TREASURY MANAGEMENT ANNUAL REPORT 2019/20

1. INTRODUCTION AND BACKGROUND

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 the financial year 2019/20. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The CIPFA Code of Practice on Treasury Management was adopted by this Council on 24 February 2010; this was updated in November 2011 and updated further in December 2017.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full Council of an annual treasury management strategy report (including the annual investment strategy*)* for the year ahead and an annual review report of the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of the treasury management strategy to a specific named body which in this Council is the Finance, Assets and Performance Scrutiny Committee.
6. Delegation by the Council of the role of scrutiny of treasury management performance to a specific named body which in this Council is the Audit and Standards Committee, a midyear and year-end review report is received by this Committee.

Treasury management in this context is defined as:

"The management of the local authority's investments and cash flows, its 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."

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of treasury management activities, for the financial year 2019/20.

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.

This Council has complied with the requirement under the Code to give prior scrutiny to the annual review report by reporting this to the Audit and Standards Committee prior to it being reported to Full Council.

2. THIS ANNUAL TREASURY REPORT COVERS

- The Council's treasury position as at 31 March 2020;
- The strategy for 2019/20;
- The economy in 2019/20;
- Investment rates in 2019/20;
- Compliance with treasury limits and Prudential Indicators;
- Investment outturn for 2019/20;

- Involvement of Elected Members;
- Other issues.

3. TREASURY POSITION AS AT 31 MARCH 2020

The Council's investment position at the beginning and the end of the year was as follows:

	At 31/03/20	Average Return	Average Life (Days)	At 31/03/19	Average Return	Average Life (Days)
Total Debt	£0m	0.00%	0	£0m	0.00%	0
Total Investments	£0m	0.51%	4	£0m	0.48%	3

It should be noted that the above table is only a snapshot of the total Investments as at 31 March 2020. Large fluctuations in cash inflows and outflows that occur throughout the month can have an impact on the figure reported.

4. THE STRATEGY FOR 2019/20

The strategy agreed by Council on 20 February 2019 was that:

- The Council may be required to borrow during 2019/20 if capital receipts did not materialise in order to fund the capital programme;

- All borrowing would be kept absolutely within the Authorised Limit of £15m and would not normally exceed the Operational Boundary of £7.5m (although it could for short periods of time be permitted to rise to a figure between £7.5m and £15m due to variations in cash flow);

- Temporary surpluses which might arise would be invested, either in short term deposits with the Council's various deposit accounts or in money market investments (cash deposits) if the size warranted this and for an appropriate period in order that these sums would be available for use when required;

- The proportions of loans and investments to be at fixed or variable rates were: fixed rate loans to be between 0% and 100% of the total and variable rate to be between 0% and 100% of the total, thus enabling maximum flexibility to take advantage of interest rate trends;

- Long term investments to be permitted as follows: maturing beyond 31/03/19 £5m, maturing beyond 31/03/20 £5m, maturing beyond 31/03/21, £5m;

- The overriding consideration is safeguarding the Council's capital. At all times the risk to the Council will be minimised. Within these constraints, the aim will be to maximise the return on investments; and,

- Forward commitment of funds for investment is permitted in respect of in-house investments, in instances where market conditions warrant it.

5. THE ECONOMY AND INTEREST RATES - narrative supplied by the Council's Treasury Management Advisors – Arlingclose Limited

The UK's exit from the European Union and future trading arrangements, had remained one of the major influences on the UK economy and sentiment during 2019/20. The 29 March 2019 Brexit deadline was extended to 12 April, then to 31 October and finally to 31 January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European

Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation fell to 1.7% year on year in February, below the Bank of England's target of 2%. Labour market data remained positive. The International Labour Organisation unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.10%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

6. INVESTMENT RATES IN 2019/20 – narrative supplied by the Council's Treasury Management Advisors – Arlingclose Limited

Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touched its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31 March 2020. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

7. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Annex 1.

8. INVESTMENT OUTTURN FOR 2019/20

Internally Managed Investments

The Council manages its investments in-house and during 2019/20 invested with institutions in compliance with the credit worthiness service of the Council's treasury management advisors, Arlingclose Limited.

The Council invested for a range of periods from overnight to up to six and a half months during 2019/20, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. Eighteen of the twenty-nine investments made in 2019/20 were for a period of two weeks or less. Twenty-four of the twenty-nine investments were deposited in the Council's business reserve account due to the available rate and liquidity. The remaining five investments were made with other Local Authorities.

In addition funds that were held in the general fund account that the Council has with Lloyds Bank also earn interest on a daily basis.

Investment Outturn for 2019/20

During 2019/20 an average rate of return of 0.51% was achieved on an average individual investment of £3.475m. This compared with the target of 0.40% included in the departmental service plan.

9. INVOLVEMENT OF ELECTED MEMBERS

Elected members have been involved in the treasury management process during 2019/20 including:

- Scrutiny of the treasury management strategy by the Finance, Assets & Performance Scrutiny Committee prior to being submitted for approval by the Full Council.
- Scrutiny of treasury management performance by the Audit and Standards Committee through the receipt of a half yearly treasury management report.
- A quarterly budget monitoring and performance report is reported to Cabinet, this contains details of Treasury Management activity undertaken during the quarter.

ANNEX 1: PRUDENTIAL INDICATORS

Position/Prudential Indicator		2018/19 Actual	2019/20 Indicator	2019/20 Actual
1	Capital Expenditure	£2.980m	£6.948m	£2.923m
2	Capital Financing Requirement at 31 March *	£4.405m	£4.405m	£4.364m
3	Treasury Position at 31 March: Borrowing Other long term liabilities Total Debt Investments Net Borrowing	 £0 £0 £0 £0 £0	 N/A N/A N/A N/A N/A	 £0 £0 £0 £0 £0
4	Authorised Limit (against maximum position)	£0	£15.0m	£0
5	Operational Boundary (against maximum position)	£0	£7.5m	£0
6	Ratio of Financing Costs to Net Revenue Stream	(0.59%)	0.09%	(0.37%)
7	Upper Limits on Variable Interest Rates (against maximum position) Loans Investments	 0% 0%	 100% 100%	 0% 0%
8	Actual External Debt	£0	N/A	£0
9	Principal Funds Invested for Periods Longer than 365 days (against maximum position)	£0	£5.0m	£0

GLOSSARY

CFR – Capital Financing Requirement

The Capital Financing Requirement is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.

CIPFA – The Chartered Institute of Public Finance and Accountancy

The Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations.

CPI – Consumer Price Index

A measure that examines the weighted average of prices of a basket of consumer goods and services. The Consumer Price Index is calculated by taking price changes for each item in the predetermined basket of goods/services and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

GDP – Gross Domestic Product

Gross Domestic Product is the market value of all officially recognised final goods and services produced within a country in a given period of time.