EXECUTIVE **27 JULY 2020**

SUBJECT:	**TREASURY MANAGEMENT STEWARDSHIP AND ACTUAL PRUDENTIAL INDICATORS REPORT 2019/20 (OUTTURN)**
REPORT BY:	**CHIEF FINANCE OFFICER**
LEAD OFFICER:	**SARAH HARDY – PRINCIPAL FINANCE BUSINESS PARTNER**

1. Purpose of Report

1.1 The annual Treasury Management stewardship report is a requirement of the Council's reporting procedures under regulations issued under the Local Government Act 2003. It covers the treasury management 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).

2. Executive Summary

2.1 During 2019/20 the Council complied with its legislative and regulatory requirements. The key prudential indicators for the year, with comparators, are as follows:

Actual Prudential Indicators	**2019/20 £000**	**2018/19 £000**
Actual Capital Expenditure	22,033	38,954
Capital Financing Requirement		
General Fund	68,562	61,803
HRA	62,174	58,328
Total	**130,736**	**120,131**
Net borrowing (borrowing less investments)	**89,603**	**86,154**
External debt (borrowing)	**120,153**	**115,354**
Investments		
• Longer than 1 year*		0
• Under 1 year	30,550	29,200
• Total	**30,550**	**29,200**

Other prudential and treasury indicators are to be found in section 4.

3. Background

3.1 The prudential system for capital expenditure is now well established. One of the requirements of the Prudential Code is to ensure adequate monitoring of the capital expenditure plans, prudential indicators (PIs) and treasury management response to these plans. This report fulfils that requirement and shows the status of the Prudential Indicators at 31st March 2020. For the 2019/20 financial year the minimum reporting requirements were that members should receive the following reports:

- an annual Treasury Management Strategy in advance of the year (Council 26th February 2019)
- a mid-year Treasury Update report (Executive 21st November 2019)
- an annual report following the year describing the activity compared to the strategy (this report)

3.2 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is 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.

3.3 In compliance with the Prudential Code treasury management reports are scrutinised by Performance Scrutiny Committee and reviewed by the Executive prior to reporting to full Council if required. Member training for the Performance Scrutiny and Audit Committees was undertaken on 21st November 2019 and 20th February 2020 in order to support their roles in scrutinising the treasury management strategy and policies.

4. Summary of Performance against Treasury Management Strategy 2019/20

4.1 The full details of transactions in the year and performance against the Prudential Indicators are included at Appendices A and B.

4.2

Actual Prudential Indicators	2019/20	2018/19
Actual Capital Expenditure	22,033	38,954
Capital Financing Requirement		
General Fund	68,562	61,803
HRA	62,174	58,328
Total	**130,736**	**120,131**
Financing Costs as a proportion of Net Revenue Stream		
General Fund	15.4%	11.9%
HRA	32.2%	30.1%

4.3 The Chief Finance Officer confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, the Authorised Limit was not breached.

Additional borrowing of £5m was taken in 2019/20.

At 31st March 2020, the principal value of the Council's external debt was £120.153m (£115.354m at 31st March 2019) and that of its investments was £30.5m (£29.2m at 31st March 2019).

4.4 The increase in General Fund Financing costs as a % of net revenue stream in 2019/20, when compared with 2018/19, is due additional borrowing costs. The actual financing cost for the General Fund increased from the previous year due to additional borrowing. The increase in HRA Financing costs results from a additional borrowing taken in year.

4.5 The financial year 2019/20 continued the challenging environment of previous years; low investment returns and continuing counterparty risk were the main features.

4.6 Key issues to note from activity during 2019/20:

- The Council's total debt (including leases and lease-type arrangements) at 31st March 2019 was £120.258m (Appendix A section 4.4) compared with the Capital Financing Requirement of £130.736m (Appendix A section 3.5). This represents an under-borrowing position of £10.478m, which is currently being supported by internal resources. Additional long-term borrowing will be taken in future years to bring levels up to the Capital Financing Requirement, subject to liquidity requirements, if preferential interest rates are available.
- The Council's Investments at the 31st March 2020 were £30.55m (Appendix A section 4.3), which is £1.35m higher than at 31st March 2019. Average investment balances for 2019/20 were £28.833m, which was higher than estimated balances of £24.1m in the Medium Term Financial Strategy 2019-24 due to the timing of borrowing taken. It should be noted that this refers to the principal amounts of investments held, whereas the investment values included in the balance sheet are based on fair value. In most cases, this will simply be equal to the principal invested, unless the investment has been impaired.
- Actual investment interest earned on balances was £240k compared to £125k estimated in the Medium Term Financial Strategy 2019-24 (Appendix A section 10.2).
- The interest rate achieved on investments was 0.84% which was 0.31% above the target average 7-day LIBID rate (for 2019/20 the average was 0.53%).

4.7 Risk Benchmarking

The following reports the outturn position against the security and liquidity benchmarks in the Treasury Management Strategy.

Security

- The Council's actual average security risk for the portfolio as at 31st March 2020 is 0.004%, which compares with the 0.005% for the budgeted portfolio. This gives the estimated default rate on the investment counterparties which comprise the portfolio at 31st March 2020. This equates to a potential financial loss of £1,222 on the investment portfolio of £30.55m.

- Specified Investments are high security sterling investments (i.e. high credit quality) with a maturity of no more than one year. Non-specified investments are all other investments representing a potentially greater risk; however the risk is still minimal due to the stringent controls over counterparty credit quality contained within the Investment Strategy. The 2019/20 strategy set a maximum limit of 75% of the portfolio to be held in non-specified investments. At 31st March 2020, 80% of the investment portfolio was held in specified investments with the remaining 20% held in deposits with other local authorities. The Chief Finance Officer can report that the investment portfolio was maintained within this limit throughout the year.

Liquidity

In respect of this area the Council set liquidity benchmarks to maintain:

- Liquid short term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark was expected to be 0.35 years (128 days).

The actual liquidity indicators at 31st March 2020 were as follows:

- Liquid short term deposits of £18.55 million as at 31st March 2020.
- Weighted Average Life of the investment portfolio was 0.10 years (38 days). This reflects that larger amounts of investments were deposited in short term accounts to deal with cash flow requirements.

The Chief Finance Officer can report that liquidity arrangements were adequate throughout the year.

4.8 **Benchmarking**

The Council participates in the following benchmarking club:

- The Link Asset Services benchmarking club. Link Asset Services is the Council's treasury management advisors and they offer a benchmarking club for their clients. This is organised on a regional group basis. The group to which City of Lincoln belongs has 9 members within the East Midlands region. The following summary shows performance against the group average, indicating a low risk portfolio, with lower levels of investment balances achieving a similar level of return.

	City Of Lincoln Council	Average
Principal at 31/3/20	£30,550,000	£74,500,000
Weighted Average rate of return at 31/3/20	0.67%	0.71%
Weighted average maturity at 31/3/20	38 days	70 days
Weighted average credit risk at 31/3/20	1.62	2.81

5. Strategic Priorities

5.1 Through its Treasury Management Strategy the Council seeks to reduce the amount of interest it pays on its external borrowing and maximise the interest it achieves on its investments in order to support the Medium Term Financial Strategy and the delivery of the Council's Vision 2020.

6. Organisational Impacts

6.1 Finance - The financial impacts are contained within the main body of the report and within appendices A and B.

6.2 Legal Implications including Procurement Rules - Section 15 of the Local Government Act 2003 requires local authorities 'to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify'. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 in Regulation 24 require local authorities to have regard to the TM Code of Practice. Investment guidance issued by the Ministry for Housing Communities and Local Government (MHCLG) which came into effect from 1st April 2010 requires investment policy to emphasise security and liquidity over income.

7. Risk Implications

7.1 The Council has the freedom to adopt its own treasury management policies. The CIPFA code of practice, which specifies the format and frequency of reporting, is part of the risk management procedures for treasury.

8. Recommendation

8.1 That the Executive approves the actual prudential indicators contained within appendices A and B.

8.2 That the Executive approve the annual treasury management report for 2019/20.

Key Decision	No
Do the Exempt Information Categories Apply?	No
Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
How many appendices does the report contain?	2
List of Background Papers:	Link Annual Stewardship Reports for 2019/20 Medium Term Financial Strategy 2019-24 and 2020-25 Prudential Indicators 2019/20 – 2021/22 and Treasury Management Strategy 2019/20 and 2021/22
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Appendix A

Annual Report on the Treasury Management Service and Actual Prudential Indicators 2019/20

1. Introduction

1.1 The Council undertakes capital expenditure on long-term assets. These activities can be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

Capital expenditure activity is regulated by the CIPFA Prudential Code, which requires actual outturn to be reported in the following areas: -

- Capital expenditure;
- Capital Financing Requirement;
- Debt;
- Ratio of financing costs to net revenue stream.

The remaining prudential indicators are included to make the annual reporting comprehensive and to comply with the requirements of the Treasury Management Code.

1.2 Part of the Council's treasury activities is to address any borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance. This area of activity is regulated by the CIPFA Code of Practice on Treasury Management.

1.3 Wider information on the regulatory requirements is shown in section 11.

2. The Council's Capital Expenditure and Financing 2019/20

2.1 This forms one of the required prudential indicators and shows total capital expenditure for the year and how this was financed.

	2019/20 Actual £'000	2019/20 Revised Estimate £'000	2018/19 Actual £'000
General Fund capital expenditure	10,057	14,756	13,968
HRA capital expenditure	11,976	20,669	24,985
Total capital expenditure	**22,033**	**35,425**	**38,953**
Resourced by:			
Capital receipts	1,534	1,948	8,192
Capital grants & contributions	1,758	6,005	1,004
Direct Revenue Financing	202	3,903	4,956
Major repairs reserve	6,789	9,246	13,160
Un-financed capital expenditure (additional need to borrow)	**11,750**	**14,323**	**11,642**

2.2 Further details on 2019/20 Capital Expenditure and Financing can be found in the Financial Performance Detailed Outturn 2019/20 report elsewhere on the agenda.

3. The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position and represents 2019/20 and prior years' net capital expenditure that has not yet been charged to revenue or other resources.

3.2 Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

3.3 The General Fund element of the CFR is reduced each year by a statutory revenue charge (called the Minimum Revenue Provision - MRP). The total CFR can also be reduced by:

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

3.4 The Council's MRP policy for 2019/20 was approved by Council on 21st February 2019 as part of the Prudential Indicators 2019/20 – 2022/23 and Treasury Management Strategy 2019/20.

3.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. The CFR includes leasing schemes which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract. During the year land appropriations resulted in an appropriation between the General Fund and HRA CFR.

Capital Financing Requirement General Fund	**31 March 2020 Actual £'000**	**31 March 2019 Revised Estimate £'000**	**31 March 2019 Actual £'000**
Opening balance 1 April	61,803	61,803	50,977
Plus un-financed capital expenditure	7,884	7,640	11,642
Finance leases	(237)	(237)	(342)
Less MRP/VRP*	(758)	(881)	(992)
Land Appropriation	20	0	175
Closing balance 31 March	**68,562**	**70,561**	**61,803**

Capital Financing Requirement HRA	**31 March 2020 Actual £'000**	**31 March 2020 Revised Estimate £'000**	**31 March 2019 Actual £'000**
Opening balance 1 April	58,328	58,328	58,503
Plus un-financed capital expenditure	3,866	4,296	0
Land Appropriation	(20)	0	(175)
Closing balance 31 March	**62,174**	**62,624**	**58,328**

* includes finance lease repayments

4. Treasury Position at 31st March 2020

4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Chief Finance Officer and the treasury team manage the Council's actual borrowing position by either:

- borrowing to the CFR,
- choosing to temporarily utilise some flow funds instead of borrowing (under-borrowing)
- borrowing for future increases in the CFR (borrowing in advance of need).

4.2 It should be noted that the figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest (outstanding interest due to be paid and received as at 31st March), or where the carrying amount is based on fair values .

4.3 During 2019/20 the Chief Finance Officer managed the borrowing position to £120.153 million. The treasury position at the 31st March 2020 compared with the previous year was:

	31 March 2020		**31 March 2019**	
	Principal £'000	**Average Rate (full year)**	**Principal £'000**	**Average Rate (full year)**
Borrowing Position				
Fixed Interest Rate Debt	120,153	3.62%	115,354	3.24%
Variable Interest Rate Debt	0	N/a	0	N/A
Total Debt (borrowing) *	120,153	3.62%	115,354	3.24%
Capital Financing Requirement (borrowing only)	130,736	N/A	120,131	N/A
Over/(under) borrowing	(10,583)	N/A	(4,777)	N/A
Investment Position				
Fixed Interest Investments	12,000	0.98%	10,000	0.88%
Variable Interest Investments	18,550	0.49%	19,200	0.76%
Total Investments **	30,550	0.67%	29,200	0.80%
Net Borrowing Position	**89,603**		**86,154**	

* Excludes local Bonds & Mortgages and other long-term liabilities (e.g. finance leases)

** The interest rate given differs from the interest rate given in Paragraph 4.6 of the main report because the rates above are for investments held at 31 March whereas the average rate of investment is for investments held during 2019/20.

4.4 The total debt position also includes other long term liabilities such as finance leases and embedded leases within service contracts. The total debt position at 31st March 2020 was £120,258 million as shown below:

	31 March 2020 Actual £'000	**31 March 2020 Revised Estimate £'000**	**31 March 2019 Actual £'000**
Gross borrowing	120,153	118,500	115,354
Other long term liabilities	105	105	342
Total External debt	**120,258**	**118,605**	**115,696**

4.5 The maturity structure of the debt portfolio was as follows:

	31 March 2020 Actual £'000	31 March 2019 Actual £'000
Under 12 months	9,705	20,200
12 months and within 24 months	2,710	9,705
24 months and within 5 years	5,160	5,645
5 years and within 10 years	9,565	7,076
10 years and above	93,013	72,728
Total	**120,153**	**115,354**

4.6 The maturity structure of the investment portfolio was as follows:

	31 March 2020 Actual £'000	31 March 2019 Actual £'000
Longer than 1 year	0	0
Under 1 year	30,550	29,200
Total	**30,550**	**29,200**

5. The Strategy for 2019/20

5.1 The Council's overall core borrowing objectives are:

- To reduce the revenue costs of debt in line with the targets set for the Chief Finance Officer by Council (see local indicators).
- To manage the Council's debt maturity profile, leaving no one future year with a high level of repayments that might cause problems in re-borrowing.
- To effect funding at the cheapest cost commensurate with future risk.
- To forecast average future interest rates and borrow accordingly i.e. short term/variable when rates are 'high', long term/fixed when rates are 'low'.
- To monitor and review the level of variable rate loans in order to take greater advantage of interest rate movements.
- To proactively reschedule debt in order to take advantage of potential savings as interest rates change. Each rescheduling exercise will be considered in terms of the effect of premiums and discounts on the General Fund and the Housing Revenue Account.
- To manage the day-to-day cash flow of the Authority in order to, where possible, negate the need for short-term borrowing. However, short-term borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates.

6. Actual Debt Management Activity during 2019/20

6.1 Borrowing

6.1.1 Long term borrowing, totalling £25m, was taken in 2019/20; no short term borrowing was taken in 2019/20; short term and annuity borrowing of £20.2m was repaid in 2019/20; new borrowing of £5m was taken.

6.1.2 The average rate achieved for borrowing (excluding finance and embedded leases) in 2019/20 was 3.62%, which compares favourably to the target of 4.75% (2018/19 3.24% actual compared to the target of 4.25%). The increase in rate is due to short term borrowing through other local authorities being replace with PWLB borrowing being available during the year.

	31 March 2020 Actual £'000	**31 March 2019 Actual £'000**
Interest payable on borrowing	3,895	3,260
- General Fund	1,471	908
- HRA	2,424	2,352
Interest payable on finance leases	21	42
- General Fund	21	42
- HRA	0	0

6.2 Rescheduling

6.2.1 No rescheduling was undertaken during the year as the differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Prudential Indicators and Compliance Issues

7.1 Some of the required prudential indicators provide either an overview or specific limits on treasury activity. These are shown below:

7.2 Net Borrowing and the CFR

7.2.1 In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2019/20 plus the expected changes to the CFR over 2020/21 and 2021/22 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2019/20. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2020 Actual £'000	31 March 2020 Revised Estimate £'000	31 March 2019 Actual £'000
Net borrowing position	89,603	94,400	86,154
Capital Financing Requirement	130,736	133,185	120,131

7.3 The Authorised Limit and Operational Boundary

7.3.1 The Authorised Limit is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2019/20 the Council has maintained gross borrowing within its Authorised Limit.

7.3.2 The Operational Boundary is the expected borrowing position of the Council during the year, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

7.3.3 The table below shows the highest borrowing position reached in the year (including temporary borrowing and other long term liabilities) compared to the Authorised Limit and Operational Boundary.

	2019/20 £'000
Authorised Limit (revised estimate)	148,450
Maximum gross borrowing position during 2019/20	123,250
Operational Boundary (revised estimate)	133,250
Average gross borrowing position during 2019/20	117,439
Minimum gross borrowing position during the year	110,153

7.4 Actual financing costs as a proportion of net revenue stream

7.4.1 This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

Financing costs as a proportion of net revenue stream -	2019/20 Actual %	2019/20 Revised Estimate %	2018/19 Actual %
General Fund	15.4%	19.7%	11.9%
HRA	32.2%	31.4%	30.1%

The small increase in General Fund Financing costs as a % of net revenue stream in 2019/20, when compared with 2018/19, is due to new longer term borrowing being taken. The actual financing cost for the General Fund increased from the previous year due to additional borrowing.

The increase in HRA Financing costs results from additional borrowing taken.

8. Economic Background for 2019/20

The following commentary on the economic conditions for 2019/20 is provided by Link Asset Services, the Council's treasury management advisers.

8.1 **UK. Brexit.** The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Theresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the **coronavirus outbreak**. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in **quantitative easing (QE),** essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government in April and beyond. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lock down is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lock down is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

Employment had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.

USA. Growth in quarter 1 of 2019 was strong at 3.1% but growth fell back to 2.0% in quarter 2 and 2.1% in quarters 3 and 4. The slowdown in economic growth resulted in the Fed cutting rates from 2.25-2.50% by 0.25% in each of July, September and October. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in

March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a $2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to $6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of $1,200 to individuals.

The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost $367bn and 100% of the cost of lost wages for four months will also be covered. In addition there will be $500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including $50bn for airlines.

However, all this will not stop the US falling into a sharp recession in quarter 2 of 2020; some estimates are that growth could fall by as much as 40%. The first two weeks in March of initial jobless claims have already hit a total of 10 million and look headed for a total of 15 million by the end of March.

EUROZONE. The annual rate of GDP growth has been steadily falling, from 1.8% in 2018 to only 0.9% y/y in quarter 4 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting it announced a third round of TLTROs; this provided banks with cheap two year maturity borrowing every three months from September 2019 until March 2021. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting in September 2019, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount, plus more TLTRO measures. Once coronavirus started having a major impact in Europe, the ECB took action in March 2020 to expand its QE operations and other measures to help promote expansion of credit and economic growth. What is currently missing is a coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure; action is therefore likely to be patchy.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lock down of the country and a major contraction of economic activity in February-March 2020. While it appears that China has put a lid on the virus by the end of March, these are still early days to be confident and it is clear that the economy is going to take some time to recover its previous rate of growth. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

JAPAN has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It appears to have missed much of the domestic impact from coronavirus in 2019-20 but the virus is at an early stage there.

WORLD GROWTH. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

9. Investment Position

9.1 The Council's investment policy is governed by MHCLG Guidance, which has been implemented in the Annual Investment Strategy approved by Council on 21st 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.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.2 The Council's longer-term cash balances comprise primarily revenue and capital resources, although these are influenced by cash flow considerations. The Council's core cash resources comprised as follows, and meet the expectations of the budget.

Balance Sheet Resources (draft) - General Fund	**31 March 2020 £'000**	**31 March 2019 £'000**
Balances	2,070	1,857
Earmarked reserves	6,100	6,705
Provisions	3,930	4,210
Usable capital receipts	606	1,166
Total	**12,706**	**13,938**
Balance Sheet Resources (draft) - HRA	**31 March 2020 £'000**	**31 March 2019 £'000**
Balances	1,007	1,027
Earmarked reserves	1,403	1,604
Usable capital receipts	4,345	3,408
Total	**6,755**	**6,039**
Total General Fund & HRA	**19,461**	**19,977**

Please note that at the time of writing the year end position is yet to be finalised and the balance sheet resources are draft figures.

10. Investments Held by the Council

10.1 The Council does not have the expertise or resources to actively use a wide range of investment products and therefore performance tends to be more stable but lower over the longer term than for professionally managed funds (whose performance may fluctuate more). The Council maintained an average balance of £28.833m and received an average return of 0.84%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.53%. Based on the average investment balance this performance margin of 0.31% in the Council's favour.

10.2 In 2019/20, £240k interest was earned on balances (£143k in 2018/19). This is £115k more than the £125k estimated in the Medium Term Financial Strategy 2019-24. The analysis of this result is shown in the table below.

	MTFS 2019-24 Budget £'000	Outturn 2019/20 £'000
Interest earned - General fund & other commitments	88	163
- HRA	37	77
Total interest earned	**125**	**240**
Average balance invested in year	24,100	28,833
Average interest rate achieved	0.85%	0.84%

* The interest rate given differs from that given in Paragraph 4.3 of the main report because this is an average interest for the year whereas the interest rate given in paragraph 4.3 is a rate for balances at 31 March 2020.

The Economic Background for 2019/20 (see Section 8) sets out the economic conditions during this period, resulting in still falling deposit rates. The Coronavirus outbreak prompted a sharp reduction in the Bank of England base rate - below is Link's forecast for interest rates at 31 March 2020.

Link Asset Services Interest Rate View 31.3.20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

11. Risk Benchmarking

The regulatory framework also requires the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance (i.e. rate achieved compared with the 7-day LIBID). Security and liquidity benchmarks are used to assess the level of risk in the investment portfolio and whether sufficient liquidity is being maintained.

11.1 The following reports the current position against the benchmarks originally approved in the 2019/20 Treasury Management Strategy.

Security

- The Council's security risk for the portfolio as at 31st March 2020 is 0.004%, which compares with the 0.005% for the budgeted portfolio. This gives the estimated default rate on the investment counterparties which comprise the portfolio at 31st March 2020. This equates to a potential financial loss of £1,222 on the investment portfolio of £30.55m
- Specified Investments are high security sterling investments (i.e. high credit quality) with a maturity of no more than one year. Non-specified investments are all other investments representing a potentially greater risk however the risk is still minimal due to the stringent controls over counterparty credit quality contained within the Investment Strategy. The 2019/20 strategy set a maximum limit of 75% of the portfolio to be held in non-specified investments. At 31st March 2020, 100% of the investment portfolio was held in specified investments. The Chief Finance Officer can report that the investment portfolio was maintained within this limit throughout the year.

Liquidity

In respect of this area the Council set liquidity benchmarks to maintain:

- Liquid short term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark was expected to be 0.35 years (128 days).

The actual liquidity indicators at 31st March 2020 were as follows:

- Liquid short term deposits of £18.55 million as at 31st March 2020.
- Weighted Average Life of the investment portfolio was 0.10 years (38 days).

11.2 **Performance Indicators set for 2019/20**

11.3 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury management function over the year. The Chief Finance Officer set 8 local indicators for 2018/19, which aim to add value and assist the understanding of the main prudential indicators. These indicators, detailed in Appendix B, are:

- Debt – Borrowing rate achieved against average 7 day LIBOR.
- Investments – Investment rate achieved against average 7 day LIBID.
- Average rate of interest paid on the Councils Debt during the year – this will evaluate performance in managing the debt portfolio to release revenue savings.
- The amount of interest on debt as a percentage of gross revenue expenditure.
- Limit on fixed interest rate investments
- Limit on fixed interest rate debt
- Limit on variable rate investments
- Limit on variable rate debt

Regulatory Framework, Risk and Performance

12. The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2019/20);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM has issued Investment Guidance to structure and regulate the Council's investment activities;

Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices.

12.1 The Council has complied with all of the above relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

13. The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Capita Asset Services, the Council's advisers, has proactively managed its treasury position over the year. The Council has continued to utilise historically low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, utilising long-term loans.

13.1 Shorter-term variable rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

Prudential and Treasury Indicators 2019/20

1. PRUDENTIAL INDICATORS	2019/20 Actual	2019/20 Estimated	2018/19 Actual
Capital Expenditure	**£'000**	**£'000**	**£'000**
General Fund	10,057	14,756	13,968
HRA	11,976	20,669	24,985
TOTAL	22,033	35,425	38,953
Ratio of financing costs to net revenue stream	**%**	**%**	**%**
General Fund	15.4%	19.7%	11.9%
HRA	32.2%	31.4%	30.1%
Borrowing requirement General Fund	**£'000**	**£'000**	**£'000**
Borrowing requirement at 1 April	61,803	61,803	50,977
Borrowing requirement at 31 March	68,562	70,561	61,803
In-year borrowing requirement	6,759	8,758	10,826
Borrowing requirement HRA	**£'000**	**£'000**	**£'000**
Borrowing requirement at 1 April	58,353	58,353	58,503
Borrowing requirement at 31 March	62,174	62,624	58,353
In-year borrowing requirement	3,846	4,271	(175)
Net Debt	**£'000**	**£'000**	**£'000**
Actual borrowing less investments	89,603	94,400	86,154
CFR	**£'000**	**£'000**	**£'000**
General Fund	68,562	70,561	61,803
HRA	51,174	62,624	58,328
TOTAL	130,736	133,185	120,131
Annual change in Capital Financing Requirement	**£'000**	**£'000**	**£'000**
General Fund	6,759	8,758	10,826
HRA	3,846	4,271	(175)
TOTAL	10,605	13,029	10,651

2. TREASURY MANAGEMENT INDICATORS	**2019/20 Actual**	**2019/20 Estimated**	**2018/19 Actual**
Authorised Limit for external debt –	**£'000**	**£'000**	**£'000**
Borrowing Other long term liabilities TOTAL	120,153 105 120,258	147,050 1,400 148,450	115,354 342 115,696
Operational Boundary for external debt -	**£'000**	**£'000**	**£'000**
Borrowing Other long term liabilities TOTAL	120,153 105 120,258	133,145 105 133,250	115,354 342 115,696
Actual external debt	**£'000**	**£'000**	**£'000**
General Fund HRA TOTAL	55,154 65,113 120,258	53,387 65,113 118,500	57,583 58,113 115,696
Upper limit for fixed interest rate exposure	**£m**	**Target £m**	**£m**
Net principal re fixed rate borrowing / investments	112.5	112.1	108.1
Upper limit for variable rate exposure	**£m**	**Target £m**	**£m**
Net principal re variable rate borrowing / investments	25.1	47.3	24.2
Upper limit for total principal sums invested for over 1 year	**£’000**	**£**	**£’000**
(per maturity date)	Nil	£5m	Nil

Maturity structure of fixed rate borrowing during 2019/20	**Actual %**	**Upper limit %**	**Lower limit %**
Under 12 months	8.08	40	0
12 months and within 24 months	2.26	40	0
24 months and within 5 years	4.29	60	0
5 years and within 10 years	7.96	80	0
10 years and above	77.41	100	10

Local Indicators Treasury Management Indicators

	2019/20 Actual %	2019/20 Revised %	2018/19 Actual %
Debt - Borrowing rate achieved i.e. temporary borrowing (loans of less than 1 year)	No new short term borrowing taken in 19/20	Less than 7 day LIBOR	Achieved 0.98% Average 0.63% +0.35%

	2019/20 Actual %	2019/20 Revised %	2018/19 Actual %
Investment rate achieved	Achieved 0.84% LIBID 0.53% +0.21%	Greater than 7 day LIBID	Achieved 0.77% LIBID 0.51% +0.26%

	2019/20 Actual %	2019/20 Revised %	2018/19 Actual %
Average rate of Interest Paid on Council Debt (%)	3.62%	4.75%	3.24%

	2019/20 Actual %	2019/20 Target %	2018/19 Actual %
Interest on Debt as a % of Gross Revenue Expenditure	4.1%	4.1%	3.4%
General Fund	2.14%	2.22%	1.34%
HRA	8.72%	8.23%	8.36%

	2019/20 Actual (ave) %	2019/20 Target %	2018/19 Actual %
Upper limits on fixed interest rate investments	46%	100%	34%

	2019/20 Actual %	2019/20 Target %	2018/19 Actual %
Upper limits on fixed interest rate debt	100%	100%	100%

Appendix B

	2019/20 Actual (ave) %	2019/20 Target %	2018/19 Actual %
Upper limits on variable interest rate investments	54%	75%	66%

	2019/20 Actual %	2019/20 Target %	2018/19 Actual %
Upper limits on variable interest rate debt	0%	40%	0%