TRAFFORD COUNCIL

Report to:	**Accounts & Audit Committee 15th July 2020** **Executive 20th July 2020** **Council Meeting 30th July 2020**
Report for:	**Information**
Report of:	**The Executive Member for Finance and Investment and the Corporate Director of Finance and Systems**

Treasury Management Annual Performance 2019/20 Report

Summary

This report outlines the key treasury management activities undertaken during 2019/20 as follows:

- All legislative and regulatory requirements, including all treasury management prudential indicators have been complied with;
- The average level of external debt and interest rate payable for 2019/20 was £296.2m and 2.90% and this compares to £175.4m & 3.97% in 2018/19;
- The average level of treasury investments for 2019/20 was £98.2m with a rate of return of 1.12% compared with 2018/19 when the equivalent figures was £86.7m and 1.06% respectively;
- Net budget savings of £(1.2)m were generated mainly as a result of increased levels of income received from Manchester Airport Holding Limited in the form of share dividends and loan contributions.

Recommendations

That the Accounts & Audit Committee note and approve the treasury management activities undertaken in 2019/20 and recommend that both Executive and Council note the report.

Contact person for background papers:
Graham Perkins – Senior Accountant - Extension: 4017

Background papers: None

Relationship to Policy Framework/Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	The net outturn for treasury management was £(0.9)m a saving of £(1.2)m against the original net budget of £0.3m and details of this are provided at paragraph 9.1.
Legal Implications:	All actions undertaken during the year were in accordance with legislation, MHCLG Guidance, CIPFA Prudential Code and CIPFA Treasury Management Code of Practice.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour.
Sustainability Implications	A “Green Deposit” bank account has been opened with Barclays Bank which supports investments in sustainable assets.
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the treasury management systems and procedures which are independently tested on a regular basis. The Council’s in-house treasury management team continually monitor interest forecasts and actual market interest rate movements to ensure that any exposure to adverse fluctuations in interest rates are minimised and security of capital sums are maintained at all times. Failure to properly manage and monitor the Council’s loans and investments could lead to service failure and loss of reputation.
Health and Safety Implications	Not applicable

Executive Summary

This report has been prepared in accordance with current legislation and Codes of Practice and highlights the treasury management activities undertaken during 2019/20.

Economic position (Section 2)

- In response to the coronavirus pandemic the MPC reduced the Bank Rate from 0.75% to 0.10% in March 2020, the lowest it has been in the Bank of Englands 325 year history. In addition it provided a further £210bn of Quantitative Easing (QE).
- Boris Johnson replaced Teresa May as Prime Minister and the December 2019 general election produced a majority Conservative government.
- Brexit continued to dominate the headlines in 2019 and as a result of a new majority government being returned in December 2019, Parliament approved the UK to leave the EU on 31 January 2020.
- Whilst the on-going trade war between the US and China continues to have a major negative impact on the economies of major countries it will be the coronavirus which is set to dominate the financial headlines of 2020.

Debt (Section 4)

- Total loan debt rose from £220.7m as at 31.03.2019 to £377.3m by 31.03.2020 an increase of £156.6m comprising of:
    - New loans totalling £161.4m - £144.4m taken from the PWLB and £17m from Local Authorities to fund the capital programme - details of these can be found at paragraph 4.14,
    - Natural loan repayments totalling £4.8m.
- Loan interest totalling £8.5m was paid of which £3.4m was wholly funded from rental income received from the Council's commercial asset programme.
- Average rate of interest payable was 2.90% in 2019/20 and compared to 3.97% in 2018/19 a fall of 1.07%.
- Level of under-borrowing is £40.0m at 31.03.2020 which represents an increase of £9.1m from the 31.03.19 closing position of £30.9m – details on this can be found at paragraph 4.11.

Investments (Section 5)

- Total level of investments rose from £77.9m 31.03.2019 to £106.0m at 31.03.2020 a movement of £28.1m due to monies being received ahead of spend.
- The Rate of Return for all investments in 2019/20 was 1.12% which is £0.1m above budget and 0.58% or £0.62m above the recognised performance indicator of 7-day LIBID.
- Weighted average life of investments at 31.03.20 was 72 days or 2.25 months excluding all long term investments.
- All investments were repaid on time without issue and undertaken in accordance with the approved strategy.

Prudential Indicators and limits (Section 7 and Appendix E)

- No breaches to any of these limits occurred.

1. BACKGROUND

1.1 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).

1.2 For the financial year 2019/20, the Accounts & Audit Committee together with the Executive and Council received the following three reports:

- annual treasury management strategy for the year ahead (issued February 2019);
- mid-year update report (issued October/ November 2019);
- annual outturn report describing the activity undertaken (July 2020 this report).

1.3 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

1.4 I can confirm that prior scrutiny of all the above treasury management reports has been undertaken by the Accounts & Audit Committee - before they were reported to the Executive and Council.

1.5 Figures in this report are based on the actual amounts borrowed and invested and as such will differ from those stated in the final accounts which are shown in compliance with International Financial Reporting Standards.

1.6 For reference a list of abbreviations used within the report has been provided and can be found in Appendix F.

1.7 This report comprises of the following sections:

- Major Economic Headlines 2019/20 (Section 2);
- Treasury Position (Section 3);
- Borrowing Position (Section 4);
- Investment Position (Section 5);
- Related Treasury Issues (Section 6);
- Prudential and Performance indicators (Section 7);
- Outlook 2020/21(Section 8)
- 2019/20 Summary Outturn position (Section 9)
- Appendices including details of abbreviations used in the report.

2. MAJOR ECONOMIC HEADLINES 2019/20

2.1 A brief summary of the main events which occurred during 2019/20 are highlighted below for reference;

UK

- Brexit continued to dominate the headlines in 2019 with repeated battles in the House of Commons taking place resulting in Teresa May being replaced as both Prime Minister and the leader of the Conservative party by Boris Johnson. A general election in December produced a majority Conservative government which subsequently enabled Parliament to approve the decision for the UK to leave the EU on 31 January 2020.

- Economic growth in 2019 saw the economy grow by 1.1% year on year and in early 2020 business surveys were indicating an upswing in growth would continue. Since then however the whole world has changed due to the coronavirus outbreak resulting in whole sections of the economy being forced to close "lockdown". As a consequence of this the UK economy shrank by 2% in the first three months of 2020 (January to March), following 0% growth in the final quarter of 2019. This 1st quarter decline was driven by a record fall in March and reflects just one full week of lockdown. Analysts expect a bigger economic slump in the 2nd quarter of 2020.

- How the economy recovers will depend on a number of factors such as
    - how quickly, if at all businesses will recover from the damage caused by the lockdown period,
    - could there be a second wave of the outbreak thereby delaying businesses being able to operate,
    - how soon will a vaccine be created and how quickly can it be administered to the population.

- A wide range of initiatives were introduced by the Government in response to the country being in "lockdown". These included support for businesses in the retail, hospitality and leisure sector by way of business grants and rate relief for properties in the retail sector. In addition support has been provided to subsidise both employed and self-employed jobs for three months as well as providing guarantees to the banks enabling businesses to access loans from their banks to tide them over during this period. Provided the coronavirus outbreak is brought under control relatively swiftly and the lockdown is eased, then it is hoped that the UK's economy will see a sharp recovery however it will take time for this to fully recover back to the level before the coronavirus outbreak.

- The Bank Rate remained at 0.75% throughout the course of 2019 and early 2020 however in March 2020, it was clear that the coronavirus outbreak posed a huge threat to the economy and as a result of this the MPC implemented two emergency cuts in Bank Rate from 0.75% to 0.25% (11th March 2020) and 0.10% (19th March 2020), the lowest level it has been in the bank's 325 year history. These cuts in bank rate were accompanied by an increase in (QE) of £210bn taking the total of (QE) undertaken by the Bank of England since 2009 to £645bn.

- CPI posed little concern for the MPC during the last year, starting off at 2.0% in April 2019 falling to 1.4% in December 2019 before closing up at 1.5% in March 2020. Looking ahead to 2020 it is currently forecasted that as the world economy heads to recession, inflation could turn negative in some parts of the world particularly in the Eurozone, however this is currently not likely to occur in the UK.

- Unemployment rate started the year in April 2019 at 3.8% finishing marginally up at 3.9% in March 2020 where it is expected to rise further as a result of the coronavirus pandemic.

USA

- 2019 started with strong growth being reported in quarter 1 at 3.1% however this slowed to 2.1% in quarters 3 and 4 producing a year on year growth rate of 2.3%.

- This slowdown in economic growth resulted in the Fed originally cutting rates from 2.25-2.50% to 1.50%-1.75% however in response to the coronavirus rates were further cut to 0.00% – 0.25% in March 2020.
- At the end of March 2020, Congress agreed a $2trn stimulus package (worth about 10% of GDP) which was in addition to the new lending facilities announced by the Fed providing up to $6trn in temporary financing to both consumers and firms over the coming months.
- It is expected that despite all of these measures, the US will fall into a sharp recession in quarter 2 of 2020 which could see growth fall by as much as 40%.
- Unemployment started the year at 3.6% in April 2019 but rose to 4.4% in March 2020 where it will continue to rise in response to the coronavirus effect.
- CPI fell from its opening position of 2.0% in April 2019 to finish at 1.5% in March 2020.

EU

- Economic growth for 2019 was 1.0% which was down from the 2018 figure of 1.8%.
- In September 2019 and responding to the downturn in EU growth, the ECB further reduced its bank deposit rate from -0.4% to -0.5%. In addition to this and in response to the coronavirus, further action to expand (QE) which currently stands at 4.65 trillion euros together with other measures helping to promote economic growth were implemented.
- CPI fell marginally from an opening position of 1.3% in April 2019 to 1.0% in March 2020.
- During the year Unemployment fell slightly from an opening position in April 2019 of 7.6% to finish at 7.4% in February 2020 however the coronavirus will impact on this in a negative way going forward.

Japan

- Despite continuing significant financial support by the Bank of Japan the economy shrank by 0.7%, unemployment remained static at 2.4%, CPI remained around 0.3% and the bank interest rate continues to be -0.1% where it has been since January 2016.

China

- The economy grew by 6.1% in 2019 compared to 6.6% in 2018 due to the continuing trade war with the US. The 1st quarter of 2020 however saw the economy shrink by 6.8% reflecting the effect coronavirus was having.

World outlook

- The on-going trade war during 2019 between the US and China had a major negative impact on the economies of major countries throughout the world and whilst this continues to be a concern, it is the impact of the coronavirus which is set to dominate the financial headlines in 2020 sending the world into recession.

2.2 Within the 2019/20 treasury management strategy a forecast for interest rates was provided and from this it was expected that a minor increase in rates would occur. As highlighted in the table below this movement did not take place and a more detailed analysis detailing how investment rates moved during the course of 2019/20 is provided for reference at Appendix A;

	2019/20	1 April 2019	31 March 2020	2019/20
	Forecast Average	**Actual**	**Actual**	**Actual Average**
	%	**%**	**%**	**%**
Bank Rate	1.00	0.75	0.10	0.72
Investment Rates 3 month 1 Year	 1.10 1.40	 0.72 0.93	 0.60 0.86	 0.56 0.80
Loan Rates 5 Year 25 Year	 2.25 3.05	 1.52 2.41	 1.97 2.59	 1.78 2.56

2.3 Loan interest rates, primarily PWLB rates are determined by using the corresponding gilt yield (UK Government bonds) with H.M.Treasury then adding a specified margin. On 9 October 2019 and without any prior warning, H.M. Treasury increased the margin it applied by adding an additional 1% to that already applied. As a consequence of this action the PWLB interest rate for 25 years for example went from 1.98% on 8th October to 2.99% on 9th October before closing at 2.59% on 31st March 2020.

3. TREASURY POSITION

3.1 The Council's investment, debt and cash flow positions are managed by the in-house Treasury Management team who ensure that:

- All transactions are carried out in accordance with the current Scheme of Delegation,
- All borrowing has been carried out in accordance with the Council's current Debt Strategy and Prudential Indicators (Authorised Limits and Operational boundary),
- All investments placed have been done so in accordance with the criteria stipulated within the current Investment strategy and
- Access to funds is maintained at all times thereby enabling all payments to be made on time preserving the Council's reputation.

3.2 The table below shows the loan and investment positions at the beginning and end of 2019/20 for reference:

	31 March 2020		31 March 2019	
	Principal (£m)	**Avg. Int. Rate %**	**Principal (£m)**	**Avg. Int. Rate %**
DEBT				
-PWLB	322.1	2.55	181.0	3.15
-Government Loans - Salix	2.2	0.0	3.7	0.0
-Market	53.0	3.58	36.0	4.56
Total debt	***377.3***	**2.68**	***220.7***	**3.33**
CFR (to finance past capital expenditure)	417.3		251.6	
Over/ (under) borrowing	***(40.0)***		***(30.9)***	
INVESTMENTS				
- Instant access	32.8	0.52	22.3	0.78
- Call account	2.5	0.10	5.3	0.90
- Term deposit	48.3	1.03	45.3	1.07
- CCLA	4.8	4.90	5.0	4.92
- Asset Investment programme (AIP)	17.6	n/a	0.0	**0.0**
Total investments	***106.0***	**1.48**	***77.9***	**1.22**

Note – Details regarding the movement in debt are provided at paragraph 4.14 for reference.

3.3 Whilst the table at paragraph 3.2 details the position as at the beginning and end of 2019/20 the average position for 2019/20 & 2018/19 was as follows:

	2019/20		2018/19	
	Principal	**Interest Rate**	**Principal**	**Interest Rate**
Average Debt	£296.2m	2.90%	£175.4m	3.97%
Average Investment *	£98.2m	1.12%	£86.7m	1.06%

* Excludes Asset Investments

4. BORROWING POSITION

4.1 As highlighted in paragraph 3.1 above, part of the Council's treasury management remit is to address any potential borrowing needed to be taken in order to fund the capital expenditure programme.

4.2 The in-house treasury management team organises the Council's cash position to ensure that sufficient cash is available to meet its overall spending plans together with its day to day cash flow requirements. A part of this process may involve the take up of new loans from external bodies, such as the Government through the PWLB or the money markets. Before any new borrowing is taken out consideration is given to utilising any of the Council's temporary cash resources which if deemed to be the best option, will be applied.

4.3 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This represents capital spend, not yet paid for by revenue or other capital resources, incurred from current and prior years' activities reflecting the level of the Council's indebtedness.

4.4 During 2019-20, the Council maintained an under-borrowed position as highlighted at paragraph 3.2 which means that the capital borrowing needed was not fully funded with new loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns continue to be low and minimising counterparty risk on placing investments also needed to be considered.

4.5 To safeguard the Council's finances, the level of CFR is not allowed to rise indefinitely and statutory controls are in place to ensure that any borrowing costs incurred are charged to revenue over the useful life of the asset. This annual revenue charge is the Minimum Revenue Provision (MRP) and this reduces the CFR and effectively is a repayment of borrowing.

4.6 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts) or
- charging more than the statutory revenue charge MRP each year through a Voluntary Repayment Provision (VRP).

4.7 The Council's 2019/20 MRP Policy, (as required by CLG Guidance), was approved by Members as part of the Treasury Management Strategy report for 2019/20 in February 2019.

4.8 The Council's CFR includes PFI and leasing schemes held on the balance sheet, which increase the overall borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

4.9 During 2019/20 the Council borrowed £144.4m from the PWLB to fund new capital expenditure of which £109.5m was taken to fund capital investment in regeneration activities, £25m to start to address the under borrow position and £9.9m being applied to fund spend incurred on other schemes within the capital programme. All borrowing was undertaken in conjunction with the information obtained from the Council's advisors LAS, with all loan servicing costs being met from the existing revenue provision within the MTFP or from a proportion of the investment returns generated from the Council's commercial investment programme.

4.10 All loans were taken at competitive rates of interest thereby ensuring value for money to the local taxpayers was achieved with details of the loans taken being shown at paragraph 4.14 below for reference.

4.11 Whilst £144.4m of new external loans were taken from the PWLB to fund a significant proportion of the Councils underlying capital borrowing requirement, the policy adopted in previous years of also applying cash supporting the Council's reserves, balances and cash flow was also applied in 2019/20 hence the reason for the under borrowing position increasing from £30.9m as at 31st March 2019 to £40.0m at 31 March 2020. This action was undertaken in conjunction with advice obtained from LAS and offers a prudent approach due to the low level of investment returns available when compared to borrowing rates.

4.12 In order to ensure that long term borrowing levels are prudent and only taken for capital purposes, the Council ensured that its gross external borrowing did not exceed the total of the CFR. This means that the Council is not using this form of borrowing to support revenue expenditure and during 2019/20 this strategy was maintained.

4.13 During the year no rescheduling of the Council's existing debt was carried out due to the high breakage costs (premium) involved.

4.14 From the table at paragraph 3.2 it can be seen that the level of external debt increased during 2019/20 from the opening position of £220.7m to close at £377.3m and this was as a result of the following transactions;

Lender	Principal – (Repayment) / New	Average Interest rate	Notes
Long Term			
PWLB	£(3.4)m	8.88%	Natural maturity.
SALIX Finance	£(1.4)m	0.000%	Loan used to part fund the LED Street Lighting Programme.
PWLB (August 19)	£17.0m	1.21%	Loans taken to reduce the under borrow position
PWLB (August 19)	£17.0m	1.88%	Loans taken to reduce the under borrow position & fund capital programme schemes
PWLB (September 19)	£60.0m	1.90%	Loan taken to fund capital investment in regeneration activities & general capital programme schemes.
PWLB (October 19)	£27.2m	2.08%	Loans taken to fund capital investment in regeneration activities
PWLB (October 19)	£8.2m	2.24%	Loans taken to fund capital investment in regeneration activities
PWLB (October 19)	£15.0m	2.65%	Loans taken to fund capital investment in regeneration activities
Sub total	**£139.6m**		
Short Term			
Stockport BC	£10.0m	0.83%	Loans taken to fund capital investment in regeneration activities
Liverpool CC	£7.0m	2.50%	Loans taken to fund capital investment in regeneration activities
Sub total	**£17.0m**		
Grand total	**£156.6m**		

4.15 From the total debt outstanding of £377.3m, £0.7m is administered on behalf of Greater Manchester Probation Service which leaves £376.6m in respect of the Council's own long term requirement and a maturity profile of the Council's debt can be found at Appendix B & C for reference.

4.16 Through-out the course of a year the Council may as a result of short term capital funding requirements need to undertake temporary borrowing (short term up to 1year).

4.17 Funds for this purpose are generally widely available from other local authorities via the money market at low rates of interest. During 2019/20 the Council undertook on 13 separate occasions temporary borrowing totalling £45.5m for such instances as mentioned at paragraph 4.16 at a total cost of £24k with interest rates ranging from 0.6% to 2.5%. As at 31st March 2020 £17m of this amount temporary borrowed was outstanding and this was fully repaid by the due date of 8th April 2020. Whilst the use of an overdraft facility provided by the Council's bank is available this is an expensive form of borrowing at 4% + bank rate and costs of £107k would have been incurred had this option been used instead of temporary borrowing.

4.18 Loan interest paid during 2019/20 totalled £8.541m and of this £3.364m was funded from applying a proportion of the Council's commercial property portfolio rental income. The balance of £5.177m was incurred within the MTFP budget provision

4.19 During 2019/20 the Corporate Director of Finance and Systems continued to monitor interest rate movements in the financial markets and caution was adopted with the treasury operations.

4.20 During the course of the year no borrowing for more than, or in advance of the Council's needs, purely in order to profit from the investment of the extra sums borrowed was undertaken.

4.21 In March 2020 the Government announced there was to be a consultation exercise involving all Councils looking at how the PWLB operated. A response to each of the points identified in the consultation paper was issued to the Government by the Council and the outcome of this exercise is currently being awaited. Members will be informed of any significant changes which may be introduced to the way PWLB operates as a result of this consultation.

5. INVESTMENT POSITION

5.1 The Council's investment policy is governed by the MHCLG guidance which has been implemented within the annual investment strategy approved by Council in February 2019. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

5.2 Using this information the Council's in-house treasury management team is able to produce an approved lending list in order to ensure investments are only placed with low risk institutions. Funds are invested for a range of periods reflecting cash flow requirements together with counterparty limits as set out in the approved investment strategy ensuring that an excessive level of funds are not placed in a single counterparty.

5.3 I can confirm that during the year all investment activity conformed to the approved strategy and that the approved limits within the Annual Investment Strategy were not breached.

5.4 The Council will, in line with previous years, aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity.

5.5 Investment returns remained low during 2019/20 with the MPC only expected to increase the Bank Rate to 1.0% during 2020 after the Brexit issue had been settled. When the coronavirus outbreak hit the UK in February/March and in response to the MPC cutting the Bank Rate from 0.75% to 0.1%, market investment rates initially fell but then rose sharply again due to a shortage of liquidity in financial markets.

5.6 In 2019/20 the Council maintained an average balance of £93.2m of internally managed funds (this figure excludes £5m placed in the Property Fund managed externally by Church Commissioners Local Authority group) earning an average rate of return of 0.92% which generated £856k in investment interest. This return was £96k above the agreed budget figure of £760k and 0.38% or £351k above the performance indicator of the average 7-day LIBID rate of 0.54%.

5.7 With regards to the Council's long term investments, in 2015, £5m was placed into the CCLA Property Fund for a minimum period of 5 years which after entry costs had been deducted of £0.3m, enabled 1,643,872 units to be purchased in the fund. At 31 March 2020 the value of these units, were £4.86m and this compares to the valuation at 31 March 2019 of £5.04m, a decrease of £0.18m. This decrease reflects the impact the coronavirus is having on the world economy sending into a recession in 2020.

5.8 Whilst a comparatively minor decrease to the value of this investment occurred in 2019/20, it is currently forecasted that a further more substantial fall in the valuation in this fund of approximately £0.4m may occur in 2020/21 as a result of the coronavirus pandemic before a bounce back in values commences in 2021.

5.9 In response to the implementation in 2018/19 of IFRS 9 into the CIPFA Code of Practice on Local Authority Accounting, any movement in valuation would normally have to be taken and reflected in full to the Council's revenue account. As a consequence of this change to the CIPFA Code of Practice the MHCLG put in place a 5 year statutory override effective from 1 April 2018. The Council will use this override facility to account for any changes in the value of this investment during this period thereby avoiding any adverse movements being taken to the revenue account in full during the year they occurred.

5.10 After the expiry of this override any future potential adverse movements to the Council's revenue account arising from this investment will be offset from a corresponding contribution from the Investment Smoothing Reserve.

5.11 Annualised returns generated from the CCLA property fund in 2019/20 (gross of fees on the original value invested) were 4.90% and this compares with that achieved in 2018/19 of 4.91%.

5.12 When the rates of return for both short and long term investments are combined, this produces an average level invested of £98.2m, generating a rate of return of 1.12% worth £1,103k which is £0.1m above budget and 0.58% or £0.62m above the performance indicator of the average 7-day LIBID rate of 0.54%.

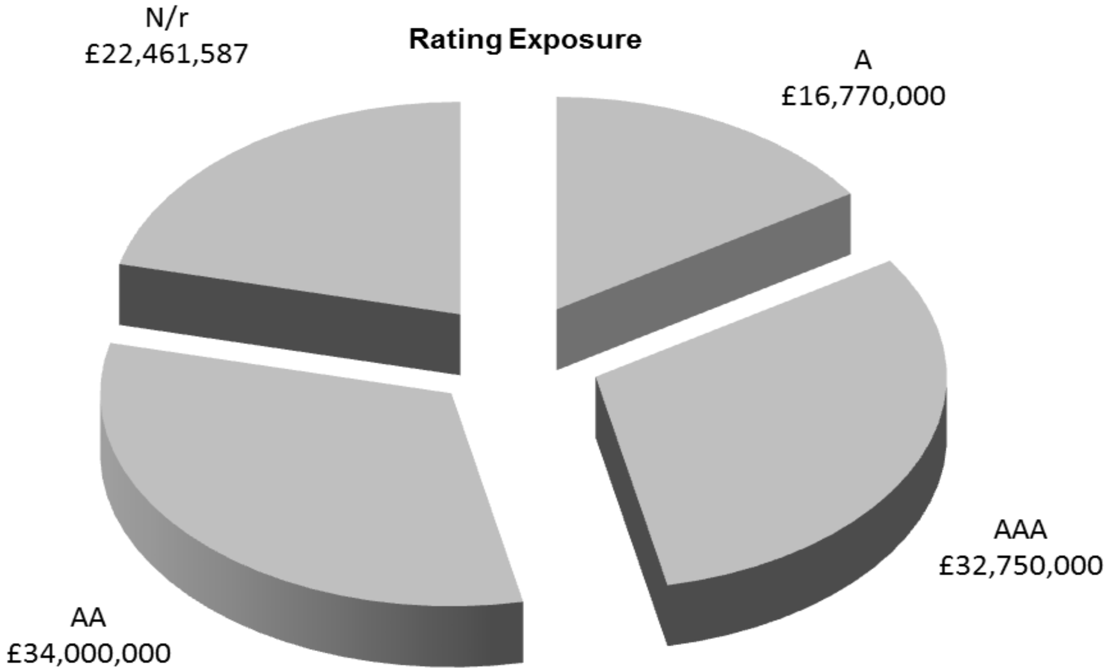
5.13 In addition to the £5m CCLA investment, the Council in August 2019 undertook a further long term investment when it entered into a £17.6m 5 year loan facility agreement with Queens Holding Limited secured on 4 prominent income producing properties known as Albert Estate within Manchester City Centre. Due to the coronavirus outbreak, rental turnover has reduced resulting in the borrower breaching one of the loan covenants and being in default. A mitigation solution is being prepared with the borrower that will provide additional security to protect the Council's investment in the short term until the City Centre economy recovers post lockdown.

5.14 During the climate of extremely low investment interest rates the ability to generate a significant level of return without exposing the Council's funds to high levels of risk remains challenging. Whenever new opportunities to generate additional investment income become known, these are thoroughly investigated in order to ensure that they will be suitable for the Council to pursue without committing it to any unnecessary risk.

5.15 The Council's main bank account with Barclays, is non-interest bearing and consequently if no investments were undertaken by the in-house team, the Council would lose the opportunity to generate £856k of income.

5.16 Levels of funds available to be invested on a daily temporary basis are subject to a number of factors such as timing in the form of monies being received ahead of spend requirements and progress on the Capital Programme.

5.17 The graph below provides a breakdown of the Council's investments placed as at 31 March 2020 by long term credit rating and further information detailing the make-up of this can be found at Appendix C & D;



6. RELATED TREASURY ISSUES

6.1 Member training was provided by the Council's advisors LAS and in-house staff to both Members of the Accounts and Audit Committee and staff new to the role of treasury management on 12th June 2019 and 15th January 2020. In addition to these sessions two Members of the Accounts and Audit Committee attended external training provided by CIPFA in Leeds on 16th October 2019.

6.2 The treasury management function processes multi-million pound transactions on a daily basis making it a very important operation of the Council's activities. To ensure transactions are processed efficiently, effectively and securely at all times, procedures and controls are in place which are continually reviewed and updated to ensure the safeguarding of public monies is maintained. This aspect was confirmed by the Council's Audit & Assurance Service as part of their annual audit process when for the 13th year in succession they issued a report which stated that this service offered a High Level of Assurance, the highest level obtainable. The robustness and flexibility of these systems and procedures was further highlighted during the coronavirus pandemic when staff were asked to perform this task whilst working from home, a process never previously undertaken. During this period no disruption to the Council's treasury management service was encountered and all financial transactions were processed on time without disruption thereby protecting the Council's reputation.

7. PRUDENTIAL AND PERFORMANCE INDICATORS

7.1 It is a statutory duty for the Council to determine and keep under review the Council's Prudential Indicators as approved within the Treasury Management Strategy for 2019/20.

7.2 During the year ended 31 March 2020, the Council operated within these indicators and these are shown in Appendix E for reference.

8. OUTLOOK 2020/21

8.1 The economic impact of the coronavirus pandemic will be widespread and whilst the financial impact from this crisis in 2019/20 was relatively minor, it is in 2020/21 and beyond where the full financial impact will be felt.

8.2 The Organisation for Economic Co-operation and Development (OECD) has recently stated that the UK's economy is likely to fall by 11.5% in 2020 and this could rise further to 14% if a second peak in the virus was to occur.

8.3 Previously economists were predicting that there would be a rapid bounce back in the UK economy, a so-called V-shaped whereby both the fall and recovery in the economy are both quick, now however they are of the opinion that a recovery is more likely to be slower.

8.4 As a result of this there will be financial implications for Treasury Management and these will come from a number of areas, primarily be from lower investment returns due to historical low investment interest rates and a reduction in levels of temporary cash available to be invested. This last aspect has arisen from regular income streams being greatly reduced as safety and economic measures put in place in response to the crisis protecting both businesses and individuals take effect. A further consequence of this is that Investments which have previously been placed with institutions are being recalled upon maturity and applied to ensure the Council is able to honour its financial commitments on time whilst keeping any temporary borrowing to a minimum.

8.5 Through-out the course of any year the Council's treasury management team ensure that any investment or borrowing transactions are processed to meet any future potential funding requirements. Monitoring of the Council's cash flow enables this process and is an important part of this function. This process has always been undertaken on a regular basis however in the current climate it is being carried out more frequently. By adopting this approach it enables any new information when it becomes available to be incorporated immediately into the Council's current and future cash flow thereby ensuring any remedial action to be put in place as soon as possible.

8.6 The Council's revenue returns from properties bought through its Strategic Asset Investment Fund have been impacted by the coronavirus pandemic. Negotiations with tenants have resulted in delayed rental payments and, in some cases, rental discounts. The expectation is that the impact from the pandemic will be short term and that asset values and turnover will return to pre-virus levels in 2021. At the end of 2019/20, the Council used surplus investment returns to make an additional contribution of £1.5m to its risk reserve;- this additional contribution will be used in 2020/21 to offset any shortfalls in income.

8.7 Forecasting what the annual outturn will likely be with any certainty under normal conditions is difficult, however it has become even more of a challenge to do in the current climate. A forecast of what the outturn is expected to be for 2020/21 is provided to Members as part of the bi-monthly revenue monitoring updates however to mitigate any negative effect the Council's revenue account may encounter from this area, the Treasury Management Smoothing Reserve will be applied.

9. 2019/20 SUMMARY OUTTURN POSITION

9.1 Activities undertaken as part of the treasury management function are subject to many factors beyond the control of the Council impacting on actual performance e.g. worldwide economic, political and health events and interest rate movements. The table below reflects the summarised outturn position compared to that originally forecasted for reference;

Treasury	Budget £000	Outturn £000	Variance £000
DEBT			
Loan Interest	4,919	5,177	258
MRP	2,457	2,209	(248)
PFI Interest & Premium	935	935	0
Sub-total	**8,311**	**8,321**	**10**
INVESTMENTS			
Investment Interest & other net interest receipts	(1,256)	(1,383)	(127)
MAH Ltd – Share dividend Loan income	 (5,097) (2,098)	 (6,429) (2,171)	 (1,332) (73)
Sub-total	**(8,451)**	**(9,983)**	**(1,532)**
RESERVES			
Contribution to / (from) Interest Smoothing Reserve	465	718	253
Sub-total	**465**	**718**	**253**
TOTAL	**325**	**(944)**	**(1,269)**

Non-Treasury items	Budget £000	Outturn £000	Variance £000
EXPENDITURE			
Loan Interest	1,591	3,364	1,773
Loss of Investment interest	130	325	195
MRP	1,086	1,595	509
Sub-total	**2,807**	**5,284**	**2,477**
RECHARGES			
Sub-total	**(2,807)**	**(5,284)**	**(2,477)**
TOTAL	**0**	**0**	**0**

Note: The above figures reflect;

- Low rate debt taken for capital schemes which have commenced prior to future income streams being available to pay for these costs (MAH Project Apollo, Leisure Centre refurbishment);

- All associated debt servicing costs in respect to the Councils Commercial Investment Programme are self-financing i.e. paid for from the income stream generated from the investment;
- Additional share dividend received from the MAH Ltd as a result of stronger trading operations;

9.2 The increase in contribution to the Smoothing Reserve reflects one off savings from higher levels of investment interest generated, greater than forecasted shareholder loan income from MAG being received and rephasing of MRP contributions. The application of this reserve will be required over the forthcoming years and is held to finance future cash implications arising from:-

- Potential adverse changes in investment interest rates,
- Short term temporary borrowing funding requirements and
- Non-treasury management activities which have an impact on cash flows.

Other Options

This report is a mandatory report which has been produced in order to comply with Financial Regulations and relevant legislation and provides an overview of transactions undertaken during 2019/20. There are no other options to consider.

Consultation

Information for the period covered by this report was obtained from Link Asset Services, the Council's external consultants.

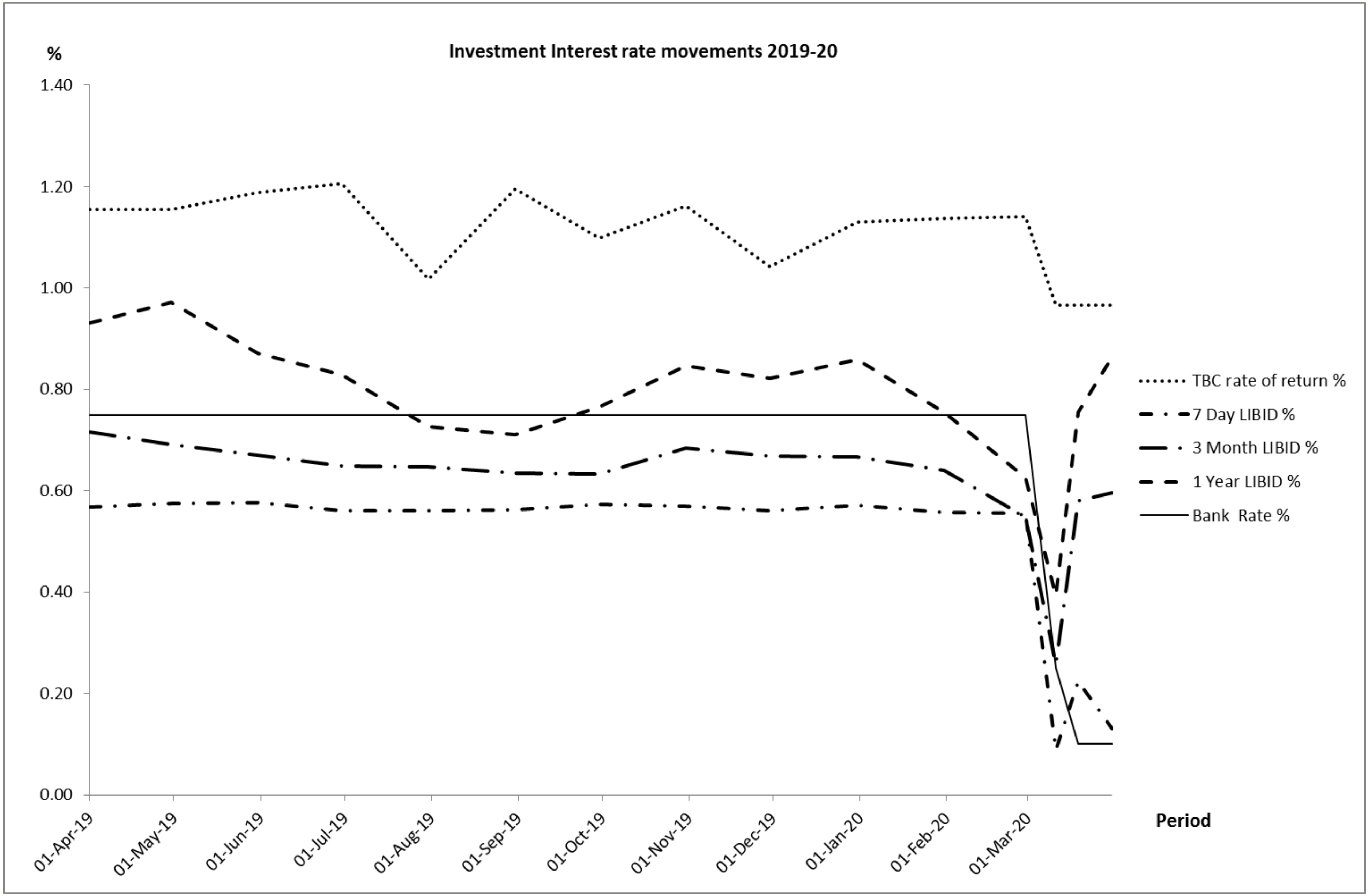
Reasons for Recommendation

The report is a mandatory report which has been produced in order to comply with the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code for Capital Finance and the CIPFA Code of Practice on Treasury Management.

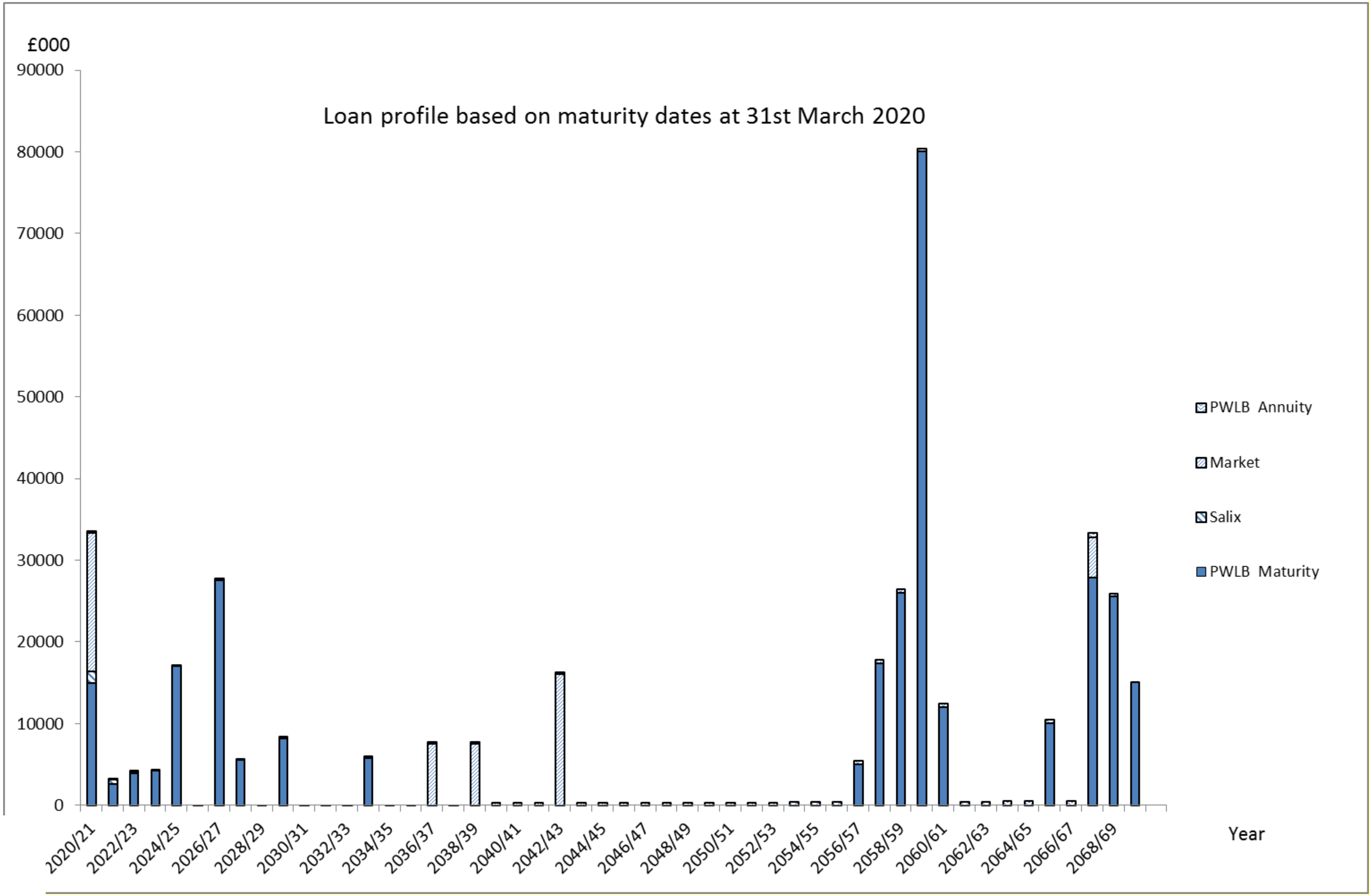
Finance Officer Clearance GB

Legal Officer Clearance DS

Corporate Director's signature


Investment Interest rate movements 2019-20
%
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
01-Apr-19
01-May-19
01-Jun-19
01-Jul-19
01-Aug-19
01-Sep-19
01-Oct-19
01-Nov-19
01-Dec-19
01-Jan-20
01-Feb-20
01-Mar-20
Period
TBC rate of return %
7 Day LIBID %
3 Month LIBID %
1 Year LIBID %
Bank Rate %

Appendix A



£000
Loan profile based on maturity dates at 31st March 2020
90000
80000
70000
60000
50000
40000
30000
20000
10000
0
2020/21
2022/23
2024/25
2026/27
2028/29
2030/31
2032/33
2034/35
2036/37
2038/39
2040/41
2042/43
2044/45
2046/47
2048/49
2050/51
2052/53
2054/55
2056/57
2058/59
2060/61
2062/63
2064/65
2066/67
2068/69
Year
PWLB Annuity
Market
Salix
PWLB Maturity

Appendix B

Appendix C

Maturity Profile

Debt portfolio:

	31 March 2020 (£m)	31 March 2019 (£m)
Under 12 months	33.5	4.8
12 months and within 24 months	3.2	16.5
24 months and within 5 years	25.7	11.8
5 years and within 10 years	42.1	6.7
10 years and above	272.8	180.9
Total	**377.3**	**220.7**

Investment portfolio:

	31 March 2020 (£m)	31 March 2019 (£m)
Instant Access	32.8	22.3
Up to 3 Months	22.8	19.6
3 to 6 Months	15.5	12.0
6 to 9 Months	7.5	11.5
9 to 12 months	5.0	7.5
Over 1 year	22.4	5.0
Total	**106.0**	**77.9**

Appendix D

Breakdown of Investments

Counterparty	Amount (30 Sept 2019) £	Amount (31 March 2020) £	Long Term Credit Rating
Money Market Fund			
Aberdeen	6,260,000	9,350,000	AAA
Federated Investors	6,850,000	15,400,000	AAA
Invesco Aim	7,000,000	8,000,000	AAA
Sub total	*20,110,000*	*32,750,000*	
Notice Accounts			
Barclays Bank	2,500,000	2,500,000	A
Sub total	*2,500,000*	*2,500,000*	
Term Deposit			
Australia and New Zealand Bank	17,000,000	2,000,000	AA
Blackburn with Darwen Council	0	2,500,000	Not rated
Brentwood Council	0	2,000,000	Not rated
Cheshire East Council	0	2,000,000	Not rated
Close Brothers Bank	10,000,000	7,000,000	A
Eastleigh Borough Council	2,000,000	2,000,000	Not rated
First Abu Dhabi Bank	2,000,000	2,000,000	AA
Gloucester City Council	0	3,000,000	Not rated
Goldman Sachs Investment Bank	7,800,000	0	A
Lincolnshire City Council	3,000,000	0	Not rated
Lloyds Bank	13,270,000	7,270,000	A
Medway Council	0	3,000,000	Not rated
North Lanarkshire Council	5,500,000	5,500,000	Not rated
Peterborough City Council	0	5,000,000	Not rated
Santander UK Bank	2,000,000	0	A
Slough Borough Council	5,000,000	0	Not rated
South Ayrshire Council	0	5,000,000	Not rated
Sub total	*67,570,000*	*48,270,000*	
Property Funds			
Church Commissioners Local Authority	5,000,000	4,861,587	Not rated
Sub total	*5,000,000*	*4,861,587*	
Other			
Asset Investment Programme	17,600,000	17,600,000	Not rated
Sub total	*17,600,000*	*17,600,000*	
Total	**112,780,000**	**105,981,587**	

The above table shows the level of investments placed as at 31 March 2020 and 30 September 2019, the last time Members were provided with this information.

Appendix E

Prudential Indicators for 2019/20

Indicator	Indicator set by Council	Actual
Authorised Borrowing Limit Maximum level of external debt, including other long term liabilities (PFI & leases) undertaken by the authority including any temporary borrowing - this is a statutory limit under Section 3(1) of the Local Government Act 2003.	£585.5m	£377.3m
Operational Boundary Calculated on a similar basis as the authorised limit but represents the expected level of external debt & other long term liabilities (PFI & leases) excluding any temporary borrowing – this is not a limit.	£570.5m	£377.3m
Upper limits on fixed interest rates **Maximum** limit of net fixed interest rate exposure - debt less investment	£12.8m	£8.0m
Upper limits on variable interest rates **Maximum** limit of net variable interest rate exposure – debt less investment	£2.4m	£0.6m
Gross Debt and the Capital Financing Requirement – this reflects that over the medium term, debt will only be taken for capital purposes. During 2019/20 the Corporate Director of Finance and Systems can confirm that this indicator was complied with.		
Maturity structure of fixed rate borrowing These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.		
Under 1 year (this includes the next call date for Market loans)	40%	2%
1 year to 2 years	40%	1%
2 years to 5 years	40%	7%
5 years to 10 years	40%	11%
10 years to 20 years	40%	2%
20 years to 30 years	40%	5%
30 years to 40 years	70%	35%
40 years and above	90%	26%
Upper Limit for sums invested for over 1 year – these limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment.	£90m	£52.7m

Performance Indicators for 2019/20

Indicator	Target	Actual
Security – potential default rate of the Council's investment portfolio based on default rates from the 3 main credit rating agencies – inclusion is recommended by CIPFA.	Max 0.07%	Max 0.006% (31 March 2020)
Liquidity – investments available within 1 week notice	£10m min.	Achieved
Liquidity – Weighted Average Life of investments	6 months	2.25 months (31 March 2020)
Yield – Investment interest return to exceed 7 day **L**ondon **I**nterbank **BID** rate (exclude CCLA)	Average 7 day LIBID 0.54%	Average rate of return for 2019/20 was 0.92%
Origin of investments placed - maximum investments to be directly placed with non-UK counterparties.	UK institutions 100% Non UK institutions 40%	Min 78% Max 22%

APPENDIX F

ABBREVIATIONS USED IN THIS REPORT

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CCLA: Church Commissioners Local Authority - manage investments for charities, religious organisations and the public sector

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

GDP: gross domestic product – a measure of the growth and total size of the economy.

IFRS 9: is an International Financial Reporting Standard (**IFRS**) published by the International Accounting Standards Board (IASB). It addresses the accounting for financial instruments and contains three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

LAS: Link Asset Services – independent organisation which provides advice and guidance on all treasury matters including government legislation.

LIBID: the London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

MAH Ltd: Manchester Airport Holdings Limited - is a holding company which is owned by the ten metropolitan borough councils of Greater Manchester and an Australian investment fund IFM Investors.

MHCLG: the Ministry of Housing, Communities and Local Government -the Government department that directs local authorities in England.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

MTFP: A Medium Term Financial Plan is a key part of the Council's Policy and Budget Framework and sets out the strategic approach to the management of its finances.

OECD: Organisation for Economic Co-operation and Development is an intergovernmental economic organisation with 37 member countries, founded in 1961 to stimulate economic progress and world trade

PFI: Private Finance Initiative is a way of financing public sector projects through the private sector.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: Quantitative Easing - is a monetary policy whereby a central bank (e.g. Bank of England) buys government bonds or other financial assets in order to inject money into the economy to expand economic activity.

UK: United Kingdom.

US: United States of America.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition)