

## Report to Cabinet



Date of Meeting	28 <sup>th</sup> July 2020
Portfolio	Leader of the Council and Cabinet Member for Finance
Report Author	Julie Murphy (Chief Finance Officer)
Public/Private Document	Public

## Treasury Management Year-End Report 2019/20

### Executive Summary

1. This report summarises treasury management activity for 2019/20. It highlights compliance with the Council's Treasury Management Strategy (previously approved by Members) and with regulatory / legislative requirements. The Council adhered to key prudential indicators and treasury activity contributed a net underspend (excluding Airport activity) of £1.756m on its revised budget for the year.

### Recommendation

2. Cabinet notes the overall position on Treasury activity for the year.

### Reason for Recommendation

3. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual review of treasury management activities together with 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).

### Key Points for Consideration

#### 4.1 Introduction

The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities. The Code recommends reporting on Treasury Management activities as part of the year-end process.

Treasury Management activity aims to effectively manage the Council's cash flow requirements through borrowing and investment. The service operates within CIPFA's Prudential Code and the approved Treasury Management Strategy to ensure risk is appropriately managed when seeking to minimise the costs of borrowing and maximise returns on investment.

## 4.2 Borrowing

Table 1 below summarises the borrowing activity of the Council throughout the year showing the types of loan, the average interest rate and the average length of maturity of each class of loan.

Table 1 Borrowing

<u>Debt Type</u>	<u>Balance at 1/4/19</u> £m	<u>New Borrowing In Year</u> £m	<u>Repayments In Year</u> £m	<u>Balance at 31/3/20</u> £m	<u>Average Rate</u> %	<u>Average Maturity</u> Years
<b><u>Fixed Rate Debt</u></b>						
PWLB Debt	88.809	25.000	(4.338)	109.472	2.49	11.2
Market Debt	120.000	-	-	120.000	4.42	46.5
Other Debt	0.206	0.157	(0.076)	0.288	-	4.5
<b>Total Fixed Rate Debt</b>	<b>209.015</b>	<b>25.157</b>	<b>(4.414)</b>	<b>229.759</b>	3.60	29.6

The Council borrowed £25m via the Public Loans Works Board this year, which supports the rebalancing of the overall maturity profile. External borrowing at 31/3/20 totalled £229.8m.

The Council incurred total interest costs on its borrowing portfolio net of contributions from Invest to Save Schemes of £6.107m compared to its revised estimate of £6.973m - a saving of £0.866m.

The Council's Capital Financing Requirement at the end of the year is £439m. Adjusted to remove PFI debt and externally managed debt, the Council's Borrowing Requirement at year end is estimated at £341m. Deducting actual borrowing (£230m) from this figure shows that the Council is currently internally borrowing by £111m.

A borrowing policy is being developed for 2020/21 which should support the decision making around the level of internal borrowing which is used to support spend in the capital programme.

## 4.3 Prudential Indicators and Debt Limits

The Treasury Management Strategy details a number of Prudential Indicators which the Prudential Code requires the Council to manage and report on. The indicators are as follows:

- Maturity Periods of Borrowing
- Debt Boundaries and Limits

### Maturity Periods of Borrowing

The maturity structure of fixed interest borrowing should enable the maturity of loans across a range of years so that the Council will not be exposed to a requirement for large amounts of repayment at a particular time. This needs balancing against the

requirement for certainty of costs to secure budgets going forward and the desire to secure the best possible rates. The Prudential Code requires the Council to place upper and lower ranges on maturity.

Table 2 Period of Maturity

<b>Period of Maturity</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Actual</b>
Under 12 months	60%	0%	3.0%
Between 12 & 24 months	60%	0%	3.3%
Between 2 & 5 years	60%	0%	9.0%
Between 5 & 10 years	70%	0%	13.8%
Over 10 years	100%	25%	70.9%
			100.0%

#### Debt Boundaries & Limits

The Council's Operational Boundary (the limit which borrowing should not normally exceed) in 2019/20 (adjusted for PFI projects and externally managed debt) was £533m. The Authorised Limit (a control on our maximum level of borrowing) was £622m. Current borrowing (adjusted for PFI and other debt related long term liabilities) is £328m – comfortably within the approved limits.

#### 4.4 Investments

The level of investments held at 31/3/20 was £116.6m with an average through the year of around £77.7m. The year-end balance has increased compared to last year due to a decision to borrow in March to reduce the Council's risk around interest rate movements and the receipt of government grants to support Covid19 expenditure in the last week of March. The Council exceeded its overall investment income target by £0.3m earning an average return of 0.81% compared to the standard performance indicator (7 day London Interbank Rate) which averaged 0.54%.

Investments represent surplus cash as a result of timing differences between receipt of funds and related expenditure which creates earmarked reserves and balances held for future need. The Council's main treasury investment priority continues to be the security of capital followed by liquidity and yield / return. The Treasury Management Team aims to achieve the optimum return commensurate with proper levels of security and liquidity. All investments made in the year were with counterparties with strong credit ratings and adhered to the limits (duration and amount with each institution) specified in our Treasury Management Strategy.

The relative percentages of the investment portfolio held on 31st March 2020 are detailed in table 3 by credit rating, investment type, institutions and maturity.

Table 3 Investment Portfolio

Credit Rating			Type of Investment		
Fitch Credit Rating	Amount £m	%	Investments Types	Amount £m	%
AAA	94.5	81.0	Fixed Term Bank Deposits	9.0	7.7
AA-	5.0	4.3	Notice Accounts	10.0	8.6
A+	5.0	4.3	Call and Overnight	3.1	2.7
A	12.1	10.4	Money Market	94.5	81.0
<b>Total</b>	<b>116.6</b>	<b>100.0</b>	<b>Total</b>	<b>116.6</b>	<b>100.0</b>

  

Institutions			Maturity		
Institutions:	Amount £m	%	Maturing:	Amount £m	%
UK Banks	17.1	14.7	Instant Call	97.6	83.7
Money Market	94.5	81.0	Less than 1 Month	0.0	0.0
European Banks	0.0	0.0	1-3 Months	5.0	4.3
Rest of the World Banks	5.0	4.3	3-6 Months	14.0	12.0
<b>Total</b>	<b>116.6</b>	<b>100.0</b>	6 Months to 1 Year	0.0	0.0
			Over 1 Year	0.0	0.0
			<b>Total</b>	<b>116.6</b>	<b>100.0</b>

#### 4.5 Alternatives Considered

The report ensures compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management - no other options/alternatives are available.

### Costs and Budget Summary

5. The final outturn to revised budget on treasury activity is summarised in table 4.

Table 4 – Treasury Outturn

<u>Budget</u>	<u>Revised Budget</u> <u>£m</u>	<u>Outturn</u> <u>£m</u>	<u>Variation</u> <u>£m</u>
Interest Expense (Net of Service Contributions)	6.973	6.107	0.866
Interest Income on Investments	(0.338)	(0.641)	0.303
Minimum Revenue Provision (Net of Service Contributions)	12.807	12.318	0.489
Externally Managed Debt	1.196	1.191	0.005
Other Interest Budgets	0.289	0.196	0.093
<b>Total</b>	<b>20.927</b>	<b>19.171</b>	<b>1.756</b>

### Risk and Policy Implications

6. There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in Internal Audit reports and in the External Auditors' reports.

<b>Consultation</b>
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7. The year-end report summarises activity undertaken as part of the Council's approved budget and the Treasury Management Strategy approved by Cabinet / Council as part of the overall budget setting process. The Leadership Team, the Leader, Cabinet Member for Finance, and Opposition Portfolio holder for Finance have been informed of the final 2019/20 position of the Council and its implications for future years. The report is due to be presented to the Corporate Overview and Scrutiny Committee on 17<sup>th</sup> August 2020.

<b>Background Papers</b>	<b>Place of Inspection</b>
8. Treasury Management Strategy 2019/20 – budget/outturn papers	Tax & Treasury Team – Floor2 Number1 Riverside

<b>For Further Information Contact:</b>	Paul McHugh (Senior Accountant Tax & Treasury) 01706 925422 paul.mchugh@rochdale.gov.uk
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