

# COUNTY COUNCIL

Meeting date: 9 September 2020

From: Deputy Leader of the Council

## TREASURY MANAGEMENT ANNUAL REPORT 2019/20

### PART A - RECOMMENDATION OF CABINET MEMBER

#### **1.0 EXECUTIVE SUMMARY**

- 1.1 *This report details treasury management activities during 2019/20, in accordance with best practice recommended in the CIPFA Code of Practice on Treasury Management in Local Authorities.*
- 1.2 *It highlights performance during the year and provides a record of activities undertaken to demonstrate that officers have properly fulfilled their responsibilities, as laid down in the Annual Strategy 2019/20 agreed by Full Council in February 2019. The report is important as it provides information that enables Members to review the treasury management function, its effectiveness and compliance with policies and objectives.*
- 1.3 *Despite ongoing volatility in the markets and in economic expectations, investment borrowing and investment activity was undertaken in accordance with the strategy and this resulted in a net interest budget outperformance (i.e. underspend) of £2.404m for 2019/20. This outperformance was achieved within all prudential limits while also maintaining the Council's prudent strategy regarding investment counterparties.*
- 1.4 *The primary reason for underspending against the Treasury Management budget is a consequence of the delay in borrowing. Council has approved, for a number of years, the tactical strategy of using internal cash reserves rather than incurring borrowing costs in respect of approved borrowing by Council to fund the capital programme. This continued during 2019/20, and the delay in borrowing generated savings against the budget of £1.284m. External borrowing of £40m was, however, taken throughout the year. The current estimate of remaining internal borrowing is £46.8m (31st March 2019: £54.7m). The externalisation of this borrowing will be subject to continuing review.*
- 1.5 *This report also confirms full compliance with all Prudential Indicator targets in 2019/20.*

## **2.0 STRATEGIC PLANNING AND EQUALITY IMPLICATIONS**

- 2.1 *Underpinning the Council's stated priorities is an aim of being as effective and efficient as possible. Policies and practices that enable the management of the Council's Treasury Management function to be operated in such a manner support the overall objectives and priorities of the Council.*
- 2.2 *There are no direct equality implications arising out of the recommendations of this report.*

## **3.0 RECOMMENDATIONS**

### **3.1 Council is invited to:**

- a) Note the annual treasury management report for 2019/20; and*
- b) Note the year-end position for the Prudential Indicators 2019/20 and full compliance with the Council's treasury management policies and practices during the year.*

## **PART B – ADVICE OF DIRECTOR OF FINANCE (SECTION 151 OFFICER)**

## **4.0 BACKGROUND**

### **Purpose of the Treasury Management Annual Report**

- 4.1 The Council follows the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury, which lays down reporting requirements to ensure best practice. During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year (Council 14th February 2019);
  - a strategy review in-year report (Council 7th November 2019);
  - an annual review following the end of the year describing the activity compared to the strategy (attached at Appendix A).
- 4.2 In addition to the minimum reporting requirements, quarterly treasury management activity reports have been included within the revenue monitoring reports to Cabinet on 19th September 2019 and 19th December 2019. The report in respect of the 19<sup>th</sup> March meeting of Cabinet was published although the public meeting was not held in the light of the COVID-19 pandemic. The year-end outturn report was considered by Cabinet at its meeting on 11<sup>th</sup> June 2020.

- 4.3 The regulatory environment continues to place a strong emphasis on Members for the review and scrutiny of treasury management policy and activities.
- 4.4 The Treasury Management Strategy Statement approved by Council notes that key to the Treasury function is the effective control of the associated risks and the pursuit of optimum performance consistent with those risks. To achieve this Finance ensures the Council's short term cash reserves are securely held (i.e. security of principal) and ensure appropriate levels of cash are available to manage day to day payments (i.e. liquidity). After both security and liquidity have been considered, Finance aim to maximise investment returns (i.e. income generation).
- 4.5 This report is important as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

### **Treasury Management Annual Report 2019/20**

- 4.6 Key points to note in 2019/20:
- a) The 2019/20 Treasury Management Strategy Statement was approved at a meeting of the County Council on 14th February 2019 as Appendix D to the Revenue Budget 2019/20 and Medium Term Financial Plan 2018/2019 - 2021/22 and Draft Capital Programme.
  - b) As at 31st March 2020, 92% of the long term debt portfolio was at interest rates at or below 5%, and 27% was at or below 2.5%. The average rate on the debt portfolio was 3.83%, reduced from 4.02% at 31st March 2019.
  - c) Government gilt yields, which directly affect borrowing rates offered by the PWLB, reached an all-time low in September 2019, then in October 2019 HM Treasury raised the borrowing rates for all new borrowing through the PWLB by 1.00%. This did not affect the £369.7m of borrowing that the Council currently has through the PWLB.
  - d) The Council took new long term borrowing of £40.0m during 2019/20. The borrowing has already been agreed by Council in part-funding past years' capital programmes and infrastructure investment. This was all taken before the rate rise in October 2019. The borrowing comprised of the following loans: of:
    - £20.0m for 44 years at an interest rate of 2.16%;
    - £10.0m for 10 years at an interest rate of 1.21%; and
    - £10.0m for 50 years at an interest rate of 1.67%.
  - e) In house investment returns show an out-performance of 0.30% above the benchmark rate of return (3 month London Interbank rate (LIBID)), at an average of 0.93% compared to the benchmark rate of 0.63%.

- f) The bank base rate remained at 0.75% for most of the year, unchanged since August 2018, until March 2020 when it became clear that the COVID-19 pandemic posed a significant threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%.
- g) In response to the COVID-19 pandemic during the last weeks of 2019/20, the Council sought to place new investments in instant access accounts, thereby keeping monies readily available to respond to the crisis. This focus on the Council's two treasury investment priorities (the security and liquidity of its investment portfolio) meant that interest received on amounts invested reduced in the last weeks of 2019/20. This approach has continued into 2020/21 as the Council looks to keep monies readily available to respond to the evolving situation. The impact of investment income has been exacerbated by a fall in market investment rates, which ended the year very low reflecting the high uncertainty within UK markets as a result of the pandemic.
- h) The Council received special one-off grant monies in late March 2020 from central government in reaction to the COVID-19 pandemic of £16.1m.

4.7 Annual savings on the net interest budget of £2.404m have been achieved in 2019/20.

- a) New external borrowing of £20m was taken in June 2019 and a further £20m in September 2019, as reported to Council in November 2019 in the Treasury Management Half Year Strategy Review. The delay in borrowing has released savings of £1.284m in 2019/20. Council has approved this tactical strategy which has been employed for a number of years, utilising available internal cash reserves rather than incurring borrowing costs. The borrowing has already been agreed by Council in part-funding past years' capital programmes and infrastructure investment. The current estimate of internal borrowing remaining is £46.8m. The externalisation of this borrowing will be subject to continuing review;
- b) It is expected that the Council will undertake further long term borrowing in 2020/21 in accordance with the 2020/21 Treasury Management Strategy, aiming to take advantage of borrowing rates and responding to the reduction in cash balances as a result of delivery of the capital programme and, in particular, the grant funded flood recovery highways schemes;
- c) Income received from cash investments was £0.274m more than the 2019/20 budget due to the increase in interest rates during the year, higher cash balances throughout the year due to the additional PWLB borrowing undertaken during the year, and the outperformance of the Treasury Management service against the performance target of the 3 month LIBID;
- d) Other various treasury related items have a further net saving of £0.846m.

- 4.8 It should be noted that these net underspends are a one-off saving relating to 2019/20 only.
- 4.9 Appendix A reports the activities and outcome of the 2019/20 Treasury Management Strategy. In particular it covers:
- The Council's treasury position as at 31st March 2020 (Paragraph 1.0);
  - The economy and interest rates (Paragraph 2.0);
  - The Debt Portfolio (Borrowing) 2019/20 (Paragraph 3.0);
  - The Investment Portfolio 2019/20 (Paragraph 4.0);
  - The Budget Outturn for 2019/20 (Paragraph 5.0); and
  - Training and professional advice (Paragraph 6.0).

### **Compliance with Treasury Limits and Prudential Indicators**

- 4.10 All Treasury Management activities in 2019/20 operated within the limits set out in the Council's Treasury Policy Statement and Treasury Strategy Statement including the Prudential Indicators set by Council in February 2019. Appendix B details the outturn position for the Prudential Indicators.

## **5.0 OPTIONS**

- 5.1 Members can consider the report and either:
- 5.1.1 Note the annual treasury management report for 2019/20, the year-end position for the Prudential Indicators 2019/20 and full compliance with the Council's treasury management policies and practices during the year as set out in the recommendations at Section 3 of this report, or
- 5.1.2 Request additional information from the Director of Finance (Section 151 Officer).

## **6.0 RESOURCE AND VALUE FOR MONEY IMPLICATIONS**

- 6.1 The Council's Treasury Management Strategy Statement notes that the objective of Treasury Management is to provide security and liquidity to protect short term cash reserves and to ensure that cash is available when it is required. After these priorities, the ability to maximise returns on the cash invested can be considered.
- 6.2 Throughout the year Officers and the Director of Finance (S151 Officer), with advice from the Council's contracted specialist adviser, monitored the debt and borrowing position and considered the potential of delivering short term savings against long term certainty of interest payments.

- 6.3 As noted at paragraph 3.2 of Appendix A, very low interest rates and the expected use of reserves led to the decision to externalise £40m of long-term borrowing, hence “locking in” long term interest rates whilst they are low. The use of internal cash reserves released in-year savings to the Council in 2019/20, and in 2020/21 forecast interest rates will be kept under close review to assess when it is appropriate to undertake further external borrowing.
- 6.4 With long-term borrowing of £393.7m and investments totalling £112.4m as at 31st March 2020, managed by the treasury function, there is a significant net interest cost to the Council. Successful treasury management reduces the cost of these transactions and helps to relieve the pressure on the revenue budget.
- 6.5 A combination of factors in all areas of treasury activity contributed to the £2.404m underspend on the net interest budget 2019/20. This underspend was achieved without exposure to any further risk and without affecting the stability or cost of future interest budgets.

## 7.0 LEGAL IMPLICATIONS

- 7.1 This is a report for Council to note. There are no specific legal implications as the Council is not being recommended to make any decisions.

## 8.0 CONCLUSION

- 8.1 Treasury Management continues to be conducted on a prudent basis and in 2019/20 the strategy has produced a saving on the net interest budget of £2.404m, compared to the original budget. This has benefited the Council’s revenue budget thereby helping to offset Directorate pressures.

**Julie Crellin**  
**Director of Finance - Section 151 Officer**  
**July 2020**

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### APPENDICES

Appendix A - Summary of Treasury Management activities in 2019/20  
 Appendix B - Prudential Indicators 2019/20

Electoral Division(s): All

Executive Decision 

|  |     |
|--|-----|
|  | No* |
|--|-----|

Key Decision 

|  |     |
|--|-----|
|  | No* |
|--|-----|

If a Key Decision, is the proposal published in the current Forward Plan? 

|  |  |      |
|--|--|------|
|  |  | N/A* |
|--|--|------|

Is the decision exempt from call-in on grounds of urgency? 

|  |     |
|--|-----|
|  | No* |
|--|-----|

If exempt from call-in, has the agreement of the Chair of the relevant Overview and Scrutiny Committee been sought or obtained? 

|  |  |      |
|--|--|------|
|  |  | N/A* |
|--|--|------|

Has this matter been considered by Overview and Scrutiny?  
If so, give details below. 

|  |     |
|--|-----|
|  | No* |
|--|-----|

Has an environmental or sustainability impact assessment been undertaken? 

|  |  |      |
|--|--|------|
|  |  | N/A* |
|--|--|------|

Has an equality impact assessment been undertaken? 

|  |  |      |
|--|--|------|
|  |  | N/A* |
|--|--|------|

### **PREVIOUS RELEVANT COUNCIL OR EXECUTIVE DECISIONS**

***County Council 14<sup>th</sup> February 2019 - Revenue Budget 2019/20 and Medium Term Financial Plan 2019/2020 - 2022/23 and Draft Capital Programme (Appendix D).***

***County Council 7<sup>th</sup> November 2019 - Treasury Management Half Year Strategy Review 2019/20***

***County Council 13<sup>th</sup> February 2020 - Revenue Budget 2020/21 and Medium Term Financial Plan 2020/21 - 2022/23 and Draft Capital Programme 2020-2025 (Appendix D)***

### **CONSIDERATION BY OVERVIEW AND SCRUTINY**

***Not considered by Overview and Scrutiny***

### **BACKGROUND PAPERS**

***CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes***

***CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police Authorities and Fire Authorities***

***CIPFA The Prudential Code for Capital Finance in Local Authorities***

### **RESPONSIBLE CABINET MEMBER**

Peter Thornton  
Deputy Leader of the Council and Cabinet Member for Finance

### **REPORT AUTHORS**

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## SUMMARY OF TREASURY MANAGEMENT ACTIVITY IN 2019/20

**1 Treasury Position 31st March 2020**

1.1 The Council's debt and investment position is organised on a day to day basis by the Treasury team in order to ensure adequate liquidity for revenue and capital activities, security of investments and to manage all other risks. Procedures and controls to achieve these objectives are well established both through Member reporting and authorised activity detailed in the Council's Treasury Management Practices. The table below summarises the treasury position as at 31st March 2019 and 2020.

**Overall Treasury Position as at 31st March 2019 and 31st March 2020**

| External borrowing and investments | Principal (as at 31/03/20) £m | Average Interest Rate % | Average Life Years | Principal (as at 31 Mar '19) £m | Average Interest Rate % | Average Life Years |
|------------------------------------|-------------------------------|-------------------------|--------------------|---------------------------------|-------------------------|--------------------|
| Total External Borrowing           | 393.7                         | 3.83                    | 28.3               | 369.7                           | 4.02                    | 26.9               |
| Total Investments                  | 112.4                         | 0.73                    | < 1 year           | 111.7                           | 0.77                    | < 1 year           |
| Net Debt                           | 281.3                         |                         |                    | 258.0                           |                         |                    |

1.2 The Capital Financing Requirement and internal borrowing for 2019/20 are as follows:

|   | Final (subject to audit) 31/03/2020 £m | Actual 31/03/2019 £m |
|---|--|----------------------|
| Capital Financing Requirement (CFR)           | 555.0                                  | 540.7                |
| PFI Liabilities                               | (114.5)                                | (116.3)              |
| Over/(under) borrowed i.e. Internal Borrowing | (46.8)                                 | (54.7)               |
| Total = External Borrowing                    | 393.7                                  | 369.7                |

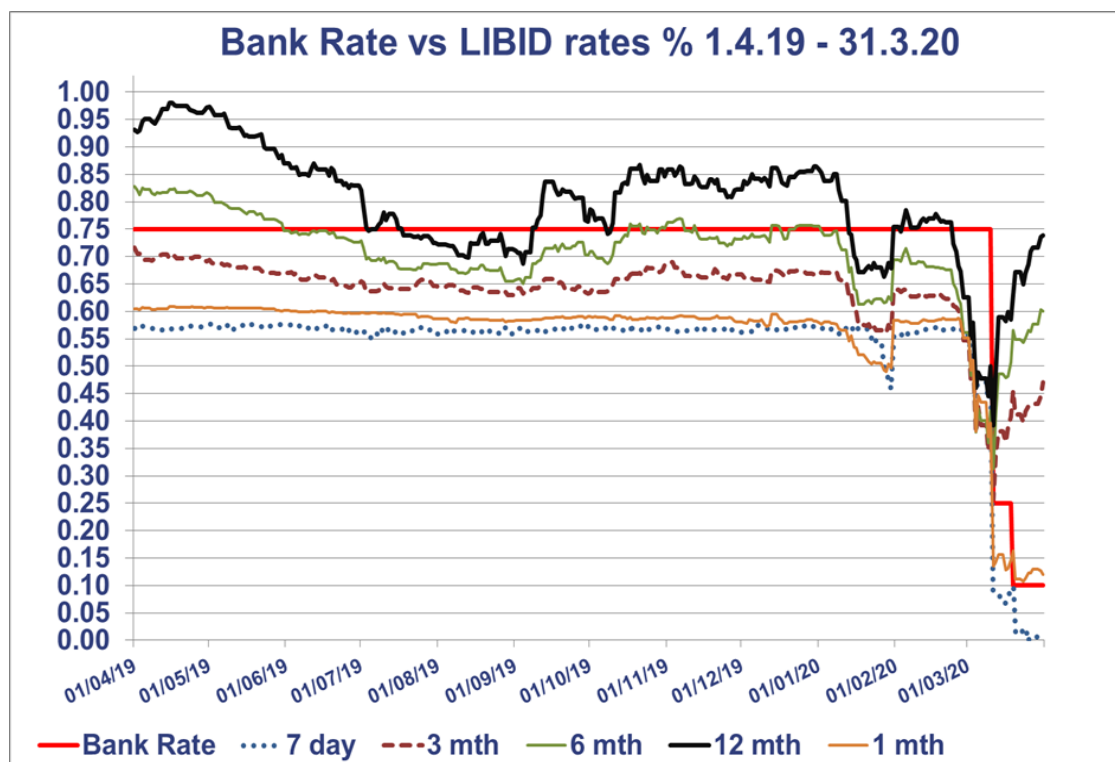
**Points to note are:**

- There has been an increase of £14.3m in the Capital Financing Requirement (CFR), as new capital expenditure of £17.6m in 2019/20 was financed by borrowing, which is in part offset by the Minimum Revenue Provision (MRP) chargeable in the year.
- Internal borrowing has decreased by £7.9m due to the net effect of borrowing new loans of £40m and repayment of £16m debt during the year, and the increase in CFR as noted above. This situation will be kept under review and debt will continue to be externalised as considered prudent given longer term expectations and rates.
- Investment balances were £0.7m higher at the end of 2019/20 than at the end of 2018/19 due to the net effect of spending of earmarked reserves (e.g. flood related capital recovery monies) and receiving special one-off grant monies from central government in reaction to the COVID-19 pandemic (£16.1m) in late March 2020.



## 2 The Economy and Interest Rates

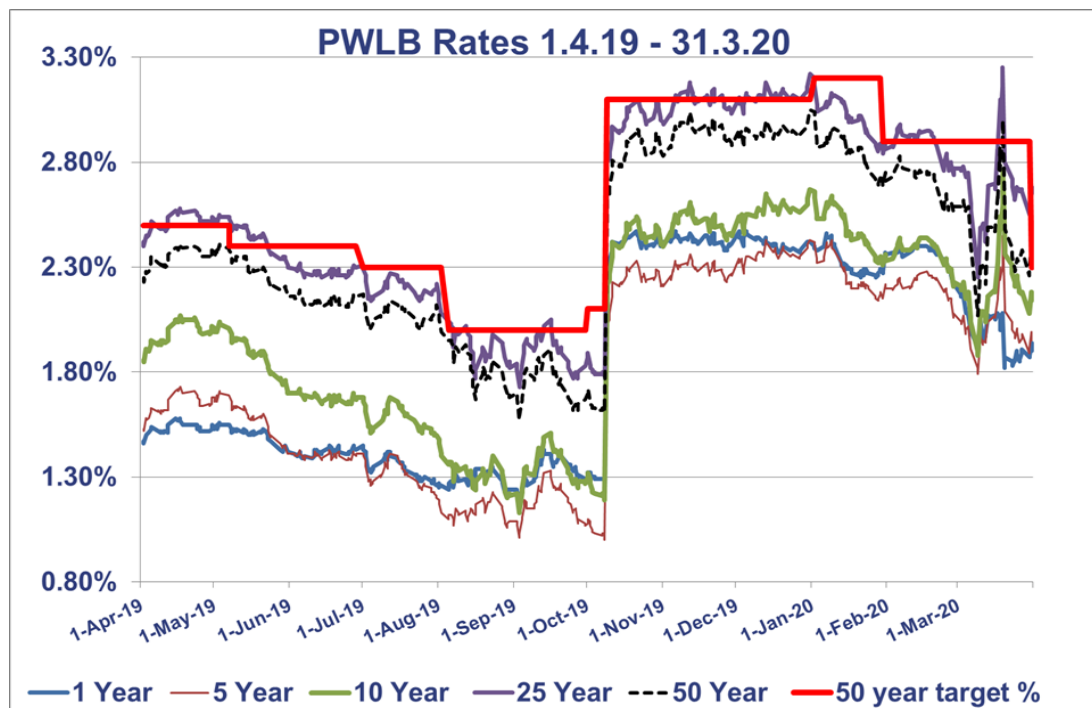
- 2.1 The expectation for interest rates within the treasury management strategy for 2019/20 (as set by Council in February 2019) was that the Monetary Policy Committee (MPC) would not raise the Bank Rate from 0.75% as the UK remained in a time of ongoing uncertainty with Brexit.
- 2.2 Rising concerns over the possibility that the UK could leave the EU with no deal at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. Investment rates then rose after the end of October deadline was rejected by the House of Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU.
- 2.3 When the COVID-19 outbreak commenced in the UK in February and March 2020, long term investment rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, better value was gained by placing longer term investments, but only where cash balances were sufficient to allow this.
- 2.4 When it became clear the risks that the coronavirus outbreak presented to the economy of the UK, two emergency cuts in Bank Rate occurred in March, first to 0.25% and then to 0.10%.
- 2.5 The outcome for the bank rate and investment rates through the year is shown below.



- 2.6 The first half of 2019/20 saw a continuation of attractive (i.e. low) borrowing rates being made available to local authorities through the Public Works Loan Board (PWLB). This enabled the Council to make tactical decisions to

take a total of £40m in new borrowing from the PWLB. This borrowing, the approval for which had previously been given by Council through prior years' capital programmes, enabled the Council to lock in low long term interest rates of interest, as detailed in Section 3.2 below.

- 2.7 Government gilt yields, which directly affect and borrowing rates offered by the PWLB, reached an all-time low in September 2019, then in October 2019 HM Treasury raised the borrowing rates for all new borrowing through the PWLB by 1.00%. This move was to respond to large increases in borrowing by local authorities whilst rates were so low, particularly over the summer of 2019, with the aim of reducing the demand for PWLB borrowing. A consultation is currently in progress, with a reply deadline in July, to gauge views on alternate methods to restrict the use of PWLB borrowing for spend on commercial projects, particularly property investment, by a minority of local authorities.
- 2.8 This does not affect the £393.7m of borrowing that the Council currently has through the PWLB. For Cumbria, £40m of new PWLB borrowing had already been taken before the blanket rate rise, and it was anticipated that no further long term borrowing would be required during the year.
- 2.9 The outcome for the rates available on new borrowing from the PWLB through the year is shown below. The PWLB 50 year rate averaged 2.40% during the year, varying between a low of 1.57% (03/09/2019) and a high of 3.05% (31/12/2019) which included the 1% raise in PWLB implemented by the Treasury in October.



### 3 Debt Management (Borrowing)

- 3.1 **Long term borrowing strategy:** In light of expectations in relation to interest rates, the cost of borrowing and returns on investment, the 2019/20 Strategy was that the Council would continue using cash balances for

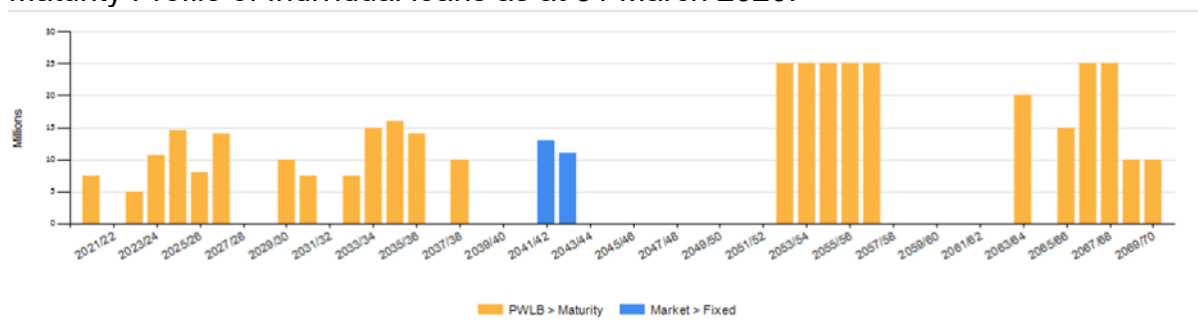
internal borrowing whilst possible, but that it would also take tactical decisions to take external borrowing (previously approved by Council) where considered appropriate in order to protect against rising interest rates in the future. As noted in the Strategy, such decisions are delegated in the Constitution to the Director of Finance (Section 151 Officer) who approves borrowing in consultation with the Council's external Treasury Management advisor. Any long term borrowing is reported through quarterly reporting to Cabinet as per the Medium Term Financial Plan. The ability to defer borrowing is limited by the actual use of reserves and balances (i.e. available cash).

- 3.2 During the year the Section 151 Officer, in consultation with the Leader and Deputy Leader of the Council, and following advice from Link Asset Services and within the delegations specified in the Treasury Management Strategy 2019/20, undertook two new external tranches of borrowing from the PWLB totalling £40m. Also during the year, two of the Council's older loans were repaid at maturity, as set out below.

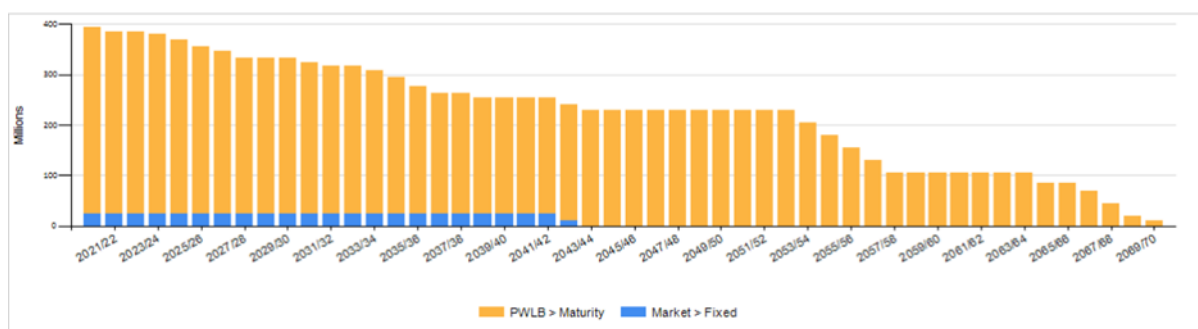
|  | Amount<br>£m | Notes  |
|--|--------------|--|
| <b>External borrowing as at 1<sup>st</sup> April 2019</b>  | <b>369.7</b> |  |
| New external borrowing (10th June 2019)                    | 20.0         | £20m for 44yrs at interest rate 2.16% - matures June 2063  |
| Existing loan matured (27th August 2019)                   | (15.0)       | Repayment of loan at maturity  |
| New external borrowing (4th September 2019)                | 20.0         | £10m for 50yrs at interest rate 1.67% - matures September 2069<br>£10m for 10yrs at interest rate 1.21% - matures September 2029 |
| Existing loan matured (18th October 2019)                  | (1.0)        | Repayment of loan at maturity  |
| <b>External borrowing as at 31<sup>st</sup> March 2020</b> | <b>393.7</b> |  |

- 3.3 Details of all debt maturity and interest rates are presented further below.

Maturity Profile of Individual loans as at 31 March 2020:



Total Loan Duration:



Note: Lender Option Borrower Options (LOBOs) are long term 'market loans' (i.e. a loan from a bank for a fixed period repaid at maturity). The interest rate in the initial periods of these loans are at a discount to the market rate. The lender has the option to change the terms, at which point the Council has the option to repay the loan early. Due to this, the loans are classed as 'variable' rate. The LOBOs taken out between 2002 and 2003 total £24m (6.1%) of the Council's total long term borrowing as at 31st March 2020.

### 3.4 Debt portfolio detail as at 31 March 2020.

| Lender   | Start Date | Maturity Date | Principal          | Interest Rate |
|----------|------------|---------------|--------------------|---------------|
| P W L B  | 23-Dec-09  | 23-Jun-20     | 7,500,000          | 4.06          |
| P W L B  | 04-May-95  | 15-Nov-22     | 5,000,000          | 8.50          |
| P W L B  | 24-Dec-97  | 15-May-23     | 5,700,000          | 6.25          |
| P W L B  | 04-May-95  | 15-Nov-23     | 5,000,000          | 8.50          |
| P W L B  | 24-Sep-98  | 15-May-24     | 9,500,000          | 5.00          |
| P W L B  | 04-May-95  | 15-Nov-24     | 5,000,000          | 8.50          |
| P W L B  | 14-Nov-01  | 14-Nov-25     | 3,000,000          | 4.50          |
| P W L B  | 29-May-03  | 15-Nov-25     | 5,000,000          | 4.45          |
| P W L B  | 14-Nov-01  | 13-Nov-26     | 14,000,000         | 4.50          |
| P W L B  | 04-Sep-19  | 01-Sep-29     | 10,000,000         | 1.21          |
| P W L B  | 22-Oct-18  | 22-Oct-30     | 7,500,000          | 2.50          |
| P W L B  | 22-Oct-18  | 22-Oct-32     | 7,500,000          | 2.60          |
| P W L B  | 27-Aug-10  | 27-Aug-33     | 15,000,000         | 3.92          |
| P W L B  | 20-Dec-04  | 15-May-34     | 16,000,000         | 4.50          |
| P W L B  | 19-May-05  | 15-May-35     | 14,000,000         | 4.50          |
| P W L B  | 10-Dec-07  | 15-Nov-37     | 10,000,000         | 4.49          |
| FMSWERTM | 25-Jan-02  | 27-Jan-42     | 13,000,000         | 4.73          |
| FMSWERTM | 31-Jan-03  | 30-Jan-43     | 11,000,000         | 4.45          |
| P W L B  | 25-Jan-07  | 15-May-52     | 25,000,000         | 4.25          |
| P W L B  | 25-Jan-07  | 15-May-53     | 25,000,000         | 4.25          |
| P W L B  | 25-Jan-07  | 15-May-54     | 25,000,000         | 4.25          |
| P W L B  | 25-Jan-07  | 14-May-55     | 25,000,000         | 4.25          |
| P W L B  | 08-Mar-07  | 15-May-56     | 25,000,000         | 4.25          |
| P W L B  | 10-Jun-19  | 10-Jun-63     | 20,000,000         | 2.16          |
| P W L B  | 22-Oct-18  | 22-Oct-65     | 15,000,000         | 2.67          |
| P W L B  | 28-Mar-18  | 28-Mar-67     | 25,000,000         | 2.32          |
| P W L B  | 28-Mar-18  | 28-Mar-68     | 25,000,000         | 2.32          |
| P W L B  | 31-May-18  | 31-May-68     | 10,000,000         | 2.25          |
| P W L B  | 04-Sep-19  | 01-Sep-69     | 10,000,000         | 1.67          |
|          |            |               | <b>393,700,000</b> | <b>3.83</b>   |

Note: The FMSWERTM borrowing above relates to market loans with FMS Wertmanagement Bank Germany. Initially taken from Depfa Bank Plc (Dublin) and subsequently transferred by the lender to FMS.

- 3.5 As at 31<sup>st</sup> March 2020, the new average rate paid on the long term debt portfolio is 3.83% (4.02% at 31/03/19). 92% of the long term debt portfolio was at interest rates at or below 5%, and 27% was at or below 2.5%. Taking the tactical decision to borrow when rates are favourable for the Council has seen the average weighted interest rate for the Council's external borrowing reduce from 4.49% in March 2017 to 3.83% at March 2020.

#### **4 Investment Portfolio 2019/20**

- 4.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and then to obtain an appropriate level of return which is consistent with the Council's risk appetite. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 4.2 The average daily balance on the investment portfolio during 2019/20 was £97.5m, with fluctuating balances within each month, a maximum balance in October 2019 of £127.3m and a minimum in August of £68.2m. This variation in investment balances required close management and was managed safely within the counterparty limits set out in the Treasury Management Strategy. For security the Council operates strict controls and restrictions on counterparties with limits for total deposit amounts and maximum periods over which investments can be made.
- 4.3 The Council's investments increased slightly overall, from £111.7m at 31st March 2019 to £112.4m. The first half of the year saw a reduction in investments, despite an additional £40m of borrowing, due to a number of factors. This included the Council paying an estimate upfront in April for the 2019/20 Local Government Pension Scheme employer pension contribution. This enabled the Council to take a discount for early payment which has benefited the Council's Revenue Budget and was assumed within the 2019/20 Base Budget. Payments for capital works including flood recovery work also contributed to the reduction in the Council's level of cash deposits/investments in the first half of 2019/20. In addition, the Council repaid external borrowing of £16m. Accordingly, reductions in cash balances of the Council were expected over the year. However, in the last month of the year, as the COVID-19 pandemic lockdown took effect, the Government paid council's some £3.2 billion in grants to help support the resulting pressures. Cumbria received £16.1m in COVID-19 related grant before the year end.
- 4.4 The Council's investment strategy is to first provide security and adequate liquidity, before considering optimising investment return. The aim is for an appropriate balance of instant access, short-term investments (paying lower rates) and longer, three to twelve month deposits (earning higher rates). The Council is committed to this policy but it must be acknowledged that it lowers the potential interest rates available.
- 4.5 As a result of the COVID-19 pandemic, the security and liquidity of the investment portfolio has been vital above all else to support the Council's response as the situation progresses, and investment rates ended the year very low reflecting the high uncertainty within UK markets.

4.6 The Council's average investment rate as at 31st March 2020 is 0.73% which reflects the blend in the portfolio of longer maturity, fixed term investments at rates up to 1.25%, down to instant access accounts returning lower rates of 0.29%, used for liquidity.

4.7 The Council's investment portfolio of £112.4m with the average deposit rate 0.73% as at 31st March 2020 is shown below.

**Investment Portfolio as at 31 March 2020**

| Credit Limit Group / Counterparty             | Country | Credit Rating | Deposit Type | Start Date | Maturity Date | Interest Rate (%)                         | Principal (£)           |
|---|---------|---------------|--------------|------------|---------------|---|-------------------------|
| <b>LOCAL AUTHORITY (20% MAX, UP TO 2 YRS)</b> |         |               |              |            |               |   |                         |
| THURROCK COUNCIL                              | UK      | AA            | Term Deposit | 21/10/2019 | 19/10/2020    | 1.10                                      | 10,000,000              |
| BLAENAU GWENT CB COUNCIL                      | UK      | AA            | Term Deposit | 19/11/2019 | 15/04/2020    | 0.82                                      | 3,000,000               |
| NORTH LINCOLNSHIRE COUNCIL                    | UK      | AA            | Term Deposit | 19/11/2019 | 15/04/2020    | 0.82                                      | 3,000,000               |
| BIRMINGHAM CITY COUNCIL                       | UK      | AA            | Term Deposit | 20/01/2020 | 15/04/2020    | 0.83                                      | 10,000,000              |
| THURROCK COUNCIL                              | UK      | AA            | Term Deposit | 11/02/2020 | 30/04/2020    | 0.87                                      | 5,000,000               |
| LONDON BOR OF BARKING & DAGENHAM              | UK      | AA            | Term Deposit | 21/02/2020 | 24/04/2020    | 0.85                                      | 5,000,000               |
| FOLKESTONE & HYTHE DC                         | UK      | AA            | Term Deposit | 02/03/2020 | 24/04/2020    | 1.00                                      | 5,000,000               |
| EASTLEIGH BOROUGH COUNCIL                     | UK      | AA            | Term Deposit | 04/03/2020 | 21/04/2020    | 1.00                                      | 5,000,000               |
| <b>YELLOW (£20m MAX)</b>                      |         |               |              |            |               |   |                         |
| ABERDEEN LIQUIDITY FUND                       | UK      | AAA           | MMF*         |            |               | 0.48                                      | 18,200,000              |
| BNP PARIBAS MMF - INSTICASH FUND              | UK      | AAA           | MMF*         |            |               | 0.29                                      | 4,500,000               |
| FEDERATED LIQUIDITY MMF                       | UK      | AAA           | MMF*         |            |               | 0.41                                      | 18,700,000              |
| J P MORGAN                                    | UK      | AAA           | MMF*         |            |               | 0.37                                      | 10,000,000              |
| <b>ORANGE (£20m MAX, UP TO 1 YEAR)</b>        |         |               |              |            |               |   |                         |
| AUSTRALIA AND NEW ZEALAND BANK                | UK      | AA-           | Term Deposit | 04/09/2019 | 02/09/2020    | 0.94                                      | 5,000,000               |
| BANK OF SCOTLAND (LLOYDS GROUP)               | UK      | A+            | Term Deposit | 02/05/2019 | 02/04/2020    | 1.25                                      | 10,000,000              |
|   |         |               |              |            |               | <b>Average Rate and Total Investments</b> | <b>0.73 112,400,000</b> |

\*Money Market Fund (instant access)

4.8 At 31st March 2020, £51.4m (46%) of the investment portfolio was held in instant access accounts.

4.9 New fixed term deposits arranged in the period 1st April 2019 to 31st March 2020 are shown below:

| Counterparty                           | Start Date | End Date   | Amount £      | Rate % |
|--|------------|------------|---------------|--------|
| BANK OF SCOTLAND (LLOYDS GRP)          | 24/06/2019 | 24/02/2020 | 5,000,000.00  | 0.95   |
| SOUTH TYNESIDE COUNCIL                 | 23/04/2019 | 23/07/2019 | 5,000,000.00  | 0.80   |
| BANK OF SCOTLAND (LLOYDS GRP)          | 02/05/2019 | 02/04/2020 | 10,000,000.00 | 1.25   |
| CARLISLE CITY COUNCIL                  | 31/05/2019 | 03/06/2019 | 500,000.00    | 0.75   |
| GOLDMAN SACHS INTERNATIONAL BANK       | 31/05/2019 | 29/11/2019 | 5,000,000.00  | 0.90   |
| BANK OF SCOTLAND (LLOYDS GRP)          | 13/06/2019 | 13/03/2020 | 5,000,000.00  | 1.05   |
| SOUTH TYNESIDE COUNCIL                 | 23/07/2019 | 23/10/2019 | 5,000,000.00  | 0.80   |
| AUSTRALIA AND NEW ZEALAND BANK         | 04/09/2019 | 02/09/2020 | 5,000,000.00  | 0.94   |
| GOLDMAN SACHS INTERNATIONAL BANK       | 04/09/2019 | 04/03/2020 | 5,000,000.00  | 0.91   |
| THURROCK COUNCIL                       | 21/10/2019 | 19/10/2020 | 10,000,000.00 | 1.10   |
| BLAENAU GWENT COUNTY BOROUGH COUNCIL   | 19/11/2019 | 15/04/2020 | 3,000,000.00  | 0.82   |
| NORTH LINCOLNSHIRE COUNCIL             | 19/11/2019 | 15/04/2020 | 3,000,000.00  | 0.82   |
| BIRMINGHAM CITY COUNCIL                | 20/01/2020 | 15/04/2020 | 10,000,000.00 | 0.83   |
| THURROCK COUNCIL                       | 11/02/2020 | 30/04/2020 | 5,000,000.00  | 0.87   |
| LONDON BOROUGH OF BARKING AND DAGENHAM | 21/02/2020 | 24/04/2020 | 5,000,000.00  | 0.85   |
| FOLKESTONE AND HYTHE DISTRICT COUNCIL  | 02/03/2020 | 24/04/2020 | 5,000,000.00  | 1.00   |
| EASTLEIGH BOROUGH COUNCIL              | 04/03/2020 | 21/04/2020 | 5,000,000.00  | 1.00   |

- 4.10 The 2019/20 Treasury Management Strategy states that the benchmark for investment performance for 2019/20 was the 3 month London Interbank rate (LIBID) and the table below shows that the investment portfolio outperformed the benchmark by 0.30%.

|  | <b>Rate of Return<br/>%</b> | <b>Benchmark Return<br/>%</b> | <b>Out Performance<br/>%</b> |
|--|-----------------------------|-------------------------------|------------------------------|
| Investment return<br>12 months to 31/03/2020 | 0.93%                       | 0.63%                         | 0.30%                        |

- 4.11 Investment income received in 2019/20 totalled £0.921m, this represents a gain of £0.274m against the interest receivable income budget. This was due to the relatively high cash balances during the year (including the impact of the additional PWLB borrowing) and the outperformance of the Treasury Management service against the performance target of the 3 month LIBID rate.
- 4.12 Investment risk: The Council manages all its investments in-house and invests with the counterparties on the approved lending list. During the year all investments were made in full compliance with the Council's treasury management policies and practices and no institutions on the counterparty list defaulted on repaying investments and interest during the year.

## **5 Budget Outturn 2019/20**

- 5.1 An over-performance (i.e. an underspend) on the net interest budget in 2019/20 of £2.404m was achieved;

|                |   |
|----------------|---|
| <b>£m</b>      |   |
| <b>16.413</b>  | <b>Revised net interest budget for 2019/20</b>  |
| (1.284)        | Deferral in the undertaking of planned external borrowing during the year   |
| (0.274)        | Over-performance against target rate of return for interest receivable due to higher cash balances throughout the year. |
| (0.846)        | Underspends against other treasury related costs, including interest payable on other balances.                         |
| <b>(2.404)</b> | <b>Net over-performance in 2019/20</b>  |
| <b>14.009</b>  | <b>Net outturn for 2019/20</b>  |

These underspends are all one-off savings relating to 2019/20 only.

## **6 Training and Advisors**

- 6.1 The Director of Finance (S151 Officer) ensures that any Officer involved in the operation of the treasury management function, receives appropriate training relevant to their needs to ensure they fully understand their roles and responsibilities. During the year Treasury staff continued to attend regular courses and seminars provided through its advisors, Link Asset Services, its

membership of the CIPFA Treasury Management Forum (TMF) Scotland and England, and other ad hoc events including treasury software supplier forums.

- 6.2 To ensure succession planning and coverage, five Officers within the finance team are qualified in the CFA UK Certificate in Investment Management.
- 6.3 In addition to this training, the Director of Finance (S151 Officer) and Officers within the Finance Team receive professional and technical advice from the Council's contracted external advisors, Link Asset Services.

## **7 Compliance with Treasury Limits**

- 7.1 During the financial year Officers operated within the treasury limits and Prudential Indicators agreed by the County Council in February 2019. The outturn for the prudential indicators is attached as Appendix B.



**APPENDIX B**

**2019/20 PRUDENTIAL & TREASURY MANAGEMENT INDICATORS**

|   |  | 2019/20<br>Actual (subject<br>to audit)* | 2019/20<br>Original<br>Estimate** |
|---|--|--|-----------------------------------|
| <b>PRUDENTIAL INDICATORS –<br/>Affordability</b>  |  | <b>£.pp</b>                              | <b>£.pp</b>                       |
| <b>1</b>  | <b>Capital expenditure</b>   | <b>£m</b>                                | <b>£m</b>                         |
|   |  | 90.890                                   | 105.822                           |
|   | <b>Capital expenditure to be funded by prudential borrowing</b>  | 17.565                                   | 17.595                            |
| The original estimated and actual capital expenditure and amount of capital expenditure funded by prudential borrowing for 2019/20.                                     |  |  |                                   |
| <b>2</b>  | <b>Capital Financing requirement (CFR) excluding PFI &amp; other long term liabilities– the borrowing need</b> | <b>£m</b>                                | <b>£m</b>                         |
|   |  | 440.421                                  | 438.48                            |
|   | <b>Capital Financing requirement (CFR) including PFI &amp; other long term liabilities– the borrowing need</b> | 554.957                                  | 552.72                            |
| The Capital financing requirement indicator is a measure of the Council's underlying need to borrow for a capital purposes.   |  |  |                                   |
| <b>3a</b>   | <b>Ratio of Finance costs to Net Revenue Stream exclusive of PPPI</b>  | <b>%</b>                                 | <b>%</b>                          |
|   |  | 3.77                                     | 4.63                              |
| <b>3b</b>   | <b>Ratio of Finance costs to Net Revenue Stream Inclusive of PPPI</b>  |  |                                   |
|   |  | 7.60                                     | 8.72                              |
| This indicator shows the proportion of income received from grant and Council Tax that is spent on paying for the consequences of borrowing to fund capital borrowings. |  |  |                                   |

| <b>PRUDENTIAL INDICATORS - Prudence</b>  |   | 2019/20<br>Approved<br>Limit **          | Revised<br>limits<br>proposed          | 2019/20<br>Actual         |
|--|---|--|--|---------------------------|
| <b>4</b>   | <b>Authorised limit for external debt</b>     | <b>£m</b>                                | <b>£m</b>                              | <b>£m</b>                 |
|  | Borrowing                                     | 480                                      | no change                              | 394                       |
|  | Other Long term Liabilities                   | 135                                      | no change                              | 114                       |
|  | Total   | <b>615</b>                               | <b>no change</b>                       | <b>508</b>                |
| This is the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit (Legal Limit) determined under section 3 (1) of the Local Government Act 2003. |   |  |  |                           |
| <b>5</b>   | <b>Operational Boundary for external debt</b> | <b>2019/20<br/>Approved<br/>Limit **</b> | <b>Revised<br/>limits<br/>proposed</b> | <b>2019/20<br/>Actual</b> |
|  |   | <b>£m</b>                                | <b>£m</b>                              | <b>£m</b>                 |
|  | Borrowing                                     | 455                                      | no change                              | 394                       |
|  | Other Long term Liabilities                   | 125                                      | no change                              | 114                       |
|  | Total   | <b>580</b>                               | <b>no change</b>                       | <b>508</b>                |

The Operational Boundary is based on the Council's prudent estimate of the maximum level of external debt. It is only a guide and may be breached temporarily on occasion without significant concern, due to variations in cash flow and/or interest rates. Any sustained or regular trend above the operational boundary will be investigated and action taken as appropriate.

|   | Upper Limit on Net Sums Borrowed | 2019/20<br>Approved Limit<br>**<br>£m | Revised<br>limits<br>proposed | 2019/20<br>Actual at<br>31/03/2020 |
|---|----------------------------------|---------------------------------------|-------------------------------|------------------------------------|
| 6   | Fixed interest rates             | 455                                   | no change                     | 370                                |
| 7   | Variable interest rates          | 100                                   | no change                     | (88) ***                           |
| <p>*** Net borrowing at variable interest rates is negative as variable investments (£112m) exceed variable borrowing (£24m). All investments maturing within one year are classed as variable.</p> <p>The purpose of this indicator is to contain the Council's exposure to unfavourable movements in future interest rates. The indicators are expressed as Fixed Rate Debt less Fixed Rate Investments and Variable Rate Debt less Variable Rate Investments. The Council defines variable rate as including those instruments maturing within each year, as the replacement of those instruments will be subject to prevailing rates of interest.</p> |                                  |                                       |                               |                                    |

|  |   |  |
|--|---|--|
| 9  | Upper limit for total principal sums invested for over 364 days (per maturity date) | Lower of £20m or 20% of the portfolio at any time during the financial year (Actual £0m) |
| <p>The purpose of this indicator is to ensure that the Council has protected itself against the risk of loss arising from the need to seek early redemption of principal sums invested. Only core cash will be invested for periods greater than 1 year.</p> |   |  |

| 10   | Maturity Structure of fixed interest rate borrowing | Upper           | Lower | Actual<br>31/03/2020 |
|--|---|-----------------|-------|----------------------|
|  |   | Under 12 months | 30%   | 0%                   |
|  | 12 months to 2 years                                | 40%             | 0%    | -                    |
|  | 2 years to 5 years                                  | 40%             | 0%    | 8.2%                 |
|  | 5 years to 10 years                                 | 40%             | 0%    | 8.7%                 |
|  | 10 years and above                                  | 100%            | 30%   | 81.1%                |
| <p>The maturity of borrowing is determined by the earliest date on which the lender can require payment. The indicator is designed to exercise control over the Council having large concentrations of fixed rate debt needing to be replaced at any one time.</p> |   |                 |       |                      |

\* 2019/20 Budget Outturn at June 2020

\*\* 2019/20 Original Estimate as presented to Council in February 2019