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## TREASURY MANAGEMENT ANNUAL REVIEW 2019/20

### 1 SUMMARY

- 1.1 This report sets out a summary of the Council's Treasury Management activity for the 2019/20 financial year.
- 1.2 The council is required by the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities to produce an annual review of its treasury management activities.
- 1.3 Review Committee is asked to consider the contents of this report and recommend it for approval by Full Council on 14 July 2020.
- 1.4 The council's income from treasury management activities in 2019/20 was £147,110 against a budget of £80,000.

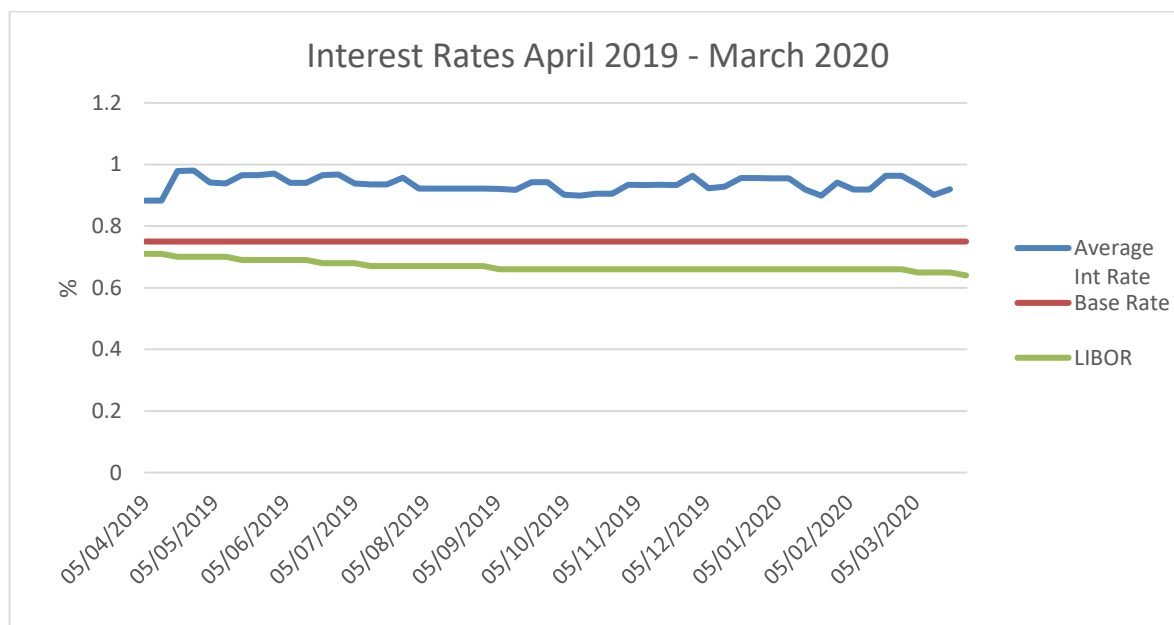
### 2 INTRODUCTION AND BACKGROUND

- 2.1 Treasury management is defined as "The management of the local authority's investments, cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
- 2.2 All decisions on borrowing, investment or financing are delegated to the Section 151 Officer as the Chief Finance Officer and this delegation is documented in the Financial Regulations.
- 2.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members. Member training on treasury management issues was undertaken during the year on 02/10/2019 in order to support members' scrutiny role.
- 2.4 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and report on the actual prudential and treasury indicators each year. 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).
- 2.5 The minimum reporting requirements are that Council should receive the following reports:
  - An Annual Treasury Strategy in advance of the year (Council 12/02/2019)
  - A Mid-Year Treasury Update Report (Council 17/12/2019)

- An Annual Review following the end of the year describing how actual activity compares to the Strategy (this report).

### 3 INVESTMENT PERFORMANCE FOR 2019/20

- 3.1 Investment rates remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.
- 3.2 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, 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, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.
- 3.3 The following graph shows a comparison of average rate of interest earned, Bank base rate and the benchmark (7-day London Interbank Rate); this shows the correlation in average interest rate achieved compared to the Bank of England Base rate.



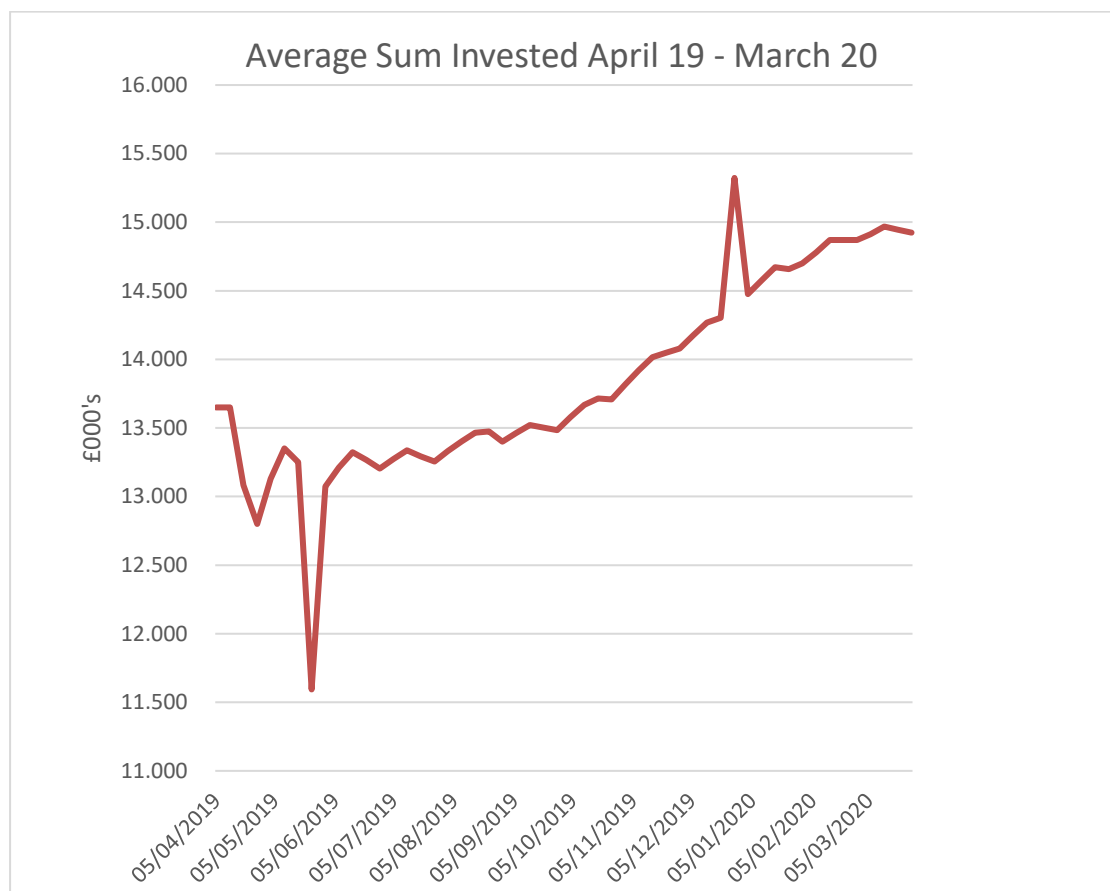
#### 4 INVESTMENT POSITION

- 4.1 The Council's investment position at the beginning and the end of the year, as shown on the Council's Balance Sheet, was as follows:

Balance as at 31 March 2019      £10.15m

Balance as at 31 March 2020      £13.8m

- 4.2 The breakdown of the investments held at 31 March 2020 is three fixed rate investments totalling £6m with Santander and two fixed rate investments totalling £4m with Lloyds. The remaining £3.8m was placed in the Prime Money Market Fund.
- 4.3 The graph below shows the Council's average balances over the year.



- 4.4 Total external interest earned in 2019/20 was £147,110 compared to £96,474 in 2018/19. The increase was due to the higher value of cash balances held by the Council and an increase in average interest rates paid on investments compared to 2018/19.
- 4.5 In line with the Treasury Management Strategy agreed by Council the Authority takes advice from its Treasury Management Advisors Link Asset Services,

which uses a combination of credit ratings and market intelligence, in order to decide which banks and financial institutions to deposit funds with.

## 5 COMPLIANCE WITH TREASURY LIMITS

- 5.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Management Strategy. The outturn for the Prudential Indicators, compared to the estimates made in February 2019, are shown below:-

PRUDENTIAL INDICATOR	2018/19	2019/20	2019/20
	Actual	Original Budget	Actual (subject to audit)
Capital Expenditure £000s	1,990	1,790	1,125
Ratio of Financing Costs to Net Revenue Stream	(1.22%)	(0.74%)	(1.48%)
Capital Financing Requirement as at 31 March £000s	777	777	777
Incremental Impact of Capital Investment Decisions - (Reduction) in Council Tax (band D) per annum £	0.06	0.02	0.00

## 6 RESOURCE IMPLICATIONS

- 6.1 The Council has not undertaken any external borrowing during the year and therefore no interest costs were incurred. Investment income remains a relatively small overall source of income to the Council; however, the Council continues to seek the best returns available within its agreed risk appetite.
- 6.2 The Council's current Treasury Management Advisors are Link Asset Services (LAS). The contract costs £7,750 per year which represents good value for money via the provision of specialist advice and training to the Council officers and members which enables sound investment decisions to be made. This is due to increase to £8,000 for 2020/21.

## 7 RISK IMPLICATIONS

- 7.1 The Council's agreed Treasury Management Strategy sets out in detail the risks involved in making investments and in particular the risk that a counter party may fail during the duration of an investment. The Authority is responsible for managing the investment of public funds and must adopt a prudent approach.

**8 LEGAL IMPLICATIONS**

8.1 None

**9 RECOMMENDATION**

It is proposed that the Review Committee **RESOLVES** to recommend the contents of this report to Full Council.



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**Background Papers:-**

None.

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