

# Cherwell District Council

## Accounts, Audit & Risk Committee

29 July 2020

### 2019/20 Treasury Management Annual Report

#### Report of the Director of Finance

This report is public

#### Purpose of report

This report presents information on treasury management performance and compliance with treasury management policy during 2019/20 as required by the Treasury Management Code of Practice.

#### 1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of this report in line with the Treasury Management Strategy.

#### 2.0 Introduction

- 2.1 In 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.
- 2.2 The Council's treasury management strategy for 2019/20 was approved by full Council 25 February 2019. The Council has borrowed and 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 remains central to the Council's treasury management strategy.
- 2.3 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 2.4 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments.

The Council's 2018/19 Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 25 February 2019.

### 3.0 External Context – see Appendix 1

3.1 A detailed economic commentary and outlook provided by our Treasury advisers, Arlingclose, can be found at Appendix 1.

### 4.0 Local Context

4.1 On 31<sup>st</sup> March 2020, the Council had net borrowing of £119m (2019 £95.7m) arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below:

Table 1: Balance Sheet Summary

	31.3.20 Actual £m
<b>General Fund CFR / Borrowing CFR</b>	<b>180.6</b>
Less: Usable reserves	(26.2)
Less: Working capital	(35.4)
<b>Net borrowing / (investments)</b>	<b>119.0</b>

4.2 The Council's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

4.3 The treasury management position as at 31<sup>st</sup> March 2020 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	2019/20 Annualised Rate %
Long-term borrowing (PWLB)	(41.0)	(34.0)	(75.0)	1.88
Short-term borrowing (LA's)	(70.0)	4.0	(66.0)	1.23
<b>Total borrowing</b>	<b>(111.0)</b>	<b>(30.0)</b>	<b>(141.0)</b>	<b>1.55</b>
Long-term investments	0	0	0	0
Short-term investments	6.0	11.0	17.0	0.70
Cash and cash equivalents	9.3	(4.3)	5.0	0.66
<b>Total investments</b>	<b>15.3</b>	<b>6.7</b>	<b>22.0</b>	<b>0.69</b>
<b>Net (borrowing) / investments</b>	<b>(95.7)</b>	<b>(23.3)</b>	<b>(119.0)</b>	

Note: the figures in the table are principal amounts and do not include accrued interest, therefore differ from those shown in the statement of accounts.

## 5.0 Borrowing Activity

- 5.1 At 31<sup>st</sup> March 2020, the Council held £141m of loans as part of its strategy for funding previous and current years' capital programmes. The year-end borrowing position and the year-on-year change is shown in table 3 below.

Table 3: Borrowing Position

	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	31.3.20 Rate %	31.3.20 WAM* Years
PWLB (long-term)	41.0	34.0	75.0	1.76	11.1
Local authorities (short-term)	70.0	(4.0)	66.0	1.28	1.1
<b>Total borrowing</b>	<b>111.0</b>	<b>30.0</b>	<b>141.0</b>	<b>1.54</b>	<b>6.5</b>

\*Weighted average maturity

- 5.2 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
- 5.3 In keeping with these objectives, new borrowing was kept to a minimum in 2019/20. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 5.4 The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the Council's borrowing need based on realistic projections, it was decided to take a higher proportion of medium/longer-term fixed rate loans, to provide some certainty and stability to the debt portfolio.

## 6.0 Treasury Investment Activity

- 6.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20, the Council's investment balance ranged between £11.7m and £62.5m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change is shown in table 4 below.

Table 4: Investment Position (Treasury Investments)

	31.3.18 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	31.3.19 Rate %
Banks & building societies	3.5	(2.5)	1.0	0.50
UK Government	3.0	(1.0)	2.0	0.05
Local Authorities	0	15.0	15.0	1.16
Money Market Funds	8.8	(4.8)	4.0	0.35
<b>Total investments</b>	<b>15.3</b>	<b>6.7</b>	<b>22.0</b>	<b>0.88</b>

- 6.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.3 As only a relatively low level of investment balances is held, and invested for shorter durations, the interest rates achieved are lower than could otherwise be expected. The type of investments during the year is constantly monitored and adjusted to reflect market conditions and cashflow requirements.

## **7.0 Financial Implications**

- 7.1 The outturn for debt interest paid in 2019/20 was £1.84m on an average debt portfolio of £118.6m at an average interest rate of 1.55%, against a budgeted £2.51m debt interest payable.
- 7.2 The outturn for treasury investment income received in 2019/20 was £235k on an average credit portfolio of £34.1m at an average interest rate of 0.69%, against a budgeted £154k investment income receivable.

## **8.0 Non-Treasury Investments**

- 8.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 8.2 These non-treasury investments are not financially motivated and contribute to the Council's service delivery and regeneration objectives.
- 8.3 However, they do generate additional investment income for the Council, at a higher rate of return of than earned on treasury investments, reflecting the longer term nature and/or additional risks to the Council of holding such investments.
- 8.4 As at 31 March 2020 the Council held the following non-treasury investments:

• Graven Hill equity	£27.9m
• Graven Hill loans	£44.6m (includes accrued interest)
• Crown House equity	£1.1m
• Crown House loans	£10.5m (includes accrued interest)
• Silverstone Heritage loan	£1.1m (includes accrued interest)
• Other external loans (total)	£0.2m

The total interest earned on the above loans in 2019/20 was £3.8m.

## 9.0 Performance Report

9.1 The Council measures the financial performance of its treasury management activities in terms of its impact on the revenue budget, as shown in table 5 below.

Table 5: Performance

	Actual £k	Budget £k	Over/ Under	Actual %	Budget %	Over/under %
Total debt interest payable	(1,840)	(2,514)	674	1.55	1.78	0.23
Total investment interest receivable	235	154	81	0.69	1.03	-0.34
<b>GRAND TOTAL</b>	<b>(1,605)</b>	<b>(2,360)</b>	<b>755</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

## 10.0 Compliance Report

10.1 The Director of Finance is pleased to report that all treasury management activities undertaken during 2019/20 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

10.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	2019/20 Maximum £m	31.3.20 Actual £m	2019/20 Operational Boundary £m	2019/20 Authorised Limit £m	Complied
Borrowing / Total debt	142	141	205	225	✓

10.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt did not exceed the operational boundary during 2019/20.

Table 7: Investment Limits

	2019/20 Maximum £m	31.3.20 Actual £m	2019/20 Limit £	Complied
Any single organisation, except the UK Central Government	5	3	5	✓
Any group of organisations under the same ownership	5	3	5	✓
Any group of pooled funds under the same management	5	2	5	✓
Negotiable instruments held in a broker's nominee account	0	0	3	✓
Foreign countries	0	0	5	✓
Registered Providers	0	0	10	✓

Unsecured investments with Building Societies	0	0	10	✓
Loans to unrated corporates	0	0	5	✓
Money Market Funds (total)	10	4.1	15	✓

## 11.0 Treasury Management Indicators

11.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

11.2 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of principal borrowed was:

	31.3.20 Actual	2019/20 Limit	Complied
Upper limit on fixed interest rate exposure	53%	100%	✓
Upper limit on variable interest rate exposure	47%	100%	✓

Fixed rate investments are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

11.3 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.20 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	47%	100%	0%	✓
12 months and within 24 months	0%	100%	0%	✓
24 months and within 5 years	15%	100%	0%	✓
5 years and within 10 years	20%	100%	0%	✓
10 years and above	18%	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

11.4 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2019/20 £m	2020/21 £m	2021/22 £m
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	5	5	5
Complied	✓	✓	✓

## 12.0 Conclusion and Reasons for Recommendations

- 12.1 The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity during 2019/20, including performance against budget and compliance with Indicators.

## 13.0 Alternative Options and Reasons for Rejection

- 13.1 This report illustrates the Council's Treasury performance for 2019/20 against budget and includes the Annual Treasury Report for 2019/20.
- 13.2 The following options have been identified. The approach in the recommendations is believed to be the best way forward:

**Option One** To review current performance levels, and consider any actions arising.

**Option Two** To approve or reject the recommendations above or request that Officers provide additional information.

## 14.0 Implications

### Financial and Resource Implications

- 14.1 There are no specific financial effects arising directly from this report.

Comments checked by:

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### Legal Implications

- 14.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:

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### Risk management

- 14.3 There are no risk implications arising directly from any outcome of this report. All projects maintain their own risk registers and these are monitored corporately.

Comments checked by:

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## 15.0 Decision Information

### Wards Affected

All

### Links to Corporate Plan and Policy Framework

All

### Lead Councillor

Councillor Tony Illott – Lead Member for Financial Management

### Document Information

Appendix No	Title
Appendix 1	Arlingclose economic report
Background Papers	
None	
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