

## 2019/20 Treasury Management Activity Report

*Portfolio Holder:* Cll Peter Seib, Finance and Legal Services  
*Director:* Nicola Hix, Support Services  
*S151 Officer:* Jo Nacey  
*Lead Officer:* Paul Matravers, Specialist - Finance  
*Contact Details:* [paul.matravers@southsomerset.gov.uk](mailto:paul.matravers@southsomerset.gov.uk) or (01935) 462275

### Purpose of Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the 2019/20 financial year as prescribed by the CIPFA Code of Practice and in accordance with the Council's Treasury Strategy, Annual Investment Policy and Treasury Management Practices.

### Recommendations

2. The Audit Committee is recommended to:
  - Note the Treasury Management Activity for the 2019/20 financial year;
  - Note the position of the individual prudential indicators for the 2019/20 financial year;
  - Note the outlook for the investment performance in 2019/20;
  - Note the Council operated within all of the Prudential Indicators during 2019/20;
  - Recommend the 2019/20 Treasury Management Activity Report to full Council.

### Background

3. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, produce a six month and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.
4. Full Council approved the Council's 2019/20 Treasury Management Strategy on 26 February 2019. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.
5. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 26 February 2019.
6. Overall responsibility for treasury management remains with the Council. The day to day treasury management operation is delegated to the S151 Officer and is undertaken by the Finance function which is part of the Support Services directorate. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

7. This report provides information on the performance of the Council's Treasury Investments in 2019/20. The performance of the Council's Commercial Investments, which are part of the Commercial Strategy, are not included in this report.

### Treasury Management Position - Summary

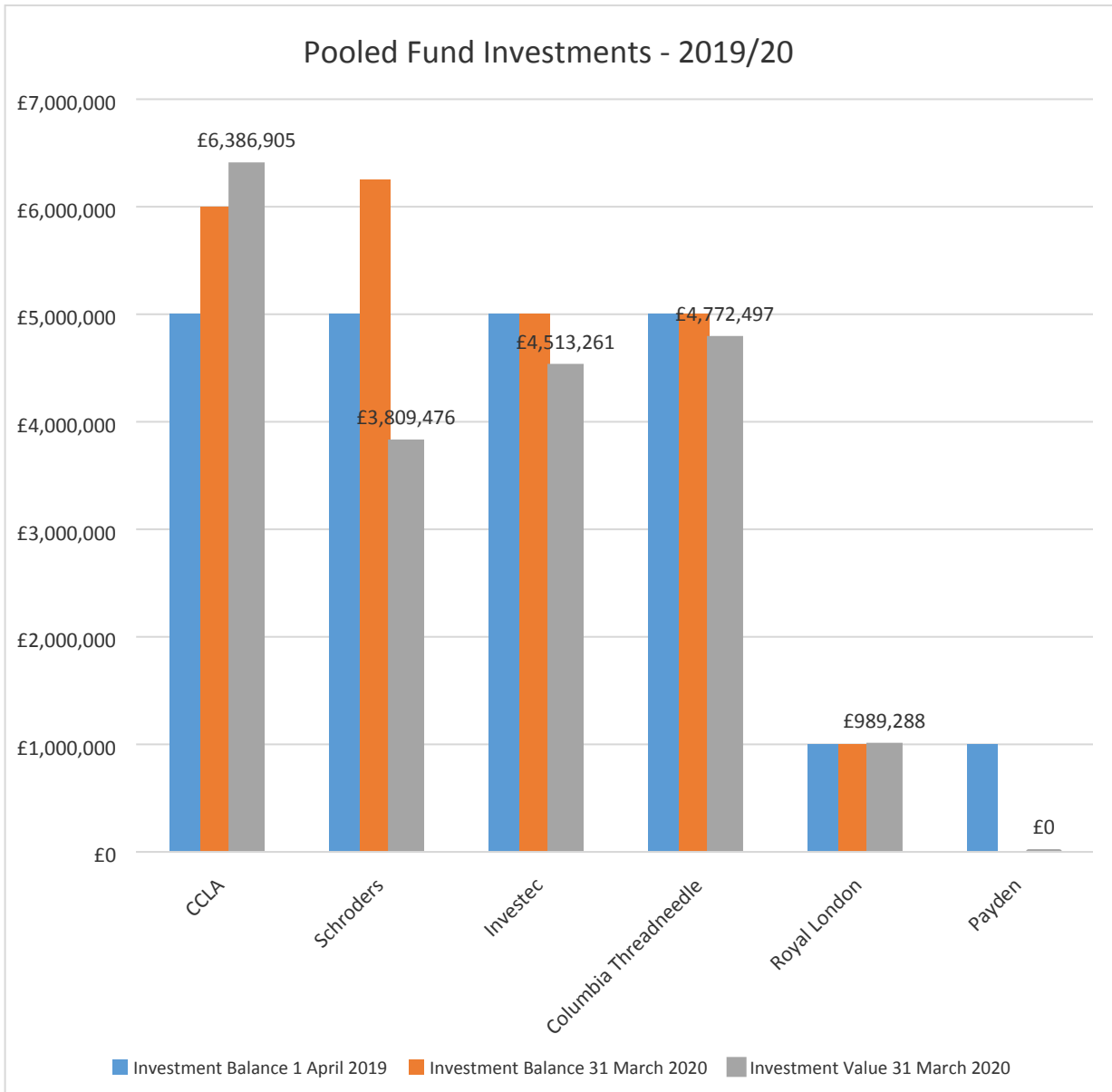
8. The treasury management position at 31st March 2020 and the change during the year is shown in the table below.

|                           | <b>31/3/19<br/>Balance<br/>£m</b> | <b>Net<br/>Movement<br/>£m</b> | <b>31/3/20<br/>Balance<br/>£m</b> |
|---------------------------|-----------------------------------|--------------------------------|-----------------------------------|
| Long-term borrowing       | 0.00                              | 0.00                           | 0.00                              |
| Short-term borrowing      | -19.50                            | -60.00                         | -79.50                            |
| <b>Total borrowing</b>    | <b>-19.50</b>                     | <b>-60.00</b>                  | <b>-79.50</b>                     |
| Long-term investments     | 3.00                              | -1.00                          | 2.00                              |
| Short-term investments    | 4.00                              | 4.00                           | 8.00                              |
| Cash and cash equivalents | 23.73                             | -1.30                          | 22.43                             |
| <b>Total investments</b>  | <b>30.73</b>                      | <b>1.70</b>                    | <b>32.43</b>                      |
| <b>Net Position</b>       | <b>11.23</b>                      | <b>-58.30</b>                  | <b>-47.07</b>                     |

9. External borrowing has increased during the year, reflecting the financing of planned capital expenditure, particularly in respect of investment property acquisition. In line with treasury advice, the Council continues to utilise short term borrowing, which is flexible and keeps our borrowing costs low. The projected value of borrowing as at 31 March 2020 was reported to Audit Committee in February 2019 in the Annual Treasury Management Strategy report.
10. The amount of external borrowing is partially dependent on the commercial property purchases that are made in the financial year, with cash flow requirements also dictating the level of borrowing. Short term borrowing continues to be the best option to meet the financing requirement, however this is kept under review to strike the appropriate balance between costs and cost certainty.
11. Ongoing dialogue is held with the Council's Treasury advisors on the best options for borrowing, the current advice being to continue to borrow short term at present. However, the Council may utilise long term borrowing in 2020/21 if it is deemed the best option, which will also remove an element of interest rate risk.

### Investment Activity

12. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20, the Council's investment balance ranged between £26 million and £47 million.
13. Both the CIPFA Code and Government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
14. The Council's best performing investments in 2019/20 were the investments in the Pooled Funds (Strategic Investments). Details of the investment balance at the start and end of the financial year and the value of each investment as at 31 March 2020 is detailed in the chart below.



**Note:** Pooled fund investments are revalued at the end of the financial year to reflect the fair value of the investment; the third bar in the graph signifies this value and details the investment value as at 31 March 2020. The first and second bars represent the investment balance in each fund at that date.

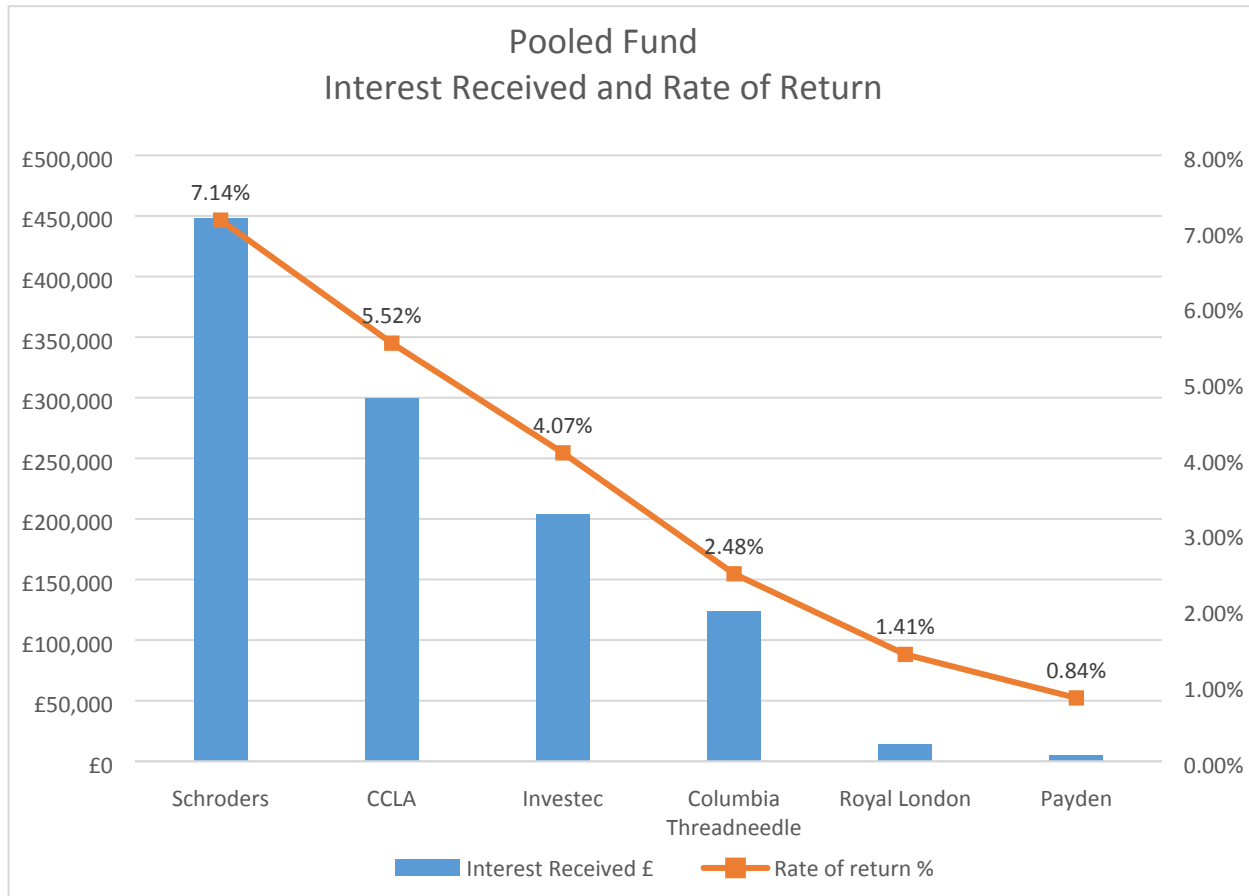
## Pooled Fund Investments 2019/20

15. The table below includes the opening and closing investment balances for each pooled fund investment. The investment fair value signifies the individual value of the investments after the year end revaluation.

| Investment Type       | Investment Balance |                    |                   |  | Investment Value   |                    |                    |
|-----------------------|--------------------|--------------------|-------------------|--|--------------------|--------------------|--------------------|
|                       | 01-Apr-19          | 31-Mar-20          | Change            |  | 01-Apr-19          | 31-Mar-20          | Change             |
| Schroders             | £5,000,000         | £6,250,000         | £1,250,000        |  | £6,034,720         | £3,809,476         | −£2,225,244        |
| CCLA                  | £5,000,000         | £6,000,000         | £1,000,000        |  | £5,690,293         | £6,386,905         | £696,612           |
| Investec              | £5,000,000         | £5,000,000         | £0                |  | £4,945,973         | £4,513,261         | −£432,712          |
| Colombia Threadneedle | £5,000,000         | £5,000,000         | £0                |  | £5,008,789         | £4,772,497         | −£236,292          |
| Royal London          | £1,000,000         | £1,000,000         | £0                |  | £1,000,127         | £989,288           | −£10,840           |
| Payden                | £1,000,000         | £0                 | −£1,000,000       |  |                    |                    |                    |
| <b>Total</b>          | <b>£22,000,000</b> | <b>£23,250,000</b> | <b>£1,250,000</b> |  | <b>£22,679,902</b> | <b>£20,471,426</b> | <b>−£2,208,476</b> |

16. The Council increased its investments in pooled funds by £1.25m in 2019/20 making the investments £23.25m as at 31 March 2020. It also reviewed the performance of the Payden investment and in consultation with its treasury advisors and the S151 Officer, a decision was made to withdraw from this fund and to increase the investment in CCLA Property Fund by £1m making the CCLA investment balance £6m.
17. The Council has investments in bond, equity, multi-asset and property funds. The falls in the capital values, as demonstrated in the final column of the above table, of the underlying assets were reflected in the 31st March fund valuations with most funds registering negative capital returns over 12 months to March. Early calculations suggest that, despite decent income returns in 2019-20, these funds will post negative total return over the one-year period due to the capital component of total returns.
18. In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses and individuals. Volatility measured by the VIX index was almost as high as during the global financial crisis of 2008/9 and evidenced in plummeting equity prices and the widening of corporate bond spreads, very close to rivalling those twelve years ago. Gilt yields fell but credit spreads widened markedly reflecting the sharp deterioration in economic and credit conditions associated with a sudden stagnation in economies, so corporate bonds yields (comprised of the gilt yield plus the credit spread) rose and prices therefore fell.
19. It should be noted that the £2.2m reduction in the capital value of the investments will not have an impact on the General Fund as the Council is using the alternative fair value through profit and loss (FVPL) accounting and defers the funds' fair value losses (and gains) to the Pooled Investment Fund Adjustment Account until 2023/24.
20. Strategic fund investments are made in the knowledge that capital values will move both up and down; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. The latest investment valuation (as at 31 May 2020) indicates there has been a positive movement in the value of the strategic investments to the value of 1.94% in the first two months of 2020/21.

21. The Council continues to receive regular updates on pooled fund investments from their Treasury advisors and plans are in progress to increase the frequency of meetings whilst this period of uncertainty continues.
22. The income generated from these investments in 2019/20 and the rate of return is detailed in graph and table below.



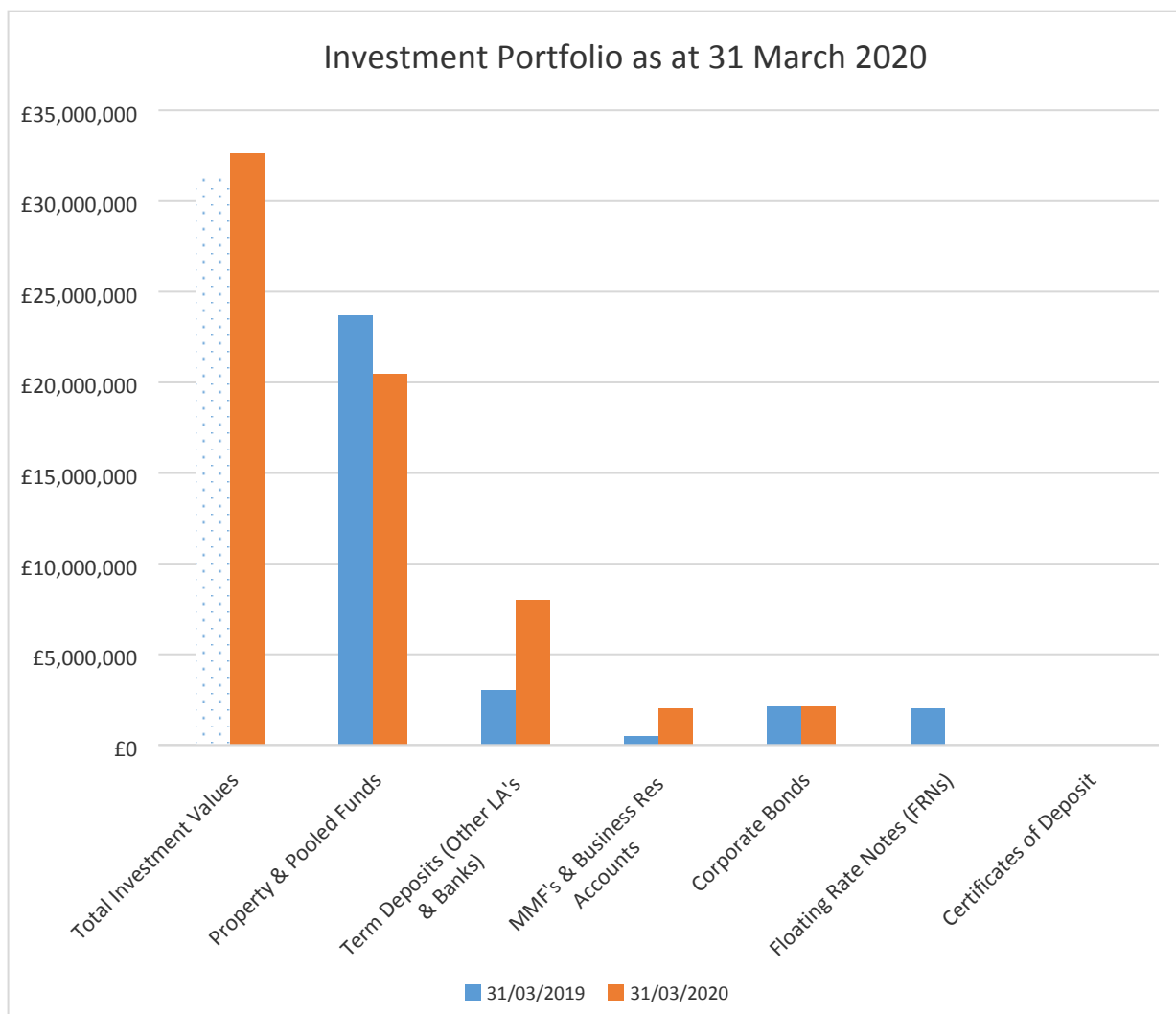
| <b>Fund</b>           | <b>Interest Received<br/>£</b> | <b>Rate of<br/>return<br/>%</b> |
|-----------------------|--------------------------------|---------------------------------|
| Schrodgers            | £447,740                       | 7.14%                           |
| CCLA                  | £299,916                       | 5.52%                           |
| Investec              | £204,144                       | 4.07%                           |
| Columbia Threadneedle | £124,096                       | 2.48%                           |
| Royal London          | £14,151                        | 1.41%                           |
| Payden                | £4,880                         | 0.84%                           |
| <b>Total</b>          | <b>£1,094,927</b>              | <b>4.70%</b>                    |

23. Pooled funds have no defined maturity date, but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.



## Investment Portfolio – Values and Returns

31. The graph below provides a snapshot of the Council's portfolio of investments at the end of the 2019/20 financial year, in comparison to the previous year end position.



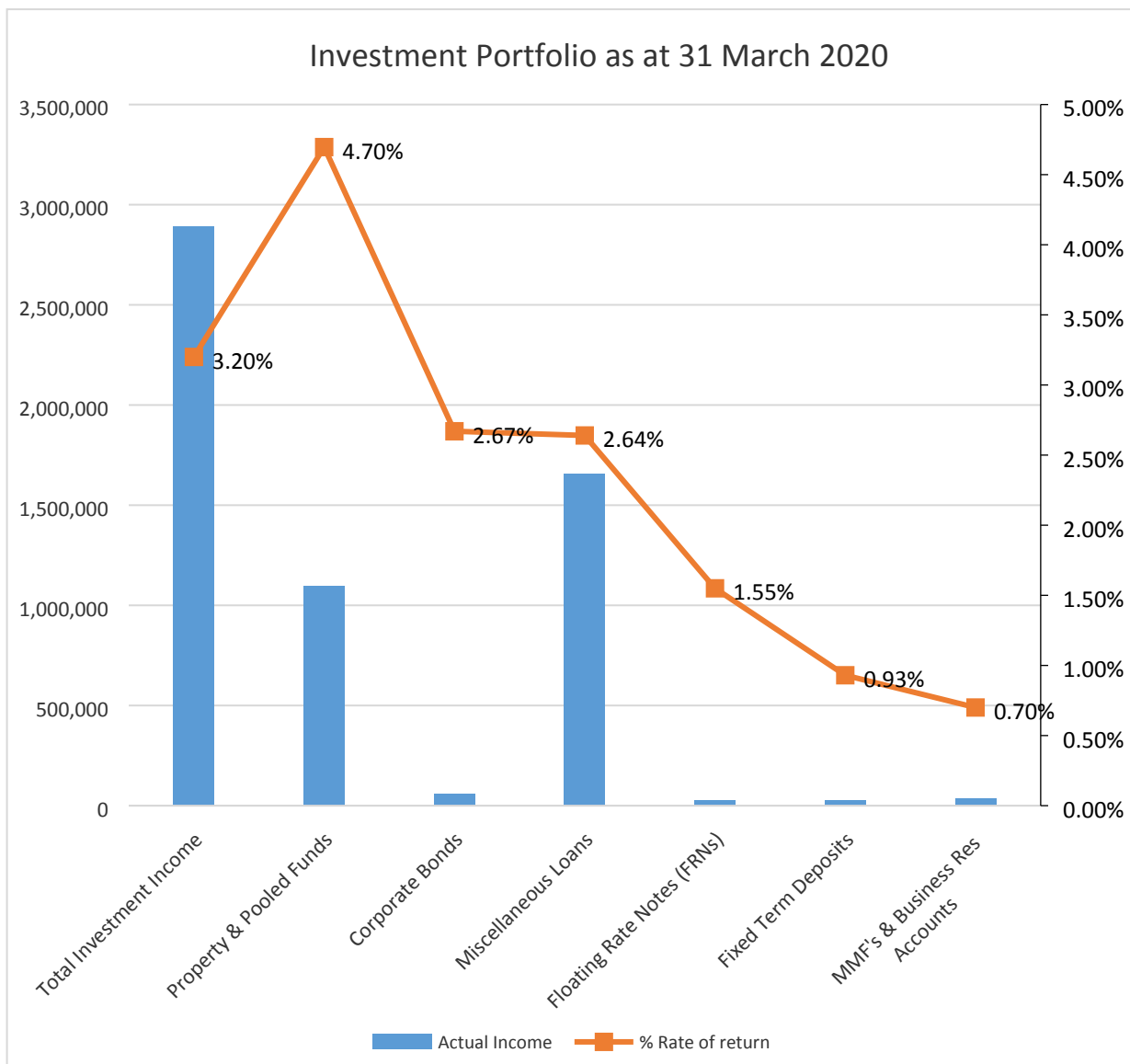
32. The table below provides additional information on the actual value of investments at the start and end of the 2019/20 financial year:

| Investment type                                | Investment Value as at 31/03/2019 | Investment Value as at 31/03/2020 | Actual Income    | % Rate of return |
|--|-----------------------------------|-----------------------------------|------------------|------------------|
| Property & Pooled Funds                        | 23,679,635                        | 20,471,426                        | 1,094,928        | 4.70%            |
| Money Market Funds & Business Reserve Accounts | 479,810                           | 2,000,000                         | 33,389           | 0.70%            |
| Term Deposits (Other LAs & Banks)              | 3,000,000                         | 8,000,000                         | 25,069           | 0.93%            |
| Corporate Bonds                                | 2,129,992                         | 2,129,992                         | 58,263           | 2.67%            |
| Floating Rate Notes (FRNs)                     | 2,006,968                         | 0                                 | 24,731           | 1.55%            |
| <b>Total Investment Values</b>                 | <b>31,296,405</b>                 | <b>32,601,418</b>                 | <b>1,236,380</b> | <b>3.58%</b>     |

33. The types of investment that the Council held at the 31 March 2019 and 31 March 2020 have not changed significantly. The policy of investing in higher yielding, long term strategic investments have resulted in a large portion of the Council's investment being concentrated in the pooled and property fund investment type. Pooled and property fund investments amounted to 66% of the investment portfolio as at 31 March 2020 (76% as at 31 March 2019).
34. The Council continues to work closely with Arlingclose on the investment diversification and portfolio mix, Arlingclose are comfortable with the percentage of investment that the Council holds in pooled and property funds but has suggested a maximum exposure of £30m. The Council continually monitors the performance of the property and pooled funds and is able to withdraw funds at short notice if the fund performance were to deteriorate. Equally, the Council may borrow short term to manage cash flow variations if necessary.

### Returns achieved in 2019/20

35. The returns are shown in the graph and table below:





| <b>Investment type</b>                         | <b>Actual Income £</b> | <b>Rate of return %</b> |
|--|------------------------|-------------------------|
| Property & Pooled Funds                        | 1,094,928              | 4.70%                   |
| Miscellaneous Loans                            | 1,656,375              | 2.64%                   |
| Fixed Term Deposits                            | 25,069                 | 0.93%                   |
| Corporate Bonds                                | 58,263                 | 2.67%                   |
| Money Market Funds & Business Reserve Accounts | 33,389                 | 0.70%                   |
| Floating Rate Notes (FRNs)                     | 24,731                 | 1.55%                   |
| <b>2019/20 Treasury Investment Income</b>      | <b>2,892,755</b>       | <b>3.20%</b>            |
| <b>2019/20 Treasury Income Budget</b>          | <b>1,648,920</b>       |                         |
| <b>Surplus /(Deficit)</b>                      | <b>1,243,835</b>       |                         |

36. The table above shows investment income for the year compared to the budget. The figures show a significant surplus over budget of £1,243,835. The original treasury management budget of £1,648,920 was derived by forecasting an average rate of return of 1.86% based on an average investment portfolio of £50m.
37. The surplus over budget is as a result of a number of factors, the main factors being:
- Additional interest received due to additional investment into long term strategic investments.
  - A new loan for service purposes has been made in year resulting in additional interest.
  - Additional interest received from commercial investments purchased in year that are not included in the 2019/20 budget
38. The outturn position is also affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of revenue and capital income and expenditure, and the collection and distribution of council tax and business rates income.

### **Treasury Investments**

39. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20. The table below lists the investments held on 31 March 2020.

## Breakdown of investments as at 31 March 2020

| Date Invested | Counterparty                             | Nominal Amount    | Rate % | Maturity Date |
|---------------|--|-------------------|--------|---------------|
| 11 Nov 16     | Northumberland County Council            | 1,000,000         | 1.00   | 11 Nov 20     |
| 27 Mar 20     | Thurrock Council                         | 2,000,000         | 1.65   | 17 Apr 20     |
| 27 Mar 20     | Thurrock Council                         | 3,000,000         | 1.65   | 20 Apr 20     |
| 31 Mar 20     | Epping Forest District Council           | 2,000,000         | 2.00   | 30 Apr 20     |
|               | <b>Corporate Bonds</b>                   |                   |        |               |
| 20 Oct 16     | Santander UK Plc *Covered*               | 1,000,000         | 1.04   | 14 Apr 21     |
| 10 Nov 16     | National Australia Bank *Covered*        | 1,000,000         | 1.10   | 10 Nov 21     |
|               | <b>Business Reserve Accounts</b>         |                   |        |               |
|               | Handelsbanken                            | 2,000,000         |        |               |
|               | <b>Property &amp; Pooled Funds</b>       |                   |        |               |
|               | Royal London Cash Plus Fund              | 1,000,000         | 1.41   |               |
|               | CCLA Property Fund                       | 6,000,000         | 5.52   |               |
|               | Investec Diversified Income Fund         | 5,000,000         | 4.07   |               |
|               | Schroder Income Maximiser Fund           | 6,250,000         | 7.14   |               |
|               | Colombia Threadneedle Equity Income Fund | 5,000,000         | 2.48   |               |
|               | <b>TOTAL</b>                             | <b>35,250,000</b> |        |               |

*Note: Money Market Funds are instant access accounts so the rate displayed is a daily rate*

## Non-Treasury Investments

40. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Council also held 91.83m of such investments in

- Directly Owned Property - £73.60m
- Loan to Community Organisation - £0.15m
- Loan to Local Authority Partnership - £4.92m
- Loan for Commercial Activities - £13.16m

## Borrowing

41. The Council's primary objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

42. The table below summarises the external borrowing position for 2019/20. It details the opening position in respect of external loans, loans repaid, new loans, the average interest rate and the year end position.

|   | Amount            | Average Interest rate |
|---|-------------------|-----------------------|
| <b>External loans as at 1 April 2019</b>        | <b>19,500,000</b> | 0.86%                 |
| New Loans                                       | 173,500,000       | 0.89%                 |
| Loans Repaid                                    | -113,500,000      |                       |
| <b>Total External loans as at 31 March 2020</b> | <b>79,500,000</b> | 1.14%                 |

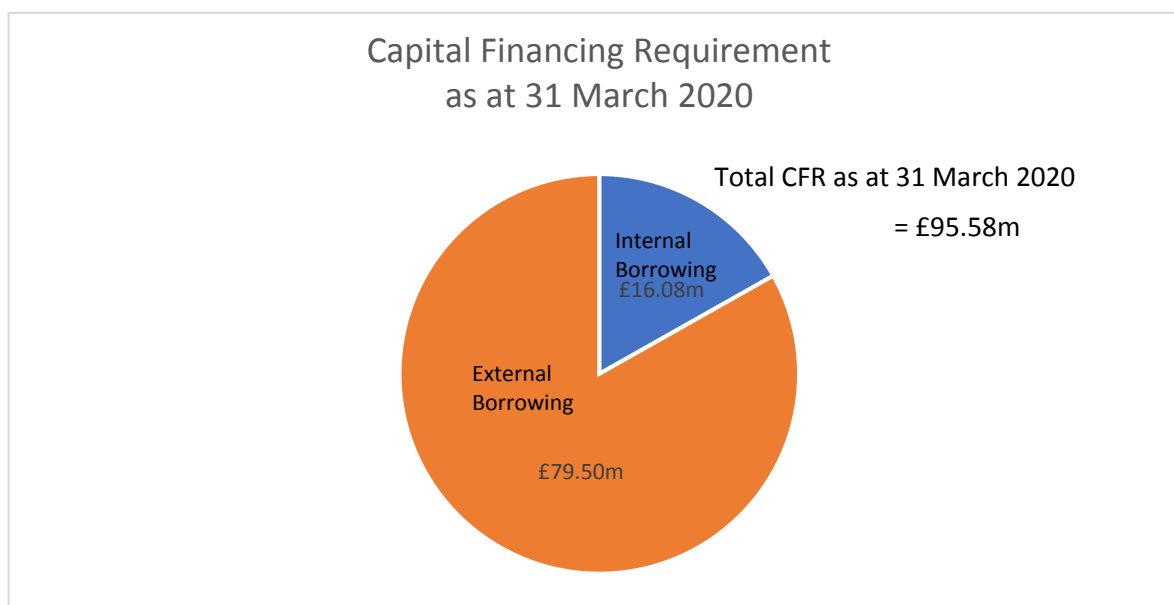
43. In keeping with these objectives, new borrowing was kept to a minimum, however external borrowing increased from £19.5m to £79.5m. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

44. Details of the borrowing are included in the table below.

| Lender                              | Date Borrowed | Repayment Date | No of Days | Interest Rate | Amount            | 2019/20 Interest | Total Interest |
|-------------------------------------|---------------|----------------|------------|---------------|-------------------|------------------|----------------|
| HAMPSHIRE COUNTY COUNCIL            | 18/04/2019    | 17/04/2020     | 365        | 1.01%         | 5,000,000         | 48,286.30        | 50,500.00      |
| South Yorkshire Pensions Authority  | 20/11/2019    | 20/05/2020     | 182        | 0.85%         | 5,000,000         | 15,486.30        | 21,191.78      |
| COMHAIRLE NAN EILEAN SIAR           | 20/11/2019    | 20/05/2020     | 182        | 0.85%         | 5,000,000         | 15,486.30        | 21,191.78      |
| STAFFORDSHIRE COUNTY COUNCIL        | 17/01/2020    | 17/04/2020     | 91         | 0.80%         | 5,000,000         | 8,219.18         | 9,972.60       |
| Essex County Council                | 20/01/2020    | 17/04/2020     | 88         | 0.76%         | 10,000,000        | 14,991.78        | 18,323.29      |
| East London Waste Authority         | 20/01/2020    | 20/04/2020     | 91         | 0.79%         | 3,000,000         | 4,675.07         | 5,908.77       |
| City of Lincoln Council             | 20/01/2020    | 20/04/2020     | 91         | 0.78%         | 1,000,000         | 1,538.63         | 1,944.66       |
| Tyne & Wear Pension Fund            | 20/01/2020    | 20/04/2020     | 91         | 0.79%         | 3,000,000         | 4,675.07         | 5,908.77       |
| DUDLEY METROPOLITAN BOROUGH COUNCIL | 18/02/2020    | 27/04/2020     | 69         | 0.82%         | 5,000,000         | 4,830.14         | 7,750.68       |
| WAVERLEY BOROUGH COUNCIL            | 19/02/2020    | 17/04/2020     | 58         | 0.85%         | 5,000,000         | 4,890.41         | 6,753.42       |
| Lancaster City Council              | 18/03/2020    | 20/04/2020     | 33         | 1.05%         | 4,000,000         | 1,610.96         | 3,797.26       |
| North Yorkshire County Council      | 20/03/2020    | 19/03/2021     | 364        | 1.75%         | 5,000,000         | 2,876.71         | 87,260.27      |
| Tendring District Council           | 20/03/2020    | 19/03/2021     | 364        | 1.75%         | 1,000,000         | 575.34           | 17,452.05      |
| Greater London Authority            | 20/03/2020    | 19/03/2021     | 364        | 1.75%         | 6,000,000         | 3,452.05         | 104,712.33     |
| Greater London Authority            | 30/03/2020    | 29/03/2021     | 364        | 1.75%         | 10,000,000        | 958.90           | 174,520.55     |
| Gosport Borough Council             | 20/03/2020    | 20/04/2020     | 31         | 1.40%         | 1,500,000         | 690.41           | 1,783.56       |
| Milton Keynes Council               | 27/03/2020    | 26/03/2021     | 364        | 1.60%         | 5,000,000         | 1,095.89         | 79,780.82      |
|                                     |               |                |            |               |                   |                  |                |
|                                     |               |                |            | <b>Total</b>  | <b>79,500,000</b> | <b>134,339</b>   | <b>618,753</b> |

45. With short-term interest rates remaining much lower than long-term rates, the Council considered it cost effective in the near term to use internal resources in parallel with short-term loans.
46. The Council's underlying need to borrow is defined as its 'Capital Financing Requirement (CFR)'. The CFR was £39.3 million at the beginning of 2019/20. Capital expenditure during 2019/20 was funded through a combination of capital receipts, revenue reserves, external contributions (e.g. S106 receipts) and borrowing. As a result, the borrowing requirement (CFR) has increased to £95.58 million. However, we have followed a strategy of using our cash reserves to finance this borrowing requirement in the short term – known as “internal borrowing” – as short term investment returns foregone are currently lower than longer term borrowing rates.

|  | <b>£millions</b> | <b>%</b> |
|--|------------------|----------|
| Internal Borrowing                                       | £16.08m          | 16.8%    |
| External Borrowing                                       | £79.50m          | 83.2%    |
| <b>Capital Financing Requirement as at 31 March 2020</b> | <b>£95.58m</b>   |          |



### Treasury Management Indicators

47. The Authority measures and manages its exposures to treasury management risks using the following indicators.

**Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

|                                 | <b>2019/20<br/>Target</b> | <b>2019/20<br/>Actual</b> |
|---------------------------------|---------------------------|---------------------------|
| Portfolio average credit rating | 5.0                       | 3.19                      |

**Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount [of cash available to meet unexpected payments within a rolling three-month period

|                                      | <b>2019/20<br/>Target</b> | <b>2019/20<br/>Actual</b> |
|--------------------------------------|---------------------------|---------------------------|
| Total cash available within 3 months | £10m                      | £32m                      |

**Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

| <b>Interest rate risk indicator</b>  | <b>2019/20<br/>Limit</b> | <b>2019/20<br/>Actual</b> |
|--|--------------------------|---------------------------|
| Upper limit on one-year revenue impact of a 1% <u>change</u> in interest rates | £200,000                 | £394,104                  |

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

**Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

| <b>Refinancing rate risk indicator</b> | <b>2019/20<br/>Upper<br/>Limit<br/>%</b> | <b>2019/20<br/>Lower Limit<br/>%</b> | <b>2019/20<br/>Actual<br/>%</b> |
|--|--|--------------------------------------|---------------------------------|
| Under 12 months                        | 100%                                     | 100%                                 | 100%                            |
| 12 months and within 24 months         | 100%                                     | 100%                                 | 0%                              |
| 24 months and within 5 years           | 100%                                     | 100%                                 | 0%                              |
| 5 years and within 10 years            | 100%                                     | 100%                                 | 0%                              |
| 10 years and above                     | 100%                                     | 100%                                 | 0%                              |

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Upper and lower limits are set at 100% providing full flexibility to optimise borrowing arrangements.

**Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

| <b>Price risk indicator</b>                 | <b>2019/20</b> |
|---|----------------|
| Actual principal invested beyond year end   | £3m            |
| Limit on principal invested beyond year end | £50m           |

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

## Prudential Indicators – 2019/20

48. In February 2019, through approval of the Treasury Management Strategy Full Council approved the Prudential Indicators for 2019/20, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allows local authorities to determine their own borrowing limits provided they are affordable and that every local Council complies with the Code.

**Capital Expenditure:** The actual capital expenditure incurred for 2019/20 compared to the revised estimate was:

|                          | <b>2018/19<br/>Outturn<br/>£'000</b> | <b>2019/20<br/>Revised<br/>Estimate<br/>£'000</b> | <b>2019/20<br/>Outturn<br/>£'000</b> | <b>2019/20<br/>Variance<br/>£'000</b> | <b>Reason for Variance</b>                 |
|--------------------------|--------------------------------------|---|--------------------------------------|---------------------------------------|--|
| Approved capital schemes | 28,414                               | 73,447  | 65,483                               | (7,964)                               | Timing of investment property acquisitions |
| <b>Total Expenditure</b> | <b>28,414</b>                        | <b>73,447</b>                                     | <b>65,483</b>                        | <b>(7,964)</b>                        |  |

**Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

|                    | <b>2018/19<br/>Outturn<br/>£'000</b> | <b>2019/20<br/>Revised<br/>Estimate<br/>£'000</b> | <b>2019/20<br/>Outturn<br/>£'000</b> | <b>2019/20<br/>Variance<br/>£'000</b> | <b>Reason for Variance</b>  |
|--------------------|--------------------------------------|---|--------------------------------------|---------------------------------------|---|
| Financing Costs    | (1,047)                              | (781)   | (966)                                | (185)                                 | Additional investment income from the Pooled Funds and interest on loans for service purposes |
| Net Revenue Stream | 16,348                               | 16,197  | 15,636                               | (561)                                 |   |
| <b>%</b>           | <b>(6.4%)</b>                        | <b>(4.8%)</b>                                     | <b>(6.2%)</b>                        | <b>(1.4%)</b>                         |   |

\*figures in brackets denote income through receipts and reserves

The financing costs include interest payable and notional amounts set aside to repay debt less interest on investment income. The figure in brackets is due to investment income outweighing financing costs significantly for the Council but is relevant since it shows the extent to which the Council is dependent on investment income.

**Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

|  | 2018/19<br>Outturn<br>£'000 | 2019/20<br>Original<br>Estimate<br>£'000 | 2019/20<br>Outturn<br>£'000 | 2019/20<br>Variance<br>£'000 | Reason for<br>Variance                                       |
|--|-----------------------------|--|-----------------------------|------------------------------|--|
| Opening CFR                                | 17,439                      | 45,239                                   | 39,320                      | (5,919)                      |  |
| Capital Expenditure                        | 28,414                      | 20,130                                   | 65,483                      | 45,353                       | Capital schemes funded through external borrowing in 2019/20 |
| Capital Receipts*                          | (4,600)                     | (6,177)                                  | (6,820)                     | (643)                        |  |
| Grants/Contributions*                      | (1,711)                     | (1,499)                                  | (1,881)                     | (382)                        |  |
| Minimum Revenue Provision (MRP)            | (221)                       | (491)                                    | (520)                       | (29)                         | MRP towards borrowing for commercial investments             |
| Additional Leases taken on during the year | 0                           | 0  | 0                           | 0                            |  |
| <b>Closing CFR</b>                         | <b>39,320</b>               | <b>57,202</b>                            | <b>95,582</b>               | <b>38,380</b>                |  |

\*Figures in brackets denote income through receipts or use of revenue resources.

Total figures are rounded

**Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose. The Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

|                               | 2018/19<br>Outturn<br>£'000 | 2019/20<br>Revised<br>Estimate<br>£'000 | 2019/20<br>Outturn<br>£'000 | 2019/20<br>Variance<br>£'000 |
|-------------------------------|-----------------------------|---|-----------------------------|------------------------------|
| Borrowing                     | 19,500                      | 50,000                                  | 79,500                      | 29,500                       |
| Finance Leases                | 82                          | 138                                     | 51                          | (87)                         |
| <b>Total Debt</b>             | <b>19,582</b>               | <b>50,138</b>                           | <b>79,551</b>               | <b>29,413</b>                |
|                               |                             |   |                             |                              |
| Capital Financing Requirement | 39,320                      | 57,202                                  | 95,582                      | 38,380                       |

Total debt is expected to remain below the CFR for the near future.

**Credit Risk:** The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk. The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country's net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

**Actual External Debt:** This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities (this represents our finance leases). This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

| <b>Actual External Debt as at 31/03/2019</b> | <b>£'000</b>  |
|--|---------------|
| Borrowing                                    | 79,500        |
| Other Long-term Liabilities (Finance Leases) |               |
| - Vehicles                                   | 51            |
| - Photocopiers                               | 0             |
| <b>Total</b>                                 | <b>79,551</b> |

**Authorised Limit for External Debt:** This limit represents the maximum amount that the Council may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A borrowing requirement was identified in year to finance the capital programme and further borrowing may be undertaken to fund the agreed plans to acquire investment properties.

|                             | <b>2018/19<br/>Actual<br/>£'000</b> | <b>2019/20<br/>Original<br/>Estimate<br/>£'000</b> | <b>2019/20<br/>Actual<br/>£'000</b> |
|-----------------------------|-------------------------------------|--|-------------------------------------|
| Borrowing                   | 19,500                              | 124,000  | 79,500                              |
| Other Long-term Liabilities | 82                                  | 1,000  | 51                                  |
| <b>Total</b>                | <b>19,582</b>                       | <b>125,000</b>                                     | <b>79,551</b>                       |

**Operational Boundary for External Debt:** The operational boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt.

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.



The S151 Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next Council meeting.

|                             | <b>2018/19<br/>Actual<br/>£'000</b> | <b>2019/20<br/>Original<br/>Estimate<br/>£'000</b> | <b>2019/20<br/>Actual<br/>£'000</b> | <b>2019/20<br/>Variance<br/>£'000</b> |
|-----------------------------|-------------------------------------|--|-------------------------------------|---------------------------------------|
| Borrowing                   | 19,500                              | 50,000   | 79,500                              | 29,500                                |
| Other Long-term Liabilities | 82                                  | 800  | 51                                  | (749)                                 |
| <b>Total</b>                | <b>19,582</b>                       | <b>50,800</b>                                      | <b>79,551</b>                       | <b>28,751</b>                         |

The operational boundary was exceeded at year end for a period of 13 days due to the current issues facing the Council in terms of cash flow uncertainty. As detailed in the previous point, the operational boundary is a management tool for in-year monitoring and it is not significant if the operational boundary is breached due to variations in cash flow, and this is not counted as a compliance failure. The S151 Officer was informed of the breach of the operational boundary.

For information the 2020-21 operational boundary has been set at £135m and the authorised limit £165m. This was approved by full Council in February 2020 as part of the Annual Capital, Investment and Treasury Management Strategy report.

### **Compliance**

49. The Council operated within all of the Prudential Indicators during 2019/20.

### **Background Papers:**

Treasury Management Strategy Statement 2019/20  
 Prudential Indicators and MRP Statement 2019/20  
 Capital Outturn 2019/20

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