Meeting: Council **Date: 16 July 2020**

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Outturn 2019/20

Is the decision a key decision? No

When does the decision need to be implemented?

Cabinet Member Contact Details: Councillor Darren Cowell**,** Darren.Cowell@torbay.gov.uk

Supporting Officer Contact Details: Pete Truman, Principal Accountant, pete.truman@torbay.gov.uk

1. Purpose and Introduction

1.1 The purpose of this report is to provide members with an annual report on the treasury management activities undertaken during the year 2019/20, which is compared to the 2019/20Treasury Management Strategy.

In February 2019 the Council approved the 2019/20 Treasury Management Strategy, followed by the Mid-Year Review in October 2019. This report concludes the treasury management reporting for 2019/20.

2. Proposed Decision

2.1 That the Treasury Management decisions made during 2019/20, as detailed in the submitted report be noted; and

2.2 That the performance against the approved Prudential and Treasury Indicators as set out in Appendix 1 to this report be noted.

3. Reason for Decision

3.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual outturn report reviewing treasury management activities and the actual prudential and treasury indicators for 2019/20.

3.2 This report also meets the requirements of the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

Supporting Information

4. Position

4.1 Treasury Management is defined by the 2017 Code of Practice as:

"The management of the authority's borrowing, investments and cash flows, it's banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

4.2 During 2019/20 the minimum reporting requirements were that full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 7th February 2019)
- A mid-year review report (Council 24th October 2019)
- An annual report following the year describing the activity compared to the strategy (this report)

4.3 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 policies previously approved by Members.

4.4 The Council confirms that it has complied with the requirement under the Code to give prior scrutiny to the above strategy and mid-year treasury management reports by the Audit Committee before they were reported to full Council.

4.5 Treasury Management strategies were planned and implemented in conjunction with the Council's appointed advisors for the year, Link Asset Services although the Council officers were the final arbiters of the recommended approach. At the beginning of 2020 Officers undertook a tender exercise to appoint a treasury management advisor for the next contract period from 1st May 2020. The successful applicants were Arlingclose Ltd.

4.7 This report covers:

- Treasury Position at year end;
- Borrowing strategy and control of interest rate risk;
- Borrowing Outturn for 2019/20;
- Investment Outturn for 2019/20;
- Revenue Budget Performance;
- Reporting Arrangements and Management Evaluation
- Non-Treasury Management Investments

5. **Overall Treasury Position as at 31 March 2020**

5.1 At the beginning and the end of 2019/20 the Council's treasury position was as follows:

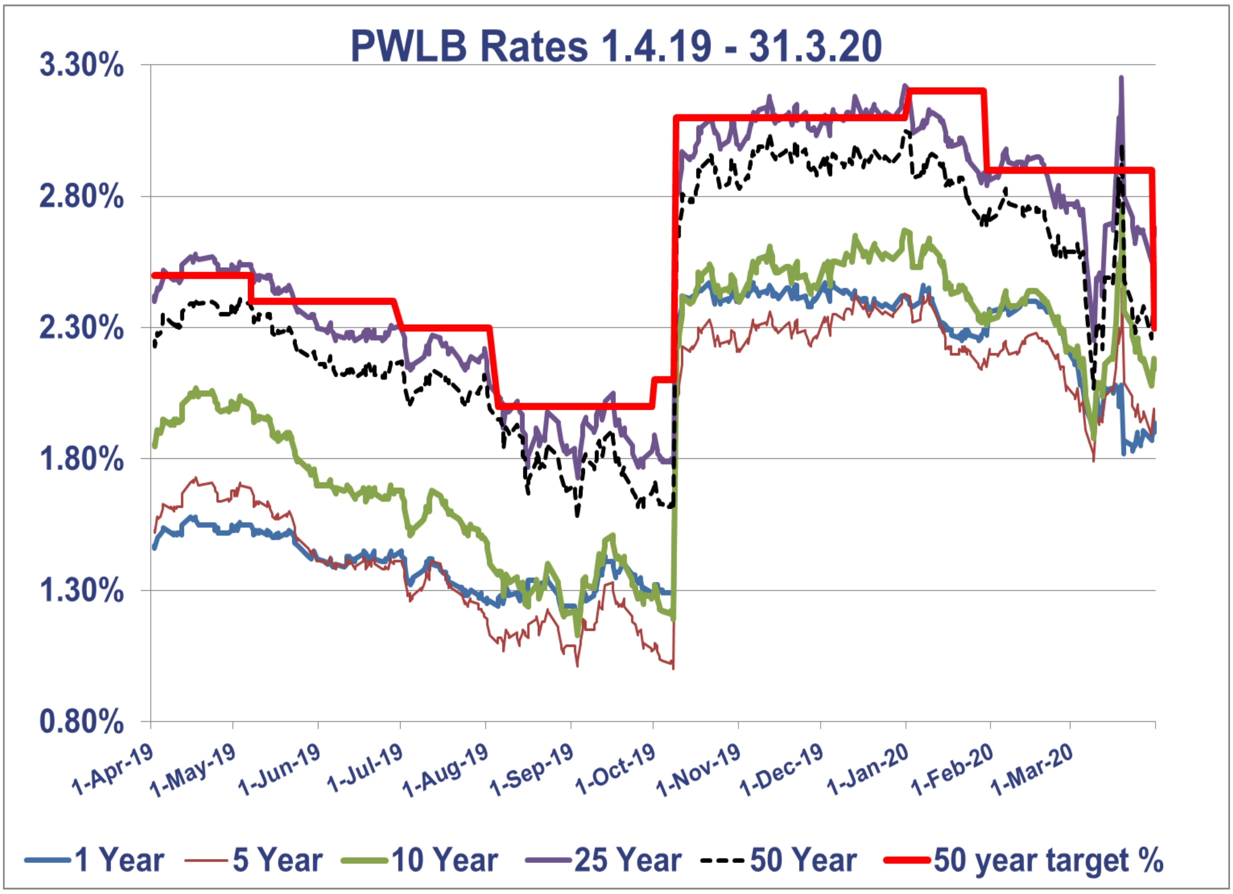
TABLE 1	31 March 2019 Principal	Rate/ Return	Average Life yrs	31 March 2020 Principal	Rate/ Return	Average Life yrs
Borrowing	*£302.9m*	*3.29%*	*29.5 years*	*£395.2 m*	*3.00%*	*29.5 years*
Other long term liabilities	*£18.2m*	*5.14%*	*16.9 years*	*£17.5m*	*5.14%*	*15.9 years*
Total debt	***£321.1m***	***3.39%***	***28.9 years***	***£412.7m***	***3.09%***	***28.2 years***
Capital Financing Requirement	***£320.7m***			***£413.4m***		
(Under)/over borrowing	*£0.4m*			*£(0.7)m*		
Total investments	***£58.1m***	***0.83%***		***£66.2m***	***1.16%***	
Net debt	£263.0m	3.16%		£346.5m	2.97%	

6 Borrowing strategy and control of interest rate risk

6.1 During 2019/20, the Council aimed to achieve 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 Council'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.

6.2 However, this strategy had to be kept under review to avoid a situation of the Council incurring higher borrowing costs in the future impacting upon the General Fund and the affordability of approved capital schemes.

6.3 The primary strategy in para 6.1 was predicated on Interest rate forecasts expecting only gradual rises in medium and longer term fixed borrowing rates during 2019/20 and the two subsequent financial years. The actual path of borrowing rates, during the year is illustrated in the table below



6.5 A number of new loans were taken during the first half of 2019/20 taking advantage of the continuous fall in yields. The context for this fall was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued.

6.6 However, on 9th October 2019 HM Treasury, concerned about the overall level of local authority debt, imposed an increase in the margin over gilt yields for PWLB rates by 100 basis points (to 180 basis points) without any prior warning; this added an immediate, additional 1% margin to all PWLB rates. PWLB borrowing remains available but this new margin of 180bp above gilt yields made the rates relatively expensive.

6.6 Following this announcement the Chief Finance Officer restricted PWLB activity pending evaluation of the new levels against alternative funding sources. New PWLB borrowing was limited to 50% of imminent Investment Fund acquisitions. Treasury officers met with a selection of external funding providers to pave the way for potential future facilities as an alternative to PWLB.

6.7 Two further tranches of PWLB borrowing were taken in March to capitalise on market fears surrounding Covid-19 bringing borrowing costs back down to levels seen earlier in the year prior to the PWLB hike and to affordability of the Capital Plan over the longer term.

6.8 HM Treasury subsequently announced that there would be a consultation with local authorities on possibly further amending the margin levels over gilts; this ends on 4 June 2020. The proposals include the potential for cheaper PWLB rates for some borrowing but it is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property i.e. debt for yield.

6.9 With the potential for PWLB rates to become cheaper dialogue with alternative providers has not been followed and in the short term the Chief Finance Officer will implement the primary strategy of internally borrowing against the Council's own resources

6.10 The level of cash investments was higher than anticipated due to slippage of £10m in the Capital Plan, a number of government grants received but not spent including the £5m COVID funding.

7. Borrowing Outturn 2019/20

7.1 Loans were drawn to fund unfinanced capital expenditure and maturing debt (worth £0.7million) and are summarised below:

Lender	No. of Loans	Principal	Type	Average Interest Rate	Average Maturity
PWLB	19	£93m	Fixed interest rate	2.05%	32.2 years

7.2 As a result of the new loans the borrowing portfolio (excluding other long term liabilities) has increased to £395.2 million and the average rate of interest paid across all loans in 2019/20 was 3.13%. The average rate of the borrowing portfolio at 31st March was 3.00%.

7.3 No rescheduling of the borrowing portfolio was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8. Investment Outturn 2019/20

8.1 The Council's investment policy is governed by MHCLG investment guidance, which was been implemented in the annual investment strategy approved by Council on 7th February 2019. This policy set 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, bank share prices etc.).

8.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. A proportion of long term deals maturing during the year were re-invested for a periods of one and two years to provide some protection to yield levels. Other deposits were limited to a duration of six months and extensive use made of well performing money market funds to ensure availability of cash for capital financing purposes.

8.3 ***Performance Analysis*** - Detailed below is the result of the investments undertaken in 2019/20. The Council's investment returns remain well in excess of the market benchmark while still maintaining availability of funds for internal borrowing

	Average Investment Principal	Rate of Return for year (gross of fees)	Rate of Return for year (net of fees)	Market Benchmark/ Target Return
Internally Managed	£63.7M	0.88%	0.88%	0.53%
CCLA Property Fund	£5.0M	4.78%	4.16%	
Combined	£68.7M	1.16%	1.12%	0.53%

8.4 No further investment was made in the CCLA Property Fund, despite the high return due to uncertainty of funds in the longer term and changes to accounting treatment in future years.

8.5 In interest terms, the treasury strategy and decisions implemented contributed an additional £432,000 (after fees) to the General Fund over and above what would have been attained from the benchmark return.

8.6 A list of those institutions with which the in-house team invested funds during the year is provided at Appendix 2. No institutions with which investments were made showed any difficulty in repaying investments and interest in full during the year.

9 Revenue Budget Performance

9.1 The effect of the decisions outlined in this report on the approved revenue budget is summarised in the table below.

	Revised Budget 2019/20	Actual 2019/20	Variation
	£M	**£M**	**£M**
Investment Income	(0.7)	(1.3)	(0.6)
Interest Paid on Borrowing	10.2	10.8	0.6
Net Position (Interest)	**9.5**	**9.5**	**0.0**
Minimum Revenue Provision (MRP)	5.0	4.6	(0.4)

MRP re: PFI	0.7	0.7	0
Net Position (Other)	**5.7**	**5.3**	**(0.4)**
Net Position Overall	**15.2**	**14.8**	**(0.4)**

9.2 The position was regularly reported to OSB and Council throughout the year as part of the budget monitoring reports to Members

10 Reporting Arrangements and Management Evaluation

10.1 The management and evaluation arrangements identified in the annual strategy and followed for 2019/20 were as follows:

- Monthly monitoring report to the Leader, Cabinet Member for Finance, Chairman of Audit Committee and Head of Finance.
- Regular meeting of the Treasury Manager and Finance Manager to review previous months performance and plan following months activities
- Regular meetings with the Council's treasury advisors
- Membership and participation in Link Asset Services Investment Benchmarking Club

11 Non-Treasury Management Investments (NTI)

11.1 Appendix 3 sets out the current activities being undertaken by Torbay Council primarily to generate a financial return e.g. Investment Properties. Governance of these activities is incorporated into the CIPFA Code of Practice for Treasury Management.

11.2 The Council's Capital Strategy 2020/21 also includes references to Non-Treasury Management Investments, as this expenditure is classified as capital. The risk associated with investment properties and the Council's strategy in mitigating these risks are outlined and described in the Council's Investment and Regeneration Fund Strategy last update approved by Council in July 2019.

11.3 The Investment Strategy will need to be updated to ensure the Council's compliance with the March PWLB consultation and the CIPFA Statement on 'Debt for Yield' purchases.

12 COVID 2019 Implications

12.1 The COVID 2019 pandemic started to impact on the UK during March 2020 with its longer term impact still unknown. This will have a number of impacts on Treasury Management and NTI including:

- Bank base rate reduced to 0.1% impacting on interest returns

- In the longer term value of investment property could reduce, however not as at 31st March due to material valuation uncertainty. Any valuation change would be unrealised as asset to be held for long term

- Potential reduction in counterparties and greater use of higher rated counterparties

- CCLA property fund reduced in value as at 31/3/20, however an unrealised loss as asset to be held for long term

- No other Treasury Investments impacted as all at fixed rates

- Greater scrutiny of potential changes in cash flow from both reduced income and changes in the timing of government grants

Appendices

Appendix 1: Prudential and Treasury Indicators 2019/20
Appendix 2: Counterparties with which funds have been deposited in 2019/20
Exempt Appendix 3: Non-Treasury Management Investments

Additional Information

Treasury Management Strategy 2019/20
Treasury Management Mid-Year Review 2019/20