

**Treasury Management Annual Review 2019/20**

<b>Final Decision-Maker</b>	Audit, Governance & Standards Committee
<b>Lead Head of Service</b>	Ellie Dunnet – Head of Finance
<b>Lead Officer and Report Author</b>	John Owen – Finance Manager
<b>Classification</b>	Public
<b>Wards affected</b>	All Wards

**Executive Summary**

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code requires that authorities report on the performance of the treasury management function at least twice a year (at mid-year and year-end).

Council has delegated the role of considering these reports to the Audit, Governance and Standards Committee.

This report sets out the activities of the Treasury Management function for 2019/20 financial year.

**Purpose of Report**

This report requires noting from the Committee.

**This report makes the following recommendations to this Committee:**

1. That the review of the financial year 2019/20 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted.
2. That no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2019/20.

**Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	29 <sup>th</sup> July 2020

# Treasury Management Annual Review 2019/20

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	The Treasury Management Function ensures the safeguarding of Council finances and the liquidity of funds when liabilities become due to support the strategic plan objectives.	Head of Finance
<b>Cross Cutting Objectives</b>	The report recommendations support the achievements of all the cross cutting objectives in the way stated above.	Head of Finance
<b>Risk Management</b>	Covered in the risk section of this report.	Head of Finance
<b>Financial</b>	This report relates to the financial activities of the council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Section 151 Officer & Finance Team
<b>Staffing</b>	None	Head of Finance
<b>Legal</b>	<ul style="list-style-type: none"> <li>• Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.</li> <li>• The legal implications are detailed within the body of the report which is compliant with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities.</li> </ul> <p>In considering the impact of Covid-19 on the Council's financial position in 2020/21, consideration should be given to the Council's legal duty to set a balanced budget. Appropriate remedial action should be taken if at any time it appears likely that expenditure will exceed available resources. The S151 Officer has a personal duty under Section 114(3) of the Local Government Finance Act 1988 to report to the Council if it appears that the set budget will be exceeded. Having received a S114 report, members are obliged to</p>	Team Leader (Corporate Governance), MKLS

	take all reasonable practical measures to bring the budget back into balance.	
<b>Privacy and Data Protection</b>	None	Policy and Information Team
<b>Equalities</b>	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Equalities and Corporate Policy Officer
<b>Public Health</b>	None	Public Health Officer
<b>Crime and Disorder</b>	None	Head of Finance
<b>Procurement</b>	None	Head of Finance & Section 151 Officer

## 2. INTRODUCTION AND BACKGROUND

2.1 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).

2.1.1 The Treasury Management Strategy Statement (TMSS) for 2019/20 states the reporting requirements for the following reports:

- an annual treasury strategy in advance of the year (Full Council 27th February 2019)
- a mid-year treasury update report (Audit, Governance & Standards Committee 18<sup>th</sup> November 2019)
- an annual review following the end of the year describing the activity compared to the strategy (Audit Governance & Standards Committee - this report)

2.1.2 This report sets out the activities of the treasury management function for 2019/20 financial year in accordance with CIPFA's Code of Practice on

Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 12 months.

2.1.3 The Authority has 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 Authority's treasury management strategy.

2.1.4 The Authority's Treasury Management Strategy Statement for 2019/20 was approved by full Council on 27<sup>th</sup> February 2019. The key elements of the Strategy are:

- Utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate; and
- Further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments is considered. Greater use of local authority investments will be used where the borrowers offer a high level of security.
- Continue to utilise Council's reserves, balances and cash flow as a temporary measure, due to investment returns being low and counterparty risk is relatively high, until a time where borrowing is required to fund the capital programme.

## 2.2 Economic Overview

2.2.1 The main issue in 2019 was to agree on a way forward for the UK over the issue of Brexit. This resulted in the resignation of Theresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU.

2.2.2 A general election was held in December 2019 which saw a majority government formed by the Conservative Party, which enabled the UK to leave the EU on 31 January 2020. However, this still leaves 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 coronavirus.

2.2.3 In 2019 economic growth has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 falling by -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% year on year. However, the three-monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed because of the coronavirus outbreak.

2.2.4 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 lock down period, 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.

- 2.2.5 The Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018. After the coronavirus outbreak, two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank also acted to stop people losing their jobs during the lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country was locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have had little or no income.
- 2.2.6 Inflation during the year has stayed between 1.5-2.0%. Prices are under a 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 considered likely in the UK.

### 2.3 Treasury Management Activity

- 2.3.1 The CIPFA Code and Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council has adhered to these principles during 2019/20.
- 2.3.2 The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20 the Authority's investment balances have ranged between £7.75m and £37.3m. The average investment balance for the year was £25m. The Council held investments totalling £11.025m as at 31st March 2019. A full list of these can be found within **Appendix A**.
- 2.3.3 Investment income for the year totalled £208k which exceeded the budget for 2019/20 of £100k. This was due to the fact that for most of the year the Council held higher than expected cash balances and short term rates remained at higher than expected levels. The average rate for investments for the year 0.82%. However, this is not likely to continue through 2020/21 with the reduction of interest rates as previously mentioned in this report.
- 2.3.4 All the Council's investments during the year were short term, so that they would be readily available when funding was required for the capital programme.
- 2.3.5 All investments during the year have been within the agreed limits of the Treasury Management Strategy 2019/20.

## 2.4 Borrowing Activity

- 2.4.1 During 2019/20, the Council 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 Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as this reduces cost of carry and minimises counterparty risk on placing investments.
- 2.4.2 In November 2019, the Council undertook £7m of short term borrowing to fund the purchase of the Lockmeadow Leisure Complex, of which the total cost £19m. The balance was funded through the Council's own resources (internal borrowing). Short term borrowing was the cheapest option for the Council at this time, however this is being constantly monitored against longer term rates.
- 2.4.3 The Council needed to borrow a further £4m by the end of the year, making total borrowings as at 31<sup>st</sup> March 2020 of £11m. Typically the end of the year, before Council Tax for the new financial year starts to be collected, is the point of peak demand on the Council's cash balances. A full list of borrowings can be found in **Appendix B**.
- 2.4.4 The Council has borrowed within the parameters set within the Treasury Management Strategy for 2019/20.

## 2.5 Prudential and Treasury Indicators

- 2.5.1 The Local Government Act 2003 requires the Authority 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 Authority has fulfilled these objectives, the Prudential Code sets out the indicators that must be set and monitored each year.
- 2.5.2 The Council has operated within its Prudential and Treasury Indicators set out in the Treasury Management Strategy 2019/20 and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **Appendix C**.

## 2.6 Compliance Report

- 2.6.1 The Director of Finance & Business Improvement can confirm that all treasury management activities undertaken during 2019/20 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.
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### **3. AVAILABLE OPTIONS**

- 3.1 The Audit, Governance and Standards Committee could agree that no amendments to the current procedures are necessary as a result of the review of activities in 2019/20.
  - 3.2 The Audit, Governance and Standards Committee could propose changes to the current procedures as a result of the review of activities in 2019/20.
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### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 The Audit, Governance and Standards Committee agrees that no amendments to the current strategy for 2020/21 are necessary as a result of the review of activities in 2019/20 as there is no justification to make any changes.
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### **5. RISK**

- 5.1 Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2019/20 report. This report is purely for information purposes and has no risk management implications.

### **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 6.1 None
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### **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 If Audit, Governance and Standards Committee agrees that no change in current procedures with Treasury management will be made, then there will be no further action.
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### **8. REPORT APPENDICES**

- 8.1 The following documents are to be published with this report and form part of the report:
    - Appendix A: List of Investments as at 31<sup>st</sup> March 2020
    - Appendix B: List of Borrowing as at 31<sup>st</sup> March 2020
    - Appendix C: Prudential and Treasury Indicators
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### **9. BACKGROUND PAPERS**

- 9.1 None