

# **Annual Treasury Management Review 2019/20**

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April 2020

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# Annual Treasury Management Review 2019/20

## 1. Introduction

This Authority 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).

During 2019/20 the minimum reporting requirements were that the Policy and Resources Committee should receive the following reports;

- an annual treasury strategy in advance of the year,
- a mid-year (minimum) treasury update report and
- an annual review following the end of the year describing the activity compared to the strategy (this report).

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 Authority's policies previously approved by Members.

## 2. Treasury Position as at 31 March 2020

At the beginning and the end of 2019/20 the Authority's treasury (excluding borrowing by PFI and finance leases) position was as follows:

<b>DEBT PORTFOLIO</b>	<b>31 March 2019 Principal</b>	<b>Rate/ Return</b>	<b>Average Life yrs</b>	<b>31 March 2020 Principal</b>	<b>Rate/ Return</b>	<b>Average Life yrs</b>
<b>Total debt</b>	<b>£3.200m</b>	<b>4.40%</b>	<b>35</b>	<b>£3.200m</b>	<b>4.40%</b>	<b>34</b>
<b>CFR</b>	<b>£3.046m</b>			<b>£6.074 m</b>		
<b>Over / (under) borrowing</b>	<b>£0.154m</b>			<b>(£2.874m)</b>		
<b>Total investments</b>	<b>£13.610m</b>	<b>0.64%</b>		<b>£15.414m</b>	<b>0.70%</b>	
<b>Net Investments</b>	<b>£10.410m</b>			<b>£12.214m</b>		

INVESTMENT PORTFOLIO	Actual 31.3.19 £000	Actual 31.3.19 %	Actual 31.3.20 £000	Actual 31.3.20 %
<b>Treasury investments</b>				
Banks	10,604	77.91	13,414	87.02
Building Societies - rated	3,006	22.09	2,000	12.98
<b>TOTAL TREASURY INVESTMENTS</b>	13,610	100%	15,414	100%

All investments were 364 days or less

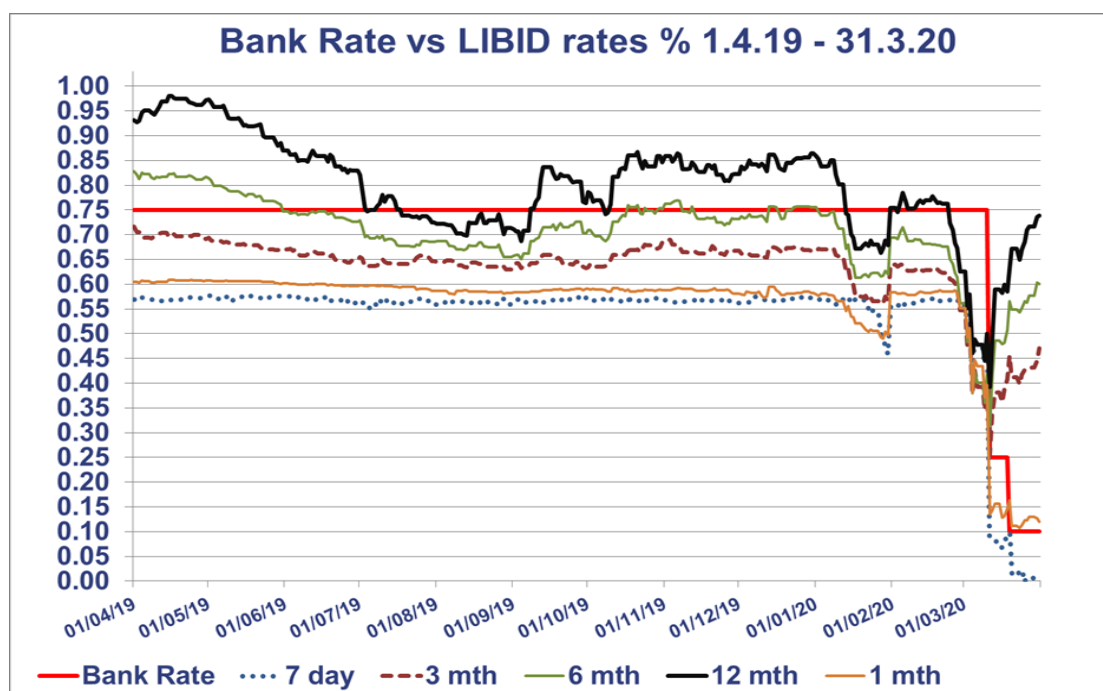
### 3. Investment Outturn

**Investment Policy** – the Authority’s investment policy is governed by MHCLG investment guidance which has been implemented in the annual investment strategy approved by the Authority in February 2018. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data such as rating outlooks, credit default swaps and bank share prices etc.

The investment activity during the year conformed to the approved strategy and the Authority had no liquidity difficulties.

## 4. The Strategy for 2019/20

### 4.1 Investment strategy and control of interest rate risk



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.

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. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

While the Authority has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates, as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure by having fewer investments placed in the financial markets.

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## 4.2 Borrowing strategy and control of interest rate risk

During 2019/20, the Authority maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the Authority's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

## 5. Investment Outturn

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**Resources** – the Authority's cash balances comprise revenue and capital resources and cash flow monies. The Authority's core cash resources comprised as follows:

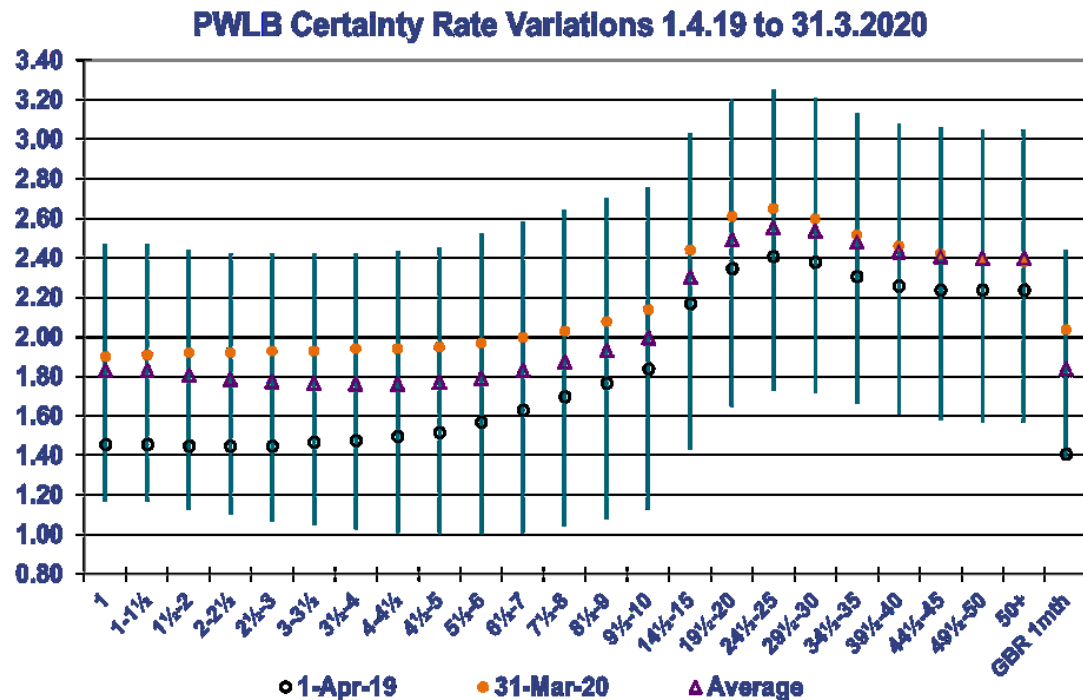
Balance Sheet Resources (£m)	31 March 2019	31 March 2020
Balances	2,500	3,183
Earmarked reserves	8,509	7,453
Usable capital receipts	1,376	1,481
Usable capital Grants	2,587	2,587
Total	14,972	14,704

## Appendix 1: Prudential and Treasury Indicators

	<b>Budget 2019/20 £m</b>	<b>Actual 2019/20 £m</b>
	<b>£m</b>	<b>£m</b>
Capital Financing Requirement	6.074	6.074
Operational Boundary	5.421	5.421
Actual External Debt as at 31 March 2020		3.200
Authorised Limit	6.921	6.921
Upper limit for fixed interest rate exposure		
Net principal fixed rate borrowing / investments	100%	100%
Upper limit for variable interest rate exposure	100%	100%
Net principal variable rate borrowing / investments		
Upper limit for total principal sums invested for over 364 days	0%	0%
Maturity structure of new fixed rate borrowing during 2016/17:		
	<b>Upper Limit</b>	<b>Lower Limit</b>
under 12 months	100%	0%
12 months and with 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

## Appendix 2: Borrowing and Investment Rates

### PWLB Borrowing Rates



### Money Market Investment Rates and Forecasts 2019/20

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.58	0.61	0.72	0.83	0.98
High Date	01/04/2019	09/05/2019	15/04/2019	01/04/2019	01/04/2019	15/04/2019
Low	0.10	0.00	0.11	0.26	0.31	0.39
Low Date	19/03/2020	25/03/2020	23/03/2020	11/03/2020	11/03/2020	11/03/2020
Average	0.72	0.53	0.56	0.63	0.70	0.80
Spread	0.65	0.58	0.50	0.46	0.52	0.59

Link Asset Services Interest Rate View 5.8.19											
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90