EXECUTIVE BOARD
21ST SEPTEMBER 2020

ANNUAL TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT 2019-20

1. Introduction

The Treasury Management Policy and Strategy for 2019-20 was approved by Council on 20th February 2019. Section B 1.1(2) stated that a year end annual report would be produced.

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) and outlines the Treasury Management activities in the 2019-20 financial year.

2. Investments

One of the primary activities of the Treasury Management operation is the investment of surplus cash for which the Authority is responsible. As well as the Authority's own cash the County Council invests School Funds, Trust Funds and other Funds, with any interest derived from these investments being passed over to the relevant Fund.

All surplus money is invested daily with the approved counterparties either via brokers on the Money Markets or direct. The security of the investments is the main priority, appropriate liquidity should be maintained and returns on the investments a final consideration. It continues to be difficult to invest these funds as the market continues to be insecure and as a consequence appropriate counterparties are limited.

For 2019-20 investments to individual counterparties were limited to:

	Maximum to Lend £m
Upper Limit Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term or AA-, Aa3 or AA- long term	10
Middle Limit Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term	7
UK Banks Part Nationalised Included as investment counterparties, as long as they continue to have appropriate UK Government support	7
Any one Local Authority	5
Any one AAA Rated Money Market Fund	5
Debt Management Office	40

The total investments at 1st April 2019 and 31st March 2020 are shown in the following table:

Investments	**01.04.19**				**31.03.20**			
	Call and notice £m	**Fixed Term £m**	**Total £m**	**%**	**Call and notice £m**	**Fixed Term £m**	**Total £m**	**%**
Banks and 100% Wholly Owned Subsidiaries	23.00	0.57	23.57	42	19.00	0.53	19.53	27
Building Societies	0.00	0.00	0.00	0	0.00	3.00	3.00	4
Money Market Funds	0.00	2.50	2.50	4	12.00	0.00	12.00	16
DMADF (DMO)	0.00	15.00	0.00	27	0.00	18.00	18.00	24
Local Authorities	15.00	0.00	15.00	27	0.00	21.00	21.00	29
TOTAL	**38.00**	**18.07**	**56.07**	**100**	**31.00**	**42.53**	**73.53**	**100**

The total investment figure of £73.53m at 31st March 2020 includes £18.00m Swansea Bay City Deal money.

An analysis of the daily cash schedules indicates that the minimum balance lent over the twelve month period was £56.07m and the maximum balance lent was £110.57m. The average balance for the year was £87.60m.

The total investments made by the Council and repaid to the Council (the turnover) amounted to £1,420.14m. This averaged approximately £27.16m per week or £3.88m per day. A summary of the turnover is shown below:

	£m
Total Investments 1st April 2019	56.07
Investments made during the year	718.80
Sub Total	774.87
Investments Repaid during the year	(701.34)
Total Investments 31st March 2020	**73.53**

The main aim of the Treasury Management Strategy is to manage the cash flows of the Council and the risks associated with this activity. Lending on the money market secures an optimum rate of return, allows for diversification of investments and consequently reduction of risk, which is of paramount importance in today's financial markets.

The benchmark return for the money market is the "7 day LIBID rate". For 2019-20 the Council has compared its performance against this "7 day LIBID rate". The average "7 day LIBID rate" was 0.54% whereas the actual rate the Council earned was 0.74%, an out performance of 0.20%.

This outperformance can be quantified as £174k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for 2019-20 amounted to £0.649m, which was more than the estimated figure of £0.500m. The Bank of England Official Rate was reduced from 0.75% to 0.25% on 11th March 2020, and a further reduction was made on the 19th March 2020 to 0.10%.

The income from investments is used by the Authority to reduce the net overall costs to the Council taxpayer.

3. Update on the investments with Kaupthing Singer & Friedlander (KSF)

The latest position with the Council's investments with KSF was reported in the Treasury Management and Prudential Indicator Reports to Executive Board during the year.

Three further dividends totalling £36.8k were received in 2019-20, equating to 0.92p in the £.

As at 31st March 2020 the sum of £3.47m principal and £212k interest had been received from the Administrators, which equates to 86.67% of the claim submitted. Further dividends are expected to be paid in 2020-21. The Administrators estimate total dividends payable to non-preferential creditors at 86.80%.

4. Security, Liquidity and Yield (SLY)

Within the Treasury Management Strategy Statement for 2019-20, the Council's investment priorities are:

- Security of Capital
- Liquidity and
- Yield

The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is still considered appropriate to keep investments short term to cover cash flow requirements.

Attached at Appendix 1 is a list of the individual investments (excluding the £0.53m in KSF) held as at the 31st March 2020 together with their credit ratings, historic risk of default and the risk weighting attached to each investment.

5. Borrowing

As Members are aware the Authority has a capital investment programme. For 2019-20 actual capital expenditure was £76.41m. This was financed from:

	£m
Borrowing	31.29
Grants and Contributions	33.95
Usable Capital Receipts Applied	1.33
Revenue and Reserves	9.84
Total	**76.41**

Under the Treasury Management Strategy it was resolved:

- To borrow to meet the funding requirements of the Authority, after allowing for capital grants, capital receipts and capital contributions, and to stay within the Prudential Indicators to ensure affordability, prudence and sustainability.

- To borrow when interest rates are at their most advantageous, after considering cash flow requirements.

The following loans were borrowed during 2019-20 to fund the capital programme:

Loan Reference	Amount (£m)	Interest Rate	Start Date	Period	Maturity Date
509779	5.00	1.77%	27th August 2019	50yrs	28th March 2069
175975	10.00	1.86%	26th March 2020	1yr	26th March 2021
175978	10.00	1.88%	26th March 2020	2yrs	26th March 2022
Total	**25.00**				

The weighted average interest rate of these new loans was 1.85% which compares favourably with the weighted average rate of the respective loan periods throughout the year.

The total loans outstanding at 1st April 2019 and 31st March 2020 were:

Loans	Balance at 01.04.19 £m	Balance at 31.03.20 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	405.42	425.42	20.00
Market Loan	3.00	3.00	0.00
Salix, Invest-to-Save, HILS & TCL	4.40	4.11	(0.29)
Total	**412.82**	**432.53**	**19.71**

The total external interest paid in 2019-20 amounted to £17.63m, which compares favourably with the budget of £19.69m. The savings have arisen due to under borrowing on the capital programme and borrowing at lower than anticipated interest rates.

6. Treasury Management Prudential Indicators

Under the requirements of the Prudential Code of Practice for Capital Finance in Local Authorities, the Council are required to set a number of treasury management prudential indicators for the year 2019-20. The indicators set and the performance against those indicators is shown below:

6.1 The estimated and actual interest exposure limits as at 31st March 2020 were:

	Estimate 31.03.20 £m			Actual 31.03.20 £m		
	Fixed Interest Rate	**Variable Interest Rate**	**Total**	**Fixed Interest Rate**	**Variable Interest Rate**	**Total**
Borrowed	446.00	3.00	449.00	429.53	3.00	432.53
Invested	(20.00)	(30.00)	(50.00)	(42.53)	(31.00)	(73.53)
Net	**426.00**	**(27.00)**	**399.00**	**387.00**	**(28.00)**	**359.00**
Proportion of Total Net Borrowing	107%	(7%)	100%	108%	(8%)	100%
Limit	**125%**	**5%**				

6.2 Maximum principal sums invested > 365 days

	2019-2020 Limit £m	2019-2020 Actual £m
Maximum principal sums invested > 365 days	10	NIL

6.3 Interest rate exposure limits

	2019-20 Limit £m	2019-20 Actual £m
Limits on fixed interest rates based on net debt	515.00	387.00
Limits on variable interest rates based on net debt	51.00	(28.00)

6.4 The upper and lower limits set for the maturity structure of borrowing along with the actual maturity structure as at 31st March 2020.

	Estimated Upper Limit 2019-2020 %	Estimated Lower Limit 2019-2020 %	Actual 31.03.20 %
Under 12 months	15	0	5.27
12 months to 2 years	15	0	3.65
2 years to 5 years	50	0	6.74
5 years to 10 years	50	0	9.23
10 years to 20 years	50	0	17.89
20 years to 30 years	50	0	18.40
30 years to 40 years	50	0	23.10
40 years and above	50	0	15.72
Total			**100.00**

Details of the above maturity structure are shown below:

Loan Maturities	PWLB Debt £m	Average Interest Rate %	Market Loans/ Invest to Save/Salix/ HILS/TCL £m	Average Rate %	Total Debt Outstanding £m
Before 1st April 2021	22.04	5.12	0.76	0	22.80
1st April 2021 to 31st March 2022	15.77	3.90	0.00	0	15.77
1st April 2022 to 31st March 2025	29.16	5.05	0.00	0	29.16
1st April 2025 to 31st March 2030	38.64	4.27	1.29	0	39.93
1st April 2030 to 31st March 2040	75.31	4.30	2.06	0	77.37
1st April 2040 to 31st March 2050	79.60	4.03	0	0	79.60
1st April 2050 to 31st March 2060	96.90	5.09	3.00	4.72	99.90
After March 2060	68.00	2.47	0	0	68.00
Total as at 31.03.20	**425.42**		**7.11**		**432.53**

7. Prudential Indicators

7.1 Affordability

7.1.1 Actual and estimated ratio of financing costs to net revenue stream.

Ratio of Financing Costs to Revenue Stream		
	2019-2020 Estimate %	**2019-2020 Actual %**
Non-HRA	5.11	4.81
HRA	32.75	32.04

The indicator shows the proportion of income taken up by capital financing costs.

7.2 Prudence

7.2.1 The Capital Financing Requirement (CFR).

	31.03.19 Estimate £m	**31.03.19 Actual £m**
Non-HRA	271	266
HRA	142	144
HRAS	74	74
Total	**487**	**484**

The Capital Financing Requirement reflects the underlying need to borrow for capital purposes.

7.2.2 Gross Borrowing against the Capital Finance Requirement indicator.

To ensure that borrowing levels are prudent over the medium term the Council's external borrowing must only be for a capital purpose. Gross borrowing must not exceed the CFR for 2019-20 plus the expected changes to the CFR over 2020-21 and 2021-22 but can in the short term due to cash flows. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

£m	2019-2020 Estimate	2019-2020 Actual
Debt at 1st April 2019	416	413
Expected Change in Debt	70	20
Gross debt at 31st March 2020	**486**	**433**
CFR	**535**	**501**
Under / (Over) borrowing	**49**	**68**

The Section 151 Officer reports that the authority had no difficulty meeting this requirement in 2019-20.

7.2.3 The Authorised Limit and Operational Boundary.

The Authorised Limit is the “Affordable Borrowing Limit” required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2019-20 the Council has maintained gross borrowing within its Authorised Limit.

The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

The actual financing costs as a proportion of net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2019-2020 £m
Authorised Limit	588.00
Gross borrowing	432.53
Operational Boundary	535.00
Average gross borrowing position	412.45
Financing costs as a proportion of net revenue stream	7.78%

8. Leasing

No finance leases were negotiated during the year.

9. Rescheduling

No rescheduling was undertaken during the year.

10. Conclusion

This report demonstrates compliance with the reporting requirements of the CIPFA Treasury Management Code of Practice.

11. Recommendations

It is recommended that this report be received by the Executive Board.