Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

24 JULY 2020

REPORT OF CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

A.7 TREASURY MANAGEMENT PERFORMANCE 2019/20

(Report prepared by Richard Barrett and Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To report on the Council's treasury management activities and Prudential Indicators for 2019/20.

EXECUTIVE SUMMARY

- Borrowing and investments have been undertaken in accordance with the 2019/20 Annual Treasury Strategy that was approved by Council on 26 March 2019.

- ***Summary of the Council's Borrowing Position:***

Amount Outstanding at the end of March 2020	Average Interest Rate Paid in 2019/20	Total Interest paid in 2019/20
£0.207m (General Fund)	7.790%	£0.022m
£40.106m (HRA)	3.386%	£1.401m

No external borrowing was undertaken in 2019/20 for either the General Fund (GF) or Housing Revenue Account (HRA).

- ***Summary of the Council's Investment Position:***

Value of Investments held at the end of March 2020	Average Interest rate on Investments 2019/20	Interest Earned on Investments 2019/20
£66.460m	0.829%	£0.583m

The amount of interest earned from investments increased during the year as rates rose slightly although the bank base rate remained at 0.75% until 11 March 2020 when, due to the Covid-19 pandemic it was cut to 0.25%, with a further cut to 0.10% on 19 March 2020. However, compared to historic interest figures, the 2019/20 return still remained relatively low because of the continuing underlying low interest rate environment. The impact of the latest base rate reduction to 0.1% will be felt in 2020/21. Estimated income was increased during the year from the original estimate of **£0.336 million** to **£0.556 million,** with the outturn figure being **£0.583 million** as set out in the table above.

- The Council continues to hold one property within its Commercial Investment Portfolio, which had a balance sheet value at 1 April 2019 of **£2.300 million**. This 'book value' was reduced by the Council's appointed valuers to **£2.155 million** at the end of 2019/20. However this is an 'accounting' valuation and not a direct value that could be achieved on the market if it was sold. In-line with the budget, rental income of **£0.211 million** was earned on the property in 2019/20.

- During 2019/20 there was one occasion where treasury management limits were exceeded. The maximum amount that can be invested with a single Local Authority is **£6.000 million**. However, due to human error this limit was exceed by **£1.000 million** when a deal was agreed with a local authority on 27 March. Efforts were made to find a replacement counter party, but this could not be readily achieved, so the Council had **£7.000 million** with this one borrower from 27 March until an investment of **£2.000 million** held with them matured on 6 July. Given the relatively low risk that investments with local Authorities present, there was only a very limited credit risk and once balanced with the potential adverse impact on the Council's reputation in the financial markets if trying to withdraw from a deal, the position was felt acceptable.

- Treasury performance figures for the year are set out in **Appendix A** with Prudential Indicators attached as **Appendix B.**

RECOMMENDATION(S)

That Cabinet notes the Treasury Management performance position for 2019/20 and approves the Prudential and Treasury Indicators for 2019/20.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Good and effective Treasury Management supports the Council in delivery against its corporate goals and objectives.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Key treasury management performance data is set out in **Appendix A**.

Risk

Risk is inherent in all treasury management activities. Such risks are considered within the Capital and Treasury Strategy with management actions necessary to mitigate the risks set out in the Council's Treasury Management Practices.

LEGAL

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).

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance which this Council has adopted.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications in respect of the above areas.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Services. The main reporting elements to comply with this code include:

- An Annual Capital and Treasury Strategy approved by Cabinet after consultation with the relevant overview and scrutiny committee for recommending to the Full Council.
- Regular monitoring reports that form part of the Council's Corporate Financial Performance Monitoring arrangements during the year. (For 2019/20, no issues were brought to the attention of members as part of this reporting process but there is one issue to raise as part of this outturn review)
- An annual treasury performance or outturn report for the preceding year that is presented to Cabinet.

This report sets out the necessary information in response to the third bullet point above and provides a summary of the treasury activities undertaken in 2019/20 **(Appendix A)** and final Prudential and Treasury Indicators at the end of 2019/20 **(Appendix B),** with revised figures for 2020/21 where relevant.

During 2019/20, the Council complied with its legislative and regulatory requirements and associated treasury management activity remained in accordance with the Treasury Strategy and Treasury Management Practices with further details in respect of specific borrowing and investment considerations set out in the next section of the report.

BORROWING AND INVESTMENTS 2019/20

Borrowing

The Base Rate set by the Bank of England remained at 0.75% through 2019 but in response to the Covid-19 pandemic it was cut to 0.25% on 11 March 2020 with a further cut to 0.10% on 19 March 2020. The latest forecast from the Council's treasury advisors indicates that this historically low rate of 0.10% is unlikely to change until after March 2023. Public Works Loan Board (PWLB) remain at low levels historically, although HM Treasury imposed an increase of an additional 1% on all PWLB rates without any prior warning on 9 October 2019 and then partially reversed this for some forms of lending on 11 March 2020. The changes are because HM Treasury are trying to stop local authorities borrowing money from the PWLB to purchase commercial properties to raise rental income to support their General Funds. Currently HM Treasury are running a consultation on further changes to PWLB borrowing, with the suggestion that if an authority is planning any purchase of commercial property during a financial year it will not be able to borrow any money from the PWLB for any purpose.

No external borrowing was undertaken during the year. In respect of the General Fund, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent, as investment returns are low and counterparty risk remains relatively high. As set out in the Treasury Strategy, the current internal borrowing position is running just ahead of the £5m agreed. However given the continuing low return on investments and no significant increases in PWLB interest rates in the immediate future, it is felt prudent to maintain this position in the short term although this will be kept under review in consultation with the Council's external advisors and set against the background of potential increases in borrowing rates in the future.

No new borrowing or restructuring of existing debt was undertaken for GF or HRA purposes in 2019/20. Principal on HRA debt continues to be repaid each year in line with the 30 year business plan.

Debt rescheduling opportunities are limited in the current economic climate with no debt rescheduling taking place in 2019/20.

No temporary borrowing from the markets was required during the year.

One of the key prudential indicators relates to the Council's Authorised Borrowing Limit. It is therefore worth highlighting that borrowing has been maintained within the Council's Authorised limit as set out below:

Key Indicator	**Limit 2019/20**	**Amount Borrowed (Internal and External)**
Authorised Limit – borrowing	£76.455m	£45.554m

Investments

The year saw the continuation of the challenging investment environment of low investment returns with relative high level of counterparty risk continuing. The tight monetary conditions remain and short term deposit rates remain at low levels, although there was an increase in interest earnt due to a higher level of available funds invested through the year as a result of the timing of expenditure in both the revenue account and capital programme, plus increases in the rates obtained. However, this began to fall right at the end of March with the cuts in the bank base rate due to the Covid-19 pandemic.

The Council manages its investments in-house and invests in accordance with the approved strategy. The Council invests for periods of time dependent on the Council's cash flows, the view as to future interest rate movements and the interest rates offered by counterparties whilst balancing various risks such as interest rate risk and counterparty risk.

The Council's investments continued across the following investment types:

- Deposits at fixed rates and for fixed terms with other local authorities and the Government's Debt Management Office (DMO)
- Deposits at fixed rates and for fixed terms with UK-based banks and building societies meeting the counterparty risk criteria

- Treasury bills, which are tradeable but if held to maturity are at fixed rates, although none were purchased during 2019/20 as the rates were much lower than could be achieved elsewhere
- Certificates of deposit, which are tradeable but if held to maturity are at fixed rates
- Use of deposit accounts with UK banks for liquidity

These remain the same instruments the Council has used in prior years so there has been no new investment types used during 2019/20. Further details on how the investment types changed over the year is set out below.

With poor investment returns available along with limited ‘low’ risk counterparties, a significant proportion of the Council’s investments were still made with other local authorities. A number of banks have, however, seen their ratings rise over recent years which brought them back onto the Council’s lending list. The returns on Treasury Bills were so low that none were bought during the year. Certificates of deposit and fixed deposits with banks were pursued for much of the year and were used when they offered better returns than that available from local authorities. Local authority rates rose in autumn 2019 and in early 2020 and the Council continued to invest with them again. Both government and local authority investments fit well with the Council’s low appetite for risk with the security and liquidity of the investment the prime concern.

The total invested in local authorities at 31 March 2020 was **£53.000 million** out of a total investment of **£66.460 million**, with a further **£1.900 million** invested short term with the Debt Management Office. Other investments were held with UK banks with no amounts held with Building Societies, non-UK institutions or in Treasury Bills.

The Council receives regular credit rating updates during the year following which the appropriate action is taken as soon as practical where the credit rating falls below the minimum ratings which form part of the Council’s Treasury Management Practices.

The UK holds an AA rating with one rating agency, AA- with a second and Aa2 with the third, with the lower grades not having a specific adverse impact on the Council’s treasury activities at the present time.

In accordance with the Council’s Commercial Property Investment Policy, an annual update on the portfolio is set out below.

In August 2017 the Council purchased an investment property in the District. The purchase was financed partly from capital receipts and partly from revenue resources, so there was no increase in indebtedness arising from the purchase. The purchase price, including stamp duty, was **£3.244 million**. At 31 March 2018 the property had been revalued to **£3.100 million** (the purchase price less stamp duty tax). During 2018/19 the Council’s appointed valuer revalued the property for the purposes of the Council’s Statement of Accounts and the fair value was reduced to **£2.300 million** at 31 March 2019. During 2019/20 the Council’s appointed valuer revalued the property again for the purposes of the Council’s statement of accounts and the fair value was further reduced to **£2.155 million** An impairment of **£0.145 million** was therefore recognised in the Council’s 2019/20 statement of accounts, which is charged to revenue within the Comprehensive Income and Expenditure Statement and then reversed out through the Movement in Reserves Statement so that it does not fall as a direct cost that needs to be financed. It is worth highlighting that the above adjustments reflect the necessary end of year accounting adjustments and therefore do not necessarily reflect the value of the property on the open market. This remains as the only property in the portfolio.

In terms of the performance of the property, during the year the rental income was **£0.211 million**. This represents an annual rate of return for the year of **6.5%** compared to the purchase price including stamp duty. The property is therefore performing satisfactorily against the financial target with the budgeted investment income achieved for the year.

The current leasehold occupier of the property purchased ceased trading from the property in November 2018. There have been no major changes since last year with discussions on-going with the current leasehold occupier to explore options going forward, which could include them subletting the property for the unexpired period of the lease (approximately 6 years). It is worth highlighting that the Council's Commercial Property Investment Policy is underpinned by robust risk management actions which will respond to any changes to the situation.

Given the above, there are no current risks to the Council's long term forecast or significant changes to the risk of holding commercial property, but this will be reviewed on an on-going basis with any changes required to be made to the forecast set out as part of the financial strategy process over the reminder of the year.

Specific Issues Experienced in 2019/20

On 19 February 2020 the Council agreed a deal to lend initially £2.000 million to one Local Authority on 27 March 2020. This took the amount with this one local authority up to the maximum of **£6.000 million**. However, due to human error, on 4 March it was agreed to lend a further **£1.000 million** to the same authority, taking the total lent to **£7.000 million** and therefore exceeding the treasury management limit of **£6.000 million.** When this was realised, discussions were held with the relevant Local Authority and they attempted to find a replacement lender to them. However, interest rates between local authorities were rising through March and they were unable to find a replacement lender at the same rate. Given the relatively low risk and balanced against the need to protect the Council's reputation within the financial markets, the deal remained in place. An investment of **£2.000 million** held with the same authority matured on 6 July 2020 which brought the limit back under the **£6.000 million** limit. To prevent a recurrence, when deals are being placed with authorities where there are multiple deals outstanding, the figures will be independently double-checked before the deal is agreed with the broker.

Compliance with Treasury and Prudential Limits

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy. The outturn for the Prudential Indicators is shown in **Appendix B.**

BACKGROUND PAPERS FOR THE DECISION
None

APPENDICES
Appendix A Treasury Performance figures 2019/20 **Appendix B** Prudential and Treasury Indicators 2019/20

1 Borrowing

1a Long Term Debt

Principal	Opening Balance 1 April 2019 £'000	New Borrowing £'000	Principal Repaid £'000	Balance at 31 March 2020 £'000	Average Debt for Year £'000
Long Term Borrowing					
PWLB - General Fund	306	0	99	207	280
PWLB - Housing Revenue Account	41,770	0	1,664	40,106	40,878
Total Long Term Borrowing	**42,076**	**0**	**1,763**	**40,313**	**41,158**

Average Interest Rates	Average Interest Rate 1 April %	New Borrowing %	Principal Repaid %	Average Interest Rate 31 March %	Average Interest Rate for Year %
Long Term Borrowing					
PWLB - General Fund	7.958	0.000	8.550	7.515	7.790
PWLB - Housing Revenue Account	3.408	0.000	2.371	3.451	3.386
Overall Long Term Borrowing	**3.441**	**0.000**	**2.718**	**3.472**	**3.457**

Interest paid relating to 2019-20	
General Fund	22
Housing Revenue Account	1,401
	1,423

Long term debt is defined in legislation as loans repayable over more than one year.

1b *Total debt*

Average debt over the year	£41,158
Interest paid relating to 2018-19	£1,423
Average interest rate for year	3.457%

This includes interest paid on temporary debt

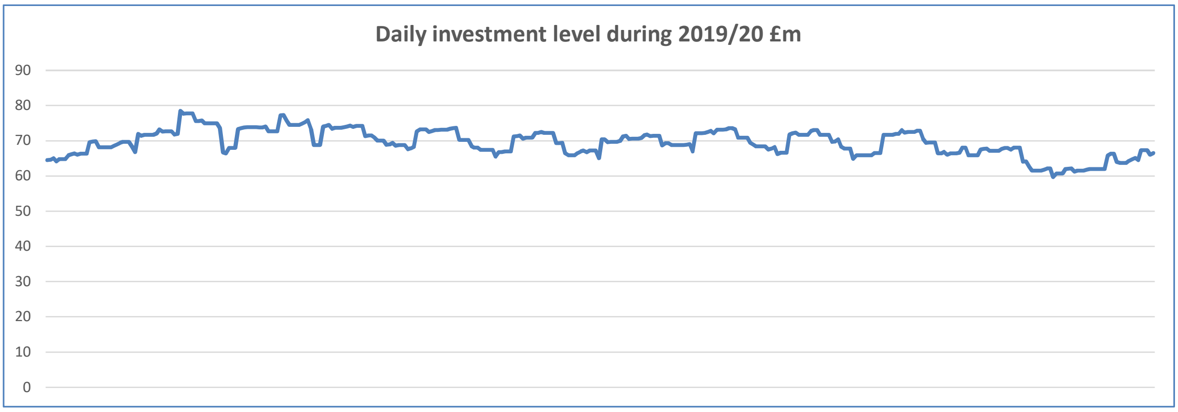
1c Budget for Total Interest Paid

	Original Estimate £'000	Out-turn £'000	Variation from Budget £'000
General Fund	22	22	0
Housing Revenue Account	1,413	1,401	(12)
Total Interest Paid	**1,435**	**1,423**	**(12)**

2 Investments

2a *Temporary Investments*

Principal	Opening Balance 1 April 2019 £'000	New Investments £'000	Investments Repaid £'000	Balance at 31 March 2020 £'000	Average Investments for Year £'000
Investments less than a year					
Investments with UK Government via Treasury Bills, DMO, Local Authorities and other public bodies	47,000	281,900	274,000	54,900	
Investments with UK Financial Institutions (including Money Market Funds)	12,470	41,990	42,900	11,560	
Investments with non-UK Financial Institutions	0	0	0	0	
Total Temporary Investments	**59,470**	**323,890**	**316,900**	**66,460**	**69,628**



Average Interest Rates	Average Interest Rate 1 April %	Average Interest Rate 31 March %	Average Interest Rate for Year %
Temporary Investments	0.915	0.819	0.829

2b Budget for Total Interest Earned

	Original Estimate £'000	Revised Q3 CBM £'000	Out-turn £'000	Variation from Revised Budget £'000
Total Interest Earned	**(336)**	**(556)**	**(583)**	**(27)**

3 Base rates

	%
At 1 April 2019	0.750
At 31 March 2020	0.100

The rate was reduced by the Bank of England on 11 March 2020 to 0.25% and on 19 March 2020 to 0.10%

PRUDENTIAL INDICATORS

CAPITAL EXPENDITURE

This is an estimate of the amount of investment planned over the period. As can be seen, not all investment necessarily has an impact on the Council Tax, schemes funded by grants, capital receipts or external contributions mean that the effect on the Council Tax is greatly reduced.

Capital Expenditure - General Fund £000s	2018/19 Actual	2019/20 Approved budget	2019/20 Actual	Notes	2020/21 as agreed by Leader 24 April 2020	Amended 2020/21 for carry forwards
Total Capital Expenditure	**4,831**	**13,657**	**5,202**		**1,024**	**9,420**
Financing - General Fund						
External contributions	(203)	(67)	(23)		-	(43)
Section 106	(168)	(15)	(7)		-	(8)
Coast protection grant	(2,609)	(2,108)	(1,670)		-	(439)
Other Government grants	-	(322)	(40)		-	(282)
Disabled Facilities Grant	(1,077)	(4,727)	(1,507)		(757)	(3,977)
Capital receipts	(41)	(907)	(28)		-	(825)
Direct revenue contributions	(165)	(486)	(341)		(55)	(199)
Earmarked reserves	(568)	(5,025)	(1,586)		(212)	(3,647)
Total Capital Financing	**(4,831)**	**(13,657)**	**(5,202)**	**-**	**(1,024)**	**(9,420)**
Net Financing need (External Borrowing)	**0**	**0**	**0**		**0**	**0**

Housing Revenue Account Capital Schemes £000	2018/19 Actual	2019/20 Approved budget	2019/20 Actual	Notes	2020/21 as agreed by Leader 24 April 2020	Amended 2020/21 for carry forwards
Total Capital Expenditure	**4,283**	**7,602**	**5,370**		**3,457**	**5,608**
Financing - Housing Revenue Account						
Major repairs reserve	(3,224)	(3,754)	(3,652)		(3,176)	(3,196)
Direct revenue contributions	(342)	(2,890)	(1,197)		(281)	(1,975)
Section 106	-	(380)	(86)		-	(294)
Capital receipts	(37)	(461)	(368)		-	(93)
External contributions	(600)	(117)	(67)		-	(50)
Government grant	(80)		-		-	
Total Capital Financing	**(4,283)**	**(7,602)**	**(5,370)**		**(3,457)**	**(5,608)**
Net Financing need (External Borrowing)	**0**	**0**	**0**		**0**	**0**

CAPITAL FINANCING REQUIREMENT

Each year, the Council finances the capital programme by a number of means, one of which could be borrowing. The Capital Financing Requirement (CFR) represents the cumulative amount of borrowing that has been incurred to pay for the Council's capital assets, less amounts that have been set aside for the repayment of debt over the years. The Council is only allowed to borrow long term to support its capital programme. It is not allowed to borrow long term to support its revenue budget.

CAPITAL FINANCING REQUIREMENT	2018/19 Actual	2019/20 Estimate	2019/20 Actual	Notes	2020/21 as agreed by Leader 24 April 2020
	£000	£000	£000		£000
General Fund	5,676	5,449	5,448		5,231
Housing Revenue Account	41,770	40,106	40,106		38,441
Total	**47,446**	**45,555**	**45,554**		**43,672**

GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT

This indicator compares the Capital Financing Requirement to the level of external debt and shows how much of the capital programme is financed from internal resources. The capital programme is partially funded in the short to medium term by internal resources when investment interest rates are significantly lower than long term borrowing rates. Net interest payments are, therefore, optimised.

PRUDENTIAL INDICATOR	2018/19 Actual	2019/20 Estimate	2019/20 Actual	Notes	2020/21 as agreed by Leader 24 April 2020
	£000	£000	£000		£000
Capital Financing Requirement	47,446	45,555	45,554		43,672
External debt	42,076	40,312	40,312		38,592
Internal borrowing	5,370	5,243	5,242		5,080

OPERATIONAL BOUNDARY AND AUTHORISED LIMIT

The Council must set an operational boundary and authorised limit 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 reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. It also takes account of other long term liabilities, which comprise finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt. The Council has none of these at present.

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.

PRUDENTIAL INDICATOR	2018/19 Actual	2019/20 Estimate	2019/20 Actual	Notes	2020/21 as agreed by Leader 24 April 2020
	£000	£000	£000		£000
Operational boundary - borrowing	67,861	67,704	67,704		67,525
Authorised limit - borrowing	80,505	76,455	76,455		76,156

RATIO OF FINANCING COSTS TO NET REVENUE STREAM

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

ESTIMATE OF THE RATIO OF FINANCING COSTS TO NET REVENUE	2018/19 Actual	2019/20 Estimate	2019/20 Actual	Notes	2020/21 as agreed by Leader 24 April 2020
	£000	£000	£000		£000
General Fund	-1.91	-0.64	-2.49		-1.61
Housing Revenue Account	47.89	46.23	57.54		45.05

INTEREST RATE EXPOSURE

Tendring District Council currently has all its borrowings at fixed rate and usually has a mixture of fixed and variable rate investments. This indicator is set to control the Council's exposure to interest rate risk.

PRUDENTIAL INDICATOR	2018/19 Actual	2019/20 Estimate	2019/20 Actual	Notes	2020/21 as agreed by Leader 24 April 2020
	£000	£000	£000		£000
Upper limit for Fixed Interest Rates on debt	47,446	45,555	45,554		43,672
Upper limit for Variable Interest Rates on debt (based on 30% of the fixed rate limit)	14,234	13,667	13,666		13,102

TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS (excluding property)

Interest rate risk is also affected by the proportion of the investments invested at fixed rates for longer periods, especially in a period when rates are expected to rise.

PRUDENTIAL INDICATOR	2018/19 Actual	2019/20 Estimate	2019/20 Actual	Notes	2020/21 as agreed by Leader 24 April 2020
	£000	£000	£000		£000
Limits on the total principal sum invested to final maturities longer than 364 days	3,500	3,500	3,500		3,500

MATURITY STRUCTURE OF FIXED RATE BORROWING

This indicator is set to control the Council's exposure to refinancing risk. The limits are set for each age range to ensure that the Council avoids too many fixed rate loans being matured at one time and spreads the maturity across several periods. The percentages for the upper and lower limits do not add up to 100% as they do not represent an actual allocation.

PRUDENTIAL INDICATOR	Upper limit	Lower limit	Actual outstanding debt maturity % at		2020/21 as agreed by Leader 24 April 2020
	%	%	31/03/2020		31/03/2021
Under 12 months	25	0	4.27%		4.33%
12 months and within 24 months	30	0	4.15%		5.76%
24 months and within 5 years	60	0	15.55%		16.67%
5 years and within 10 years	75	0	20.13%		17.57%
10 years and above	95	25			
10-20 years			16.89%		15.76%
20-30 years			1.82%		0.95%
>30 years			37.21%		38.87%

TREASURY INDICATOR - EXPOSURE TO CREDIT RISK

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) using the rating applicable when it is taken out and taking the arithmetic average, weighted by the size of each investment. Investments in government instruments such as DMO, treasury bills and in local authorities are scored as 1.

TREASURY INDICATOR	2018/19 Actual	2019/20 Actual	2020/21 Upper limit
Average credit score for investments	1.43	1.26	2.00