised in the following table:

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
50 years	13/08/2019	15/08/2019	15/08/2069	1.89	20.0
50 years	06/09/2019	10/09/2019	10/09/2069	1.82	30.0

- 4.8 PWLB rates continue to be volatile, the overall longer-term expectation is for gilt yields and PWLB rates to rise slowly and the Treasury Management team continues to closely monitor rates to assess the value of possible further new borrowing in line with future Capital Programme requirements.
- 4.9 The Treasury Management Strategy for 2019/2020 included provision for debt rescheduling, whilst accepting that because of the very low underlying rate of the Council's long-term debt it would be difficult to refinance long-term loans at interest rates lower than those already in place. As expected rates have not been sufficiently favourable for debt rescheduling in 2019/2020.
- 4.10 The Council's borrowing portfolio position at 31st March 2020 is set out below.

Borrowing Summary at: 31 March 2020			
	<u>Principal</u>	<u>Interest</u>	<u>Ave rate</u>
<u>Fixed</u>			%
PWLB	343,683,333	10,223,954	2.97
Market - Fixed	39,570,383	1,743,917	4.41
Other - Fixed	9,481,681	1,521	0.02
	<u>392,735,397</u>	<u>11,969,392</u>	<u>3.05</u>
<u>Variable</u>			
Temporary/Other - Variable	27,632,264	200,699	0.73
	<u>27,632,264</u>	<u>200,699</u>	<u>0.73</u>
TOTAL BORROWING:	<u>420,367,661</u>	<u>12,170,091</u>	<u>2.90</u>
TOTAL INVESTMENTS: (All Managed In-house)	<u>212,316,000</u>		
NET POSITION:	<u>(208,051,661)</u>		



- 4.11 The Council had a net borrowing position of £208.052 million representing the difference between gross debt and total investments. The net borrowing position is expected to widen (increase) further over the next few years as the Council will need to take out additional borrowing to fund its capital programme whilst earmarked revenue reserves will be used to fund agreed programmes.

Prudential Indicators – 2019/2020

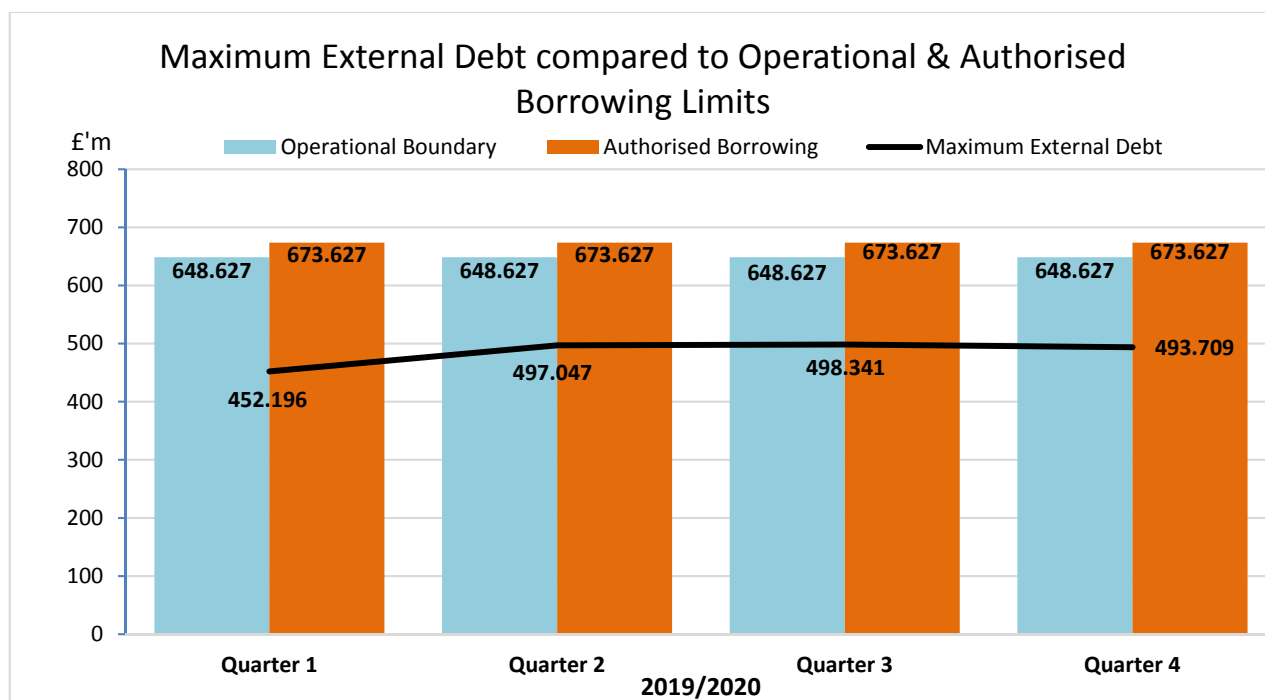
- 4.12 All external borrowing and investments undertaken in 2019/2020 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other Prudential Indicators as follows:
- 4.13 The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2019/2020 in total at £673.627m which is detailed as follows:

	£m
Borrowing	598.239
Other Long Term Liabilities	<u>75.388</u>
Total	<u>673.627</u>

The Operational Boundary for External Debt for 2019/2020 was set at £648.627m as follows:

	£m
Borrowing	573.239
Other Long Term Liabilities	<u>75.388</u>
Total	<u>648.627</u>

The Council's maximum external debt in respect of borrowing in 2019/2020 was £498.341 million and is within the borrowing limits set by both of these indicators.



4.14 The table below shows that all other Treasury Management Prudential Indicators have also been complied with:

Prudential Indicators	2019/2020	
	Limit £'000	Actual £'000
P10 Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	485,000	268,041
P11 Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	48,000	10,439
P12 Maturity Pattern Under 12 months	Upper Limit	
12 months and within 24 months	50%	9.18%
24 months and within 5 years	60%	1.67%
5 years plus	80%	4.19%
A lower limit of 0% for all periods	100%	87.87%
P13 Upper limit for total principal sums invested for over 365 days	75,000	0

5 Investment Strategy and Performance - 2019/2020

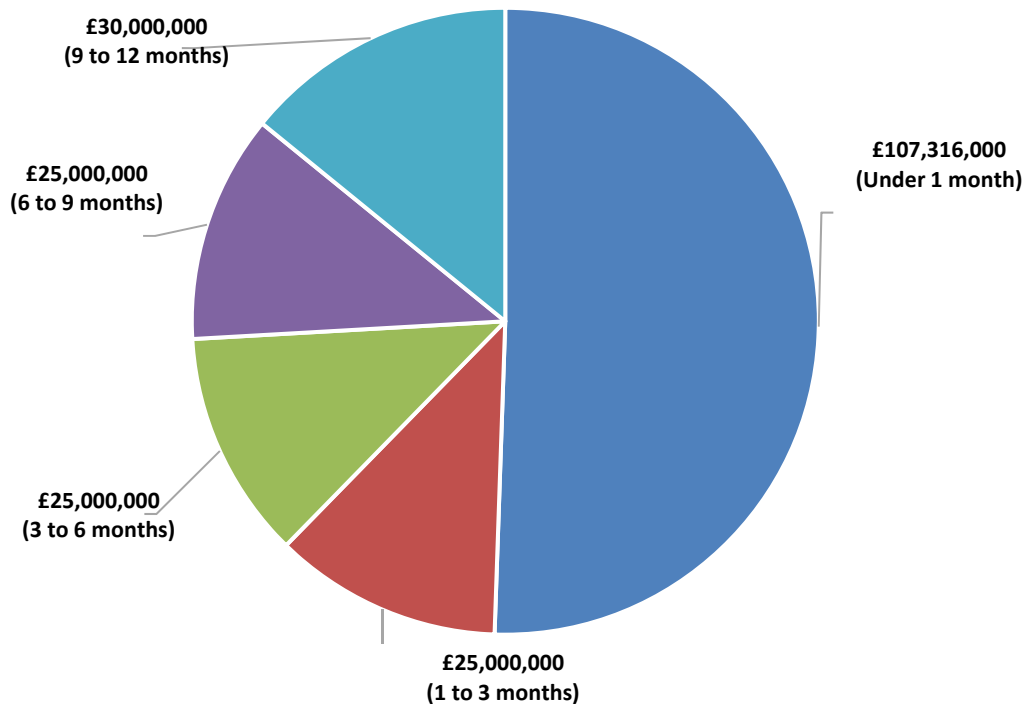
5.1 The Investment Strategy for 2019/2020 was approved by Council on 6th March 2019. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

- (A) The **security** of capital;
- (B) The **liquidity** of its investments and then
- (C) The Council aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

5.2 At 31st March 2020, the funds managed by the Council's in-house team amounted to £212.316 million and all investments complied with the Annual Investment Strategy.

Investment Summary at 31 March 2020					
Borrower	Duration	Amount of Loan	Rate (%)	Start Date	Maturity Date
Call Accounts:					
Natwest SIBA	Overnight	1,100,000	0.30		Call
Prime MMF	Overnight	16,891,000	0.41		
Aberdeen Liquidity Fund	Overnight	44,325,000	0.48		
Sub-total:		62,316,000			
Fixed Term Deposits:					
Lloyds Banking Group Ltd	353 days	20,000,000	1.25	15-Apr-19	02-Apr-20
Goldman Sachs Int Bank	183 days	25,000,000	1.01	15-Oct-19	15-Apr-20
Yorkshire Building Society	182 days	25,000,000	0.93	08-Nov-19	08-May-20
Santander UK Plc	364 days	25,000,000	1.25	29-Aug-19	27-Aug-20
Santander UK Plc	364 days	25,000,000	1.10	08-Nov-19	06-Nov-20
Santander UK Plc	365 days	15,000,000	1.11	29-Jan-20	29-Jan-21
Lloyds Banking Group Ltd	365 days	15,000,000	1.11	29-Jan-20	29-Jan-21
Sub-total:		150,000,000			
TOTAL:		212,316,000			

Investment Liquidity:



- 5.3 The table below shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	2019/2020 Return %	2019/2020 Benchmark %
In-house Managed Funds	1.01	0.53

- 5.4 All investments placed in 2019/2020 have been made in accordance with the approved Investment Strategy and comply with the Criteria and the Approved Lending List approved by Council on 6th March 2019.
- 5.5 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Council. The rate of return on investments, as reported during the year, has remained at the very low levels seen in previous years.
- 5.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments to shorter term periods.
- 5.7 As members will be aware, the regular updating of the Council's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. Changes made during 2019/2020 have been reported to members previously and the latest Lending List and Criteria are included in the Treasury Management First Quarterly Review 2020/2021 report appearing elsewhere on today's agenda for information.

6 Reason for Decision

6.1 To note the performance for 2019/2020.

7 Alternative Options

7.1 No alternatives are submitted for consideration