BOROUGH COUNCIL OF WELLINGBOROUGH AGENDA ITEM 9

Resources Committee 24 June 2020

Report of S151 Officer

TREASURY MANAGEMENT OUTTURN - ANNUAL REPORT 2019-20

1 Purpose of Report

The purpose of this report is to present the annual report of treasury management activity for 2019-20. The treasury management function contributes towards the Council's overall objective of the efficient use of resources.

2 Executive Summary

To inform members of the outturn position in respect of the application of the treasury management strategy for 2019-20.

3 Appendices

1. Prudential Indicators for the year 2019-20
2. Economic Overview

4 The Committee Is invited to RECOMMEND to:

4.1 APPROVE the Treasury Management outturn position, as detailed in the report.

5 Background

5.1 This Council 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).

5.2 During 2019-20 the minimum reporting requirements were that the Members should receive the following reports:

- an annual treasury strategy in advance of the year (Resources 20 March 2019)
- a mid-year treasury update report (Resources 30 October 2019)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

5.3 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 Council's policies previously approved by members.

5.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Resources Committee before they were reported to the full Council.

5.5 The Council's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) guidance, which was implemented in the annual investment strategy approved by the Council on 02 April 2019. The Credit Worthiness policy was reviewed and approved by Council on 02 April 2019. 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, bank share prices etc.).

5.6 The Council has complied fully with the requirements of its approved Treasury Management Strategy during the period, including use of approved counterparties and investment limits. The Council had no liquidity difficulties.

5.7 The Council maintained an average balance of £32.7m of internally managed funds, the majority of which are short term investments. These investments earned an average rate of return of 1% which compares with a budget assumption of £25.2m investment balances earning an average rate of 1%.

6 Discussion

Investments

6.1 At 31 March 2020 the Council held the following investments.

Money Market transactions:

Short term investments for periods of less than 1 year:

Investments	Range of Interest Rates Receivable %	Total Investment at 31 March 2019 £'000	Total Investment at 31 March 2020 £'000
Building Societies	1% -1.30%	18,077	18,108
Banks	0% - 1.25%	11,866	7,877
Other Local Authorities	1.03%-1.05%	1,001	4,013
Total		**30,944**	**29,998**
Bank Balance	0%-0.65%	2,515	4,220
Total cash available for Investment	0%-1.30%	**33,459**	**34,218**

The year on year variance for money market investments is therefore a decrease of £946k. This is due to a planned increase in capital expenditure. The Council did not hold any long term money market investments at 31 March 2020.

6.2 The average rate of interest earned on investments during the year was 1% (2018-19 0.86%).

6.3 **Investment Trusts:**

At the 31 March 2020 the Council held long term investments of share capital in the Aberdeen Diversified Income and Growth Trust (previously known as Black Rock Income Strategies Trust) investment with the following comparative values:

	31 March 2019 £000	31 March 2020 £000
Purchase Price	157	157
Market Value	290	226

6.4 The authority's statutory accounts are required to disclose the fair value of investments. The difference in the value of the Aberdeen Diversified

Income and Growth Trust Investment, when compared to the historical cost, amounted to a decrease in value of £64k (in 2018-19 there was a decrease of £5k), due to a reduction in the share price to £0.902. The decrease in value (£64k) has been debited from the Available for Sale Financial Instruments Reserve.

Borrowing

6.5 The authority became debt free in December 2002; consequently the authority has no outstanding borrowings.

Interest Received

6.6 Details of interest received during 2019-20 compared with the estimate are as follows:

	2019-20 Original Estimate £	2019-20 Actual £	Variance Original Est. to Actual £
Amount received;			
Investment income	260,000	350,143	90,143
Dividends	13,400	13,450	50
Other (incl. bank interest)	20,000	25,479	5,479
Total	**293,400**	**389,072**	**95,672**

Future Prospects

6.7 Clearly, future prospects for generating investment income to support the annual revenue budget continue to be dependent on the level of balances and future movement in the level of interest rates. The uncertainties which are inherent to both of these serve to highlight the continuing need for robust treasury management skills internally and external professional advice to assist in achieving future maximum investment returns.

6.8 Investment returns had recovered a little from the exceptionally low levels reached in the aftermath of the previous financial crisis, but nonetheless remained low during 2019-20, with a swift drop in the last quarter of the year, following the reduction in the Bank of England base rate to 0.10% in March 2020. The interest rate forecasts included within the Council's Investment Strategy for 2020-21 onwards were based upon the Base Rate increasing to 1% by the end of 2020-21and by a further 0.25% during the first quarter of 2022-23. New figures suggest that the rates are likely to remain at 0.10% until the end of 2022-23, thereby considerably reducing the rates of investment returns.

7 Legal Powers

Local Government Act 2003.

8 Financial and Value For Money Implications

As shown in the report.

9 Risk Analysis

Nature of risk	Consequences if realised	Likelihood of occurrence	Control measures
Losses on invested funds	Potentially significant to the Council	Unlikely	Treasury management strategy
Fluctuations in interest rates	Beneficial if interest rates rise, adverse when interest rates fall	Investment income rates continue to be at relatively low levels	Use of external advisors to determine best strategy

10 Implications for Resources

As shown in the report.

11 Implications for Stronger and Safer Communities

No direct implications.

12 Implications for Equalities

No direct implications.

13 Author and Contact Officer

Tracey Cave, Service Accountant

14 Consultees

Shaun Darcy, Executive Director, S151 Officer
Eric Symons, Assistant Director, Deputy S151 Officer
Julie O'Connell, Finance Manager

15 Background Papers

The Prudential Indicators and Treasury Management Report 2020-21 Resources committee 20March 2020.
2019-20 Final Accounts working papers
Information received from Link Assets Services Ltd., the Council's Treasury Management advisers.

Appendix 1

Prudential Indicators for the year 2019-20

The Capital Prudential Indicators 2019/20 – 2022/23

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure. This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Total	5.636	21.860	0.025	0.000

Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Capital Expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Total	5.636	21.860	0.025	0.000
Financed by:				
Capital generated in year receipts	0.000	0.000	0.000	0.000
Capital grants	0.912	2.448	0.000	0.000
Capital receipts reserves	4.724	19.412	0.025	0.000
Revenue	-	-	-	-
Net financing need for the year	-	-	-	-

The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life. Given that all historical capital spending, including that for 2019/20, has been fully funded and that full funding is planned for all future schemes, the Council has a current and projected borrowing need of zero.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

The Council's current overall CFR is zero and this is projected to remain unchanged and therefore no borrowing is anticipated in the foreseeable future.

MRP Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to Councils, so long as there is a prudent provision. The authority has no current or planned borrowing requirement or finance lease liability that would give rise to the need for MRP, but for completeness the Council is recommended to approve the following MRP Statement:

a) **Should the Council incur capital expenditure which gives rise to a borrowing requirement, then MRP will be provided for based on the estimated life of the assets concerned.**

b) **The Council will make provision in its revenue accounts each year to meet the costs of the Principal element of any outstanding Finance Leases.**

The Use of the Council's Resources and the Investment Position

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£m	£m	£m	£m
Fund balances / reserves	5.331	5.331	5.294	5.223
Capital receipts	25.025	5.863	6.088	6.338
Capital grants unapplied	0.534	-	-	-
Provisions	-	-	-	-
Other		-	-	-
Total core funds	**30.890**	**11.194**	**11.382**	**11.561**
Working capital*	-6.612	-2.000	-2.000	-2.000
Under/over borrowing	-	-	-	-
Expected investments	**24.278**	**9.194**	**9.382**	**9.561**

*Working capital balances shown are estimated year end; these may be higher mid year

Affordability Prudential Indicators

The Prudential Code for Capital Expenditure in Local Authorities requires each Council to set and report against indicators showing:

- the cost of servicing long-term borrowing, including both interest costs and provision for loan repayment, as a percentage of total net service costs, and
- the impact on Council Tax levels of funding additional capital expenditure from borrowing.

The previous sections cover the capital prudential indicators, but the prudential indicators required to assess the affordability of the capital investment plans, are not reported because the Council is debt-free and is projected to remain so for the foreseeable future.

Current Portfolio Position

The Council's treasury portfolio position at 31 March 2020, with forward projections are summarised below. The Council is currently debt free and there is no need for borrowing to fund the capital programme for the forseeable future.

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its total debt, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

2018/19		2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
	External Debt:				
	Debt at 1 April	-	-	-	-
	Expected change in Debt	-	-	-	-
	Other long-term liabilities (OLTL)	-	-	-	-
	Expected change in OLTL	-	-	-	-
	Actual debt 31 March :	-	-	-	-
	The Capital Financing Requirement	-	-	-	-
	Under/(over) borrowing	-	-	-	-
	Total investments at 31 March:				
30,858	Investments	24,270	9,561	9,749	9,928
9,274	Investment change	-6,588	-14,709	188	179
	Net Debt	**-**	**-**	**-**	**-**

The Executive Director (& Section 151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	10.00	10.00	10.00	10.00
Other long term liabilities	-	-	-	-
Total	10.00	10.00	10.00	10.00

The Authorised Limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.
2. The Council approved the following Authorised Limit at the March 20 Resources Committee

Authorised limit £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	50.00	50.00	50.00	50.00
Other long term liabilities	0.05	0.05	0.05	0.05
Total	50.05	50.05	50.05	50.05

ECONOMIC OVERVIEW

Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

UK. Brexit. The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. Despite a new Prime Minister in October 19 and a general election in December 19, there still remains much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

World Growth. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.