

For Publication

TREASURY MANAGEMENT ANNUAL REPORT 2019/20 AND MONITORING REPORT 2020/21

Meeting: (1) Standards & Audit Committee
(2) Council

Date: (1) 23 September 2020
(2) 14 October 2020

Cabinet portfolio: Deputy Leader

Report by: Chief Finance Officer

For publication

1.0 Purpose of report

1.1 To consider the Annual Treasury Management Report for 2019/20.

1.2 To consider the Treasury Management activities for the first five months of 2020/21.

2.0 Recommendations

2.1 That the **Council** is recommended to:

- (i) Approve the outturn Prudential Indicators for 2019/20;
- (ii) Approve the treasury management stewardship report for 2019/20;
- (iii) Note the treasury management position for the first five months of 2020/21.

2.2 That **Standards and Audit Committee** scrutinizes the report and makes recommendations to the full Council for consideration.

3.0 **Background**

3.1 The Council's Treasury Management Strategy requires the full Council to receive three treasury reports each financial year; the Strategy report before the start of each financial year, an annual report for the previous financial year and a mid-year review for the current year.

3.2 The Annual Report for 2019/20 is attached at Appendix A. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

3.3 Following the Icelandic banks collapse in 2008 the regulatory framework places a much greater emphasis on the review and scrutiny by Members of treasury management activities. The attached report provides details of the treasury management activities in 2019/20 and confirms compliance with the Council's approved policies.

4.0 **Summary of the Annual Report**

4.1 During 2019/20, the Council complied with its legislative and regulatory requirements. The key actual prudential and

treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2018/19 Actual £'000	2019/20 Revised £'000	2019/20 Actual £'000
Actual capital expenditure	25,737	37,229	25,539
Capital Financing Requirement:			
- General Fund	14,906	17,889	18,447
- HRA	130,358	128,403	128,403
- Total	145,264	146,292	146,850
External debt	129,336	127,341	127,341
Investments – under 1 year	47,547	39,409	42,129
1 year and above	-	-	-
Net borrowing	81,789	87,932	85,212

4.2 Other prudential and treasury indicators are to be found in Appendix A. The Chief Finance Officer also confirms that borrowing over the medium term is only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached in 2019/20.

4.3 The financial year 2019/20 continued the challenging environment of low investment return, with bank base rates holding steady at 0.75% for the majority of the year. The Covid-19 pandemic brought about an interest rate cut to 0.25% in March 2020, swiftly followed by a further cut to a record low of 0.10%. There was a large differential between borrowing and investments rates during the year.

Investments – Interest income received for the year was above budget at £430,000. This was due to increased yields on fixed deposits with banks and other local authorities during the last quarter of 2019/20. Following a review of investments during the 2019/20 financial year the Council continued with its policy of increasing its investments with other local authorities in order to

achieve greater security. Further information can be found in Appendix A.

The in-house team managed average balances of £50.1m earning an average rate of return of 0.86%.

Borrowing – in terms of activity during the year on the Council's debt portfolio:

- No new external long term borrowing was undertaken; &
- Long term loan repayments of £1m were made.

Treasury Management Advisors – Arlingclose continued to provide treasury management advice to the Council throughout 2019/20. Treasury recommendations were incorporated into the 2019/20 Treasury Management Strategy Statement that was approved by Council in February 2019.

5.0 **Mid- Year Review 2020/21**

5.1 Annual Investment Strategy

In accordance with the Cipfa Code and the Council's Treasury Management Strategy, the investment priority is to ensure security and liquidity of capital, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Due to the Covid-19 pandemic the Bank Rate was cut to a record low of 0.10% in March 2020; this, together with the continuing uncertainty of economic recovery and the geo-political uncertainties prompt a low risk and short term strategy. There is the possibility that the Bank of England could cut rates further, and the possibility of negative interest rates cannot be ruled out. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the five months ended 31st August 2020.

5.2 Internally Managed Cash Balance

In the first quarter of the year the interest rates achieved were lower than those assumed when setting the budget (0.39% against 0.74%), which has resulted in internal investment returns being £19,000 worse than forecast for the first quarter of the year.

5.3 The Covid-19 pandemic has led to a substantial drop in investment rates during the first quarter of 2020/21. The budget forecast for investment income will be reviewed as part of the revised budget process in the Autumn.

5.4 Borrowing activities in the period:

- No new long term borrowing has been undertaken;
- No repayments of principal have yet been made; &
- No debt rescheduling was undertaken.

5.5 Compliance with Treasury & Prudential Limits

All treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices have been maintained.

The main Prudential Indicators relating to borrowing are:

- Authorised Borrowing Limit – the limit for the year was set at £158.0m, the limit has not been breached.
- Operational Boundary – this was set at £143.4m for the year, again the limit has not been breached.

6.0 **Treasury Management Indicators 2020/21**

Amendments to the 2020/21 General Fund capital programme will be considered by Council in December. Further borrowing may be necessary and this additional borrowing would require

an adjustment to the Prudential Indicators (PI's) approved as part of the Treasury Management Strategy Statement in February. The PI's detailed below would need to be amended:-

- General fund Capital Expenditure & Financing
- General Fund Capital Financing Requirement
- Operational Boundary
- Authorised Limit

These amended PI's will be reported to Cabinet as part of the budget monitoring report in the autumn.

7.0 **Recommendations**

7.1 That the **Council** is recommended to:

- (i) Approve the outturn Prudential Indicators for 2019/20;
- (ii) Approve the treasury management stewardship report for 2019/20;
- (iii) Note the treasury management position for the first five months of 2020/21.

7.2 That **Standards and Audit Committee** scrutinizes the report and makes recommendations to the full Council for consideration.

8.0 **Reasons for recommendations**

8.1 To comply with the Council's Treasury Management Policy and Practices, the CIPFA Code of Practice on Treasury Management (2017) and the CIPFA Prudential Code for Capital Finance in Local Authorities (2017).

Decision information

Key decision number	
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Wards affected	All
Links to Council Plan priorities	

Document information

Report author	Contact number/email
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Background documents Local Government Act 2003, CIPFA Prudential Code & Guidance, Accountancy Services' final accounts working papers.	
Annexes to the report	
Appendix A	Annual Treasury Outturn Report 2019/20