Audit and Governance Committee

Date of meeting:	27 July 2020
Title of Report:	Annual Report on Treasury Management Activities for 2019/20
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Chris Flower (Finance Business Partner for Capital and Treasury Management)
Contact Email:	chris.flower@plymouth.gov.uk
Your Reference:	Finance/CF
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

In order to comply with the Code of Practice for Treasury Management, the Council is required to formally report on its treasury management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report covers the treasury management activities for financial year 2019/20 including the final position on the statutory Prudential Indicators.

This report:

a) is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
b) confirms capital financing, borrowing, debt rescheduling and investment transactions for the year 2019/20;
c) provides an update on the risk inherent in the portfolio and outlines actions taken by the Council during the year to minimise risk;
d) gives details of the outturn position on Treasury Management transactions in 2019/20;
e) confirms compliance with treasury limits and Prudential Indicators (PIs) and the outlines the final position on the PI's for the year.

Recommendations and Reasons

1. To note the Treasury Management Annual Report 2019/20.
2. To refer the Treasury Management Annual Report 2019/20 to Full Council for approval.

This is to comply with the CIPFA Code of Practice and discharge our statutory requirement.

Alternative options considered and rejected

None - it is requirement to report to Council on the treasury management activities for the year.

Relevance to the Corporate Plan and/or the Plymouth Plan

Effective financial management is fundamental to the delivery of corporate improvement priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

Implications for the Medium Term Financial Plan and Resource Implications:
Into the medium and longer term the Council is facing significant pressures due to the national economic situation, which has led to a reduction in resources for local authorities over the Government's latest spending period. Effective Treasury Management will be essential in ensuring the Council's cash flows are used to effectively support the challenges ahead.

Carbon Footprint (Environmental) Implications:
In 2019/20 the Council invested £5m into the Public Sector Social Impact Fund to invest in carbon reduction projects.

Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:
** When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*
There is an inherent risk to any Treasury Management activity. The Council continues to manage this risk by ensuring all investments are undertaken in accordance with the approved investment strategy, and keeping the counterparty list under constant review.

Appendices
**Add rows as required to box below*

Ref.	Title of Appendix	**Exemption Paragraph Number** (if applic *If some/all of the information is confidential, you must indi why it is not for publication by virtue of Part 1of Schedule of the Local Government Act 1972 by ticking the relevant*						
		1	2	3	4	5	6	7
A								
B								

Background papers:

**Add rows as required to box below*
Please list all unpublished, background papers relevant to the decision in the table below. Background papers are <u>unpublished</u> works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	**2**	**3**	**4**	**5**	**6**	**7**
Treasury Management Strategy report to Council 15 January 2019							
Mid-Year Review report to Audit Committee 9 December 2019							

Sign off:

Fin	PL.20.21.40	Leg	lt/350 07/09 07	Mon Off	lt/350 07/09 07	HR	Click here to enter text.	Assets	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Andrew Hardingham											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 06/07/2020											
Cabinet Member approval: Cllr Mark Lowry approved by email Date approved: 09/07/2020											

Annual Report on Treasury Management Activities for 2019/20

Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management (the CIPFA Code) requires the Council to report on the performance of the treasury management function after the financial year end.

The Council's Treasury Management Strategy for 2019/20 was approved by Council on 25 February 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.

External Context

Economic background (as at April 2020): The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial markets: Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.
Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

Credit Review: In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

Local Context

On 31st March 2019, the Council had net borrowing of £521m arising from its revenue and capital income and expenditure, an increase on 2019 of £163m. 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. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.19 Actual £m	2019/20 Movement £m	31.3.20 Actual £m
General Fund CFR	569	163	732
Less: Other debt liabilities *	-121	4	-117
Borrowing CFR	**448**	**167**	**615**
Less: Usable reserves	-58	-2	-60
Less: Working capital	-32	-2	-34
Net borrowing	**358**	**163**	**521**

* *finance leases, PFI liabilities and transferred debt that form part of the Council's total debt*

The Council has increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the borrowing need based on realistic projections the Council's net borrowing has increased as detailed in table 1 above.

Borrowing Update

On 9th October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears relatively very expensive. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans to 0.80% above equivalent gilt yields (if the Authority has an HRA, then include: the value of this discount is 1% below the rate at which the authority usually borrows from the PWLB), available from 12th March 2020 and £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

The consultation titled "Future Lending Terms" represents a frank, open and inclusive invitation, allowing key stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals on allowing authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

The consultation closes on 31 July 2020 with implementation of the new lending terms expected in the latter part of this calendar year or financial year beginning 2021/22 and the Council intends to respond to the consultation.

Borrowing Activity

At 31st March 2020, the Council held £720m of loans, (an increase of £139m on 31/03/2019) as part of its strategy for funding previous years' capital programmes. See table 2 below.

The Council's chief 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 flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with this 'cost of carry' and breakeven analysis. Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, also remained affordable and attractive.

With short-term interest rates remaining much lower than long-term rates, the Council's Treasury Management Board has determined it was more cost effective in the short-term to borrow rolling temporary / short-term loans instead of fixing in at higher long term rates. The Council reviews the situation on a regular basis and also takes advice from it Treasury Management advisors. The net movement in temporary / short-term loans is shown in table 2 below.

Table 2: Borrowing Activity

	Balance on 01/04/2019 £m	Movement £m	Balance on 31/03/2020 £m	Avg Rate %
Public Works Loan Board	44	0	44	5.76%
Banks - LOBOs	64	0	64	4.34%
Other Loans	30	-2	28	
Short Term Borrowing	322	145	467	0.98%
TOTAL BORROWING	460	143	603	
Other Long Term Liabilities	121	-4	117	-
TOTAL EXTERNAL DEBT	581	139	720	-
Increase/ (Decrease) in Borrowing £m			139	

LOBO (Lender's Option Borrower's Option)
The Council continues to hold £64m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year.

LGA Bond Agency
UK Municipal Bonds Agency (MBA) plc. was established in 2014 by the Local Government Association as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. In early 2016 the Agency declared itself open for business, initially only to English local authorities. The Council has analysed the potential rewards and risks of borrowing from the MBA and has approved and signed the Municipal Bond Agencies framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee.

Debt Rescheduling
The PWLB increased the spread to 1.8% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

Other Long Term Liabilities
Although not classified as borrowing, the Council has other capital finance from Private Finance Initiatives and Finance Leases etc. and as at 31st March 2020 this amounted to £117m.

The liability for the PFI scheme has increased our requirement for finance and therefore we increased our Operational Boundary and Authorised limit to allow for this.

Minimum Revenue Provision (MRP)

MRP is a charge to the revenue budget that is made each year for monies to repay the Council's borrowing.

Under regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003/146, as amended, local authorities are required to charge to their revenue account, for each financial year, MRP for the cost of their unfinanced capital expenditure.

Following changes in advice from CIPFA the Council changed it MRP calculations method in 2015/16 to use the annuity method. Prior years involved detailed calculations which were very prescriptive but these were replaced with a requirement that local authorities calculate an amount or MRP which they consider to be prudent.

The Council matches the economic benefits from its assets with the life of those assets. Therefore the Council changed its calculation method to the annuity method which not only spreads the cost of the borrowing over the life of the assets but it also takes into account the time value of money.

The Council's previous method of calculating MRP was to spread the cost of borrowing in a straight line over a maximum of 25 years. The current council tax payers would therefore pay a relative higher charge than council tax payers in the future. For example if an asset cost of £20m to build and has a life of 20 years then there would have been a £1m charged each year on the straight line basis. The annuity method takes into account the time of value because £1m today has a higher value (NPV) that £1m in 20 years' time.

<u>Investment Activity</u>

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20, the Council's investment and cash balances ranged between £80 and £110 million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 3 below.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Table 3: Investment Activity in 2019/20

Investments	Balance on 01/04/2019 £m	Movement £m	Balance on 30/03/2020 £m	Avg Rate/Yield (%)
Short term Investments (call accounts etc.)	21	-14	7	0.62%
Covered Bonds and Loans	3	-3	0	-
Money Market Funds	26	7	33	0.28%
Other Pooled Funds	35	22	57	3.34%
TOTAL INVESTMENTS	**85**	**12**	**97**	
Increase/ (Decrease) in Investments £m			12	

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 treasury 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.

During the year the Council sold some of its poor performing cash fund investments and purchased other pooled investment in order to improve its income returns.

The Council has £57m invested in externally managed pooled Funds with the CCLA and Schroder and this has generated a total return for the year of £1.421m. Investment income is used to support services in year. These funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed.

Council is invested in bond, equity, multi-asset and property funds. The falls in the capital values of the underlying assets were reflected in the 31st March fund valuations with every fund registering negative capital returns over 12 months to March. Several March-end dividend details are awaited, but early calculations suggest that, despite decent income returns in 2019-20, these funds will post negative total return over the one-year period due to the capital component of total returns.

The unrealised capital losses (the 'drawdown' referred to by fund managers) in equity income funds were especially large, ranging from -3% to -34%.

These unrealised capital losses will not have an impact on the General Fund as the Council has elected to present changes in the funds' fair values in other comprehensive income (FVOCI).

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the medium to long term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

Other Non-Treasury Holdings and Activity

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Council held £216m of direct property investment under its Asset Investment Fund

These non-treasury investments generated £3.527m of investment income for the Council after taking account of direct costs, representing a net revenue return of 2.2% after allowing for payment to a void reserve and payment to a lifecycle maintenance reserve. The gross return is higher than the return earned on treasury investments but reflects the additional risks to the Council of holding such investments.

Treasury Management Outturn 2019/20

Budget Income and Expenditure

Treasury Management Outturn Position 2019/20

	2019/20 Budget	2019/20 Outturn	Year End Variance
	£m	£m	£m
Interest Payable	9.258		
LOBO and other long term loans		3.568	
PWLB (Public Works Loan Board)		2.439	
Temporary loans		3.273	
Other Interest and charges		0.014	
Recharge to Departments for Unsupported Borrowing (in accordance with business cases)	(10.800)	(12.070)	
Total Interest Payable	**(1.542)**	**(2.776)**	**(1.234)**
Interest Receivable	(2.146)		
Pool Funds		(1.421)	
Money Market Fund		(0.137)	
Other Interest		(1.781)	
Total Interest Receivable	**(2.146)**	**(3.339)**	**(1.193)**
Other Payments	0.105	0.097	
Debt Management	0.698	0.634	
Amortised Premiums	0.643	0.544	
Total Other Charges	**1.446**	**1.275**	**(0.171)**
Minimum Revenue Provision	**7.232**	**8.567**	**1.335**
TOTAL	**4.990**	**3.727**	**(1.263)**

The Council's Treasury Management Outturn for the year was an underspend of £1.263m. The Council has, however, continued to increase its borrowing to fund the capital programme which means it will pay increased loan interest and loan repayments (MRP) in the coming years while the investment returns have fallen further.

The Treasury Management Outturn does not include the returns from the Council's investments in the purchasing of capital assets as this is included in the Place revenue outturn.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%.

The Treasury Management budget is a held as a separate budget under the Finance Department of the Council's General Fund. Whilst interest costs are slightly less than the budget there are a number of factors that contribute to the final position. Whilst the Council not only borrows to finance capital expenditure, it also has to maintain a daily net cash surplus position. The costs of borrowing to finance invest to save capital schemes is charged to departments. The figures above include the borrowing implications of decisions to utilise the Asset Investment Fund to acquire assets to earn a revenue return which is accounted for in directorate's budgets.

Externally Managed Funds

The Council also has investments in pooled investment funds and pooled property funds which allow the Council to diversify into asset classes other than cash. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund managers; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Council's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.

Compliance with Prudential Indicators

The Section 151 Officer confirms compliance with its Prudential Indicators for 2019/20, which were set in the Treasury Management Strategy 2019/20.

The Following indicators are set and monitored each year:

- Estimates of Capital Expenditure;
- Estimates of Capital Financing Requirement;
- Gross Debt and the Capital Financing Requirement;
- Operation Boundary for External Debt;
- Authorised Limit for External Debt;
- Ratio of Financing Costs to Net Revenue Stream ;
- Incremental Impact of Capital Investment Decisions.

Treasury Management Indicators

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

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 will be:

	2019/20 Limit	2019/20 Actual	Complied
Upper limit on fixed interest rate exposure	100%	21%	✓
Upper limit on variable interest rate exposure	100%	79%	✓

Fixed rate borrowings are those where the rate of interest is fixed for the whole financial year or more. Instruments that mature during the financial year are classed as variable rate.

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 all borrowing were:

	Upper Limit	Lower Limit	31.03.2020 Actual	Complied
Under 12 months	90%	10%	77%	✓
12 months and within 24 months	40%	0%	0%	✓
24 months and within 5 years	40%	0%	1%	✓
5 years and within 10 years	50%	0%	2%	✓
10 years and above	80%	10%	19%	✓

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 365 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 total principal sum invested to final maturities beyond the period end were:

	2019/20	2020/21	2021/22
Limit on principal invested beyond year	£45m	£50m	£50m
Actual	£0m	£0m	£0m
Complied	✓	✓	✓

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual	Complied
Portfolio average credit rating	A	AA-	✓

Liquidity: The Council does not keep large amounts of cash in call accounts so that it reduces the cost of carrying excess cash. To mitigate the liquidity risk of not having cash available to meet unexpected payments the Council has access to borrow additional, same day, cash from other local authorities.

Other

IFRS 16: CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2021/22.

Investment Training

Officers have undergone the following training during the year:

Arlingclose – Changes to IFRS 9 Impairment of Financial Instruments.
Arlingclose – Principles of Treasury Management Workshop.
CIPFA – Implementing new Treasury Management Regulatory Framework
Arlingclose – Investments workshop 2019.
Arlingclose - Accounts closedown workshop 2019/20.
Grant Thornton - Accounts Closedown Workshops for Local Authority Accountants

Prudential Indicators 2019/20

The Local Government Act 2003 requires the Council to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2019/20. Actual figures have been taken from or prepared on a basis consistent with, the Council's statement of accounts.

Capital Expenditure: The Council's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2019/20 Actual £m
General Fund	196.180
Total Expenditure	**196.180**
Capital Receipts	4.155
Grants & Contributions	32.720

Reserves	0.138
Revenue	0.130
Borrowing	159.037
Total Financing	**196.180**

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.20 Actual £m
General Fund	**732**
Total CFR	**732**

The CFR rose by £163m in the year to £732m (2019 £569m) from capital expenditure financed by debt outweighs resources put aside for debt repayment.
The increase in CFR shows that the Council is increasing its borrowing to pay for capital expenditure in the city.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Actual Debt: The Council's actual debt at 31 March 2020 was as follows:

Debt	31.03.20 Estimate £m	31.03.20 Actual £m	Difference £m
Borrowing	613	603	-10
PFI liabilities & other Finance leases	122	117	-5
Total Debt	**735**	**720**	**-15**

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt below.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent, but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	31.03.20 Boundary £m	31.03.20 Actual Debt £m	Complied
Borrowing	720	603	✓
Other long-term liabilities	122	117	✓
Total Debt	**842**	**720**	✓

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003.

It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	31.03.20 Boundary £m	31.03.20 Actual Debt £m	Complied
Borrowing	775	603	✓
Other long-term liabilities	145	117	✓
Total Debt	**920**	**720**	✓

Recommendations

1. To note the Treasury Management Annual Report 2019/20.
2. To refer the Treasury Management Annual Report 2019/20 to Council for approval.