Report

Cabinet

Part 1

Date: 22 July 2020

Subject Report on Treasury Management covering the Financial Year 2019/20

Purpose This report is to inform the Council of treasury activities undertaken for the financial year ending 31 March 2020.

Author Head of Finance / Assistant Head of Finance

Ward All

Summary In line with the agreed Treasury Management Strategy, the Council continues to be both a short-term investor of cash and borrower to manage day-to-day cash flows. Current forecasts indicate that in the future, temporary borrowing will continue to be required to fund normal day-to-day cash flow activities and longer-term borrowing will increase to fund new commitments in the current capital programme as well as the impact of reduced capacity for 'internal borrowing'.

During the financial year the Council's net borrowing increased by £17.2m from £136.6m at 31 March 2019 to £153.8m at 31 March 2020.

Investment value of £12.5m is above the £10m benchmark position, but at the end of March the Council undertook additional temporary borrowing to support the cash flow of providing grants to businesses affected by Covid-19.

All borrowing and investments undertaken during the financial year was expected and within the Council's agreed limits.

Proposal That Cabinet:

1. **note and provide comment on the Annual Report on Treasury Management for the Financial Year 2019/20.**

2. **note and provide comment that 2019/20 Prudential Indicators for Treasury Management were in line with those set by Council in February 2019.**

Action by Head of Finance / Assistant Head of Finance

Timetable Immediate

This report was prepared after consultation with:

- Treasury Advisors
- Head of Finance

Signed

Background

1. In June 2009 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

2. Treasury risk management at the Authority 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 Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

3. The Authority has borrowed 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 are therefore central to the Authority's treasury management strategy.

4. The 2019/20 Treasury Management Strategy was approved by the Council as part of the Capital Strategy in February 2019 and can be viewed via the following link

   https://democracy.newport.gov.uk/documents/s17728/06%20Council%20Report%20Capital%20Strategy%20and%20Treasury%20Strategy%202020.pdf

5. This report presents the following information:

   - details of capital financing, borrowing, debt rescheduling and investment transactions
   - reports on the risk implications of treasury decisions and transactions
   - details the outturn position on treasury management transactions in 2019/2020
   - confirms compliance with treasury limits set and Prudential code

BORROWING STRATEGY / ACTIVITY

Short and Long Term Borrowing

1. Whilst the Council has significant long-term borrowing requirements, the Council's current strategy of funding capital expenditure is through reducing investments ('internal borrowing') rather than undertaking new borrowing where it can i.e. we defer taking out new long term borrowing and fund capital expenditure from the Council's own cash resources – which it has because of its 'cash-backed' reserves and, to a lesser extent, day to day positive cash-flows, for as long as we can. The Council may undertake borrowing early if, there is the need for future borrowing and it feels it can minimise risk of future interest rate rises while providing value for money, this will be in line with advice from our treasury advisors.

   By using this strategy the Council can also minimise cash holding at a time when counterparty risk remains relatively high, especially with the current economic implications during Covid-19. The interest rates achievable on the Council's investments are also significantly lower than the current rates payable on long-term borrowing and this remains the main reason for our current 'internally borrowed' strategy.

   At 31 March, the level of internal borrowing was about £87m, mainly in relation to the Council's level of cash backed reserves. At current rates, this saves about £2.6m in interest costs annually compared to physically borrowing this level of cash. As the Council spends its reserves over the medium to long term (PFI reserves, Capital reserves, Invest to Save reserves in particular), then the internal borrowing will have to be replaced with actual external borrowing and this interest cost will be incurred.

2. Whilst the strategy minimises investment counterparty risk, the risk of interest rate exposure is increased as the current low longer term borrowing rates may rise in the future. The market position is being constantly monitored in order to minimise this risk.

3. On 14 March 2019, in line with advice from the Authority's treasury advisors, the Council undertook £40m of borrowing in advance of the re-financing of the £40m stock issue to be re-paid on 10 April 2019 (2019/20 financial year. This was to mitigate volatility of interest rate risk at the time of uncertain Brexit discussions. The level of borrowing undertaken was in line with the long-term liability projection and within budgets set for 2019/20 and the authorised limits for 2019/20.

4. As shown in Appendix B, as at 31 March 2020 the level of borrowing has decreased by £26.5m to £166.3m, but the level of investments has also decreased by £43.8m (including £33.5m held as cash and cash equivalents), meaning an increase in net borrowing of £17.2m during the financial year to £153.8m. An increase in net borrowing was anticipated during 2019/20 as per the capital programme, however the level of borrowing didn't increase to the level expected due to the large amount of slippage on the capital programme in 2019/20.

5. In regards to LOBOs, no loans were called during the period. All £30m outstanding is subject to potential change of interest rates by the lender (which would automatically trigger a right to the Council to repay these loans) prior to the end of this financial year. Should a change of interest rate be requested, then it will be considered in detail and a decision on how we proceed will be made in conjunction with our treasury advisors.

INVESTMENTS ACTIVITY / POSITION

6. The Council's strategies in this area of Treasury Management are (i) to be a short term and relatively low value investor, consistent with the pursuit of an 'internal borrowing strategy' and (ii) investment priorities should follow the priorities of security, liquidity and yield, in that order.

   The Council's strategy of being a short-term investor has been maintained, though the early borrowing of £40m in relation to the re-financing of the stock increased cash holdings temporarily for a few days at the beginning of the year, until the cash was used to repay/re-finance the stock issue on the 9th April.

   Included within the investment figure on the 31 March 2020, is £12.5m cash and cash equivalent; this is due to £15m of short term borrowing taken out at the end of March 2020 to enable the Council to proceed quickly in the making of business grants in response to Covid-19 support, This was / will be repaid in June 2020.

   It is anticipated that investments will reduce in 2020/21 until we reach the balance of £10m, which will be invested for compliance with MiFIDII. The balance of investments as at 31 March 2020 is £16.1m.

7. All investments are currently placed on a temporary basis and are placed in high security institutions, in line with our other strategy in this area, dealing with our investing priorities of (i) security (ii) liquidity and (iii) yield, in that order. At the 31 March 2020 £10m was placed with various local authorities, £2.5m with the Debt Management Office. The maximum maturity date of any of these investments held was 14 April 2020.

8. January 2018 saw the implementation in the UK of the second Markets in Financial Instruments Directive (MiFID II), where firms will be obliged to treat all local authorities as retail clients unless they opt up to professional client status and meet certain criteria. These criteria include holding a minimum of £10m investment balance and employing knowledgeable and experienced staff to carry out investment transactions. It is anticipated that our investment balances will remain at or above the minimum £10m.

9. The Council does not hold any long-term (more than 364 days) treasury investments as at 31 March 2020.

NON-TREASURY INVESTMENTS

10. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government's (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Authority also held such investments in:

- directly owned property such as office and commercial units of £10.8m
- loans to local businesses and landlords £3.3m
- shareholding in subsidiaries £0.3m

These investments generated £1.2m of investment income for the Authority after taking account of direct costs.

OTHER YEAR-END TREASURY MATTERS

Economic background and Counter Party Update

11. Appendix A outlines the underlying economic environment during the financial year, as provided by the Council's Treasury Management Advisors 'Arlingclose'.

12. As discussed previously in this report the Council does not have any long-term treasury investments, and the investments that it currently undertakes is mainly with other local authorities which are deemed very secure, therefore the risk is currently 'low'. There were no significant changes in credit ratings advised in the first half of the financial year that had implications for the approved lending list. The long-term rating of Santander UK, the Council's bankers, remains at A; above the Council's minimum level of A-.

Compliance with Prudential Indicators approved by Council

13. The Authority measures and manages its exposures to treasury management risks using various indicators which can be found in Appendix B. The Authority has complied with the Prudential Indicators for 2019/20, set in February 2019 as part of the Treasury Management Strategy. Details of treasury-related Prudential Indicators can be found in Appendix B.

PWLB future lending terms

14. Members will be aware that the PWLB increased interest rates on loans in the autumn of 2019 following concerns about the level of Local Government debt, in particular for commercial activities.

They have since started consultation on a proposed change in their lending criteria. Essentially, for service requirements, Councils will be able to borrow at cheaper rates compared to borrowing for purely income generating requirements e.g. buying commercial property. In addition, taking out PWLB loans for income generating activities could mean that no further borrowing from PWLB would be available for that financial year. Consultation has been hampered somewhat by the Covid-19 situation and extended but it seems likely that the criteria will be amended at some point over this financial year.

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Investment counterparty not repaying investments	High but depending on investment value	Low	The Council only invests with Institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds available for investment will also alleviate the risk.	Members, Head of Finance, Treasury staff, based on advice from treasury advisors
Interest Rates moving adversely against expectations	Low	Low	Future expectations for higher short term rates are subdued. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates.	Head of Finance, Treasury staff, treasury advisors

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

It is the Council's policy to ensure that the security of the capital sums invested is fully recognised and has absolute priority. The Council follows the advice of the Welsh Governments that any investment decisions take account of security, liquidity and yield in that order.

Options Available and considered

The Prudential Code and statute requires that, during and at the end of each financial year, reports on these matters are presented to Council for approval. Thus the only option available is consider the report and provide comments to the Council.

Preferred Option and Why

Note the contents of the report in relation to Treasury activities and all Treasury Indicators met.

Provide comments on the contents of the report and agree report for taking to Council for final approval.

Comments of Chief Financial Officer
Decisions made on treasury matters will be made with a view to comply with the Treasury Management Strategy, Prudential Indicators, taking advice, where needed, from our Treasury Advisers.

Comments of Monitoring Officer
There are no legal implications. The in year and annual treasury management report is consistent with relevant Chartered Institute of Public Finance and Accountancy Guidance, Treasury Management principles and the Council's investment Strategy.

Comments of Head of People and Business Change

There are no direct HR implications associated with the report.

The Council is required to approve a treasury management annual report at the end of each financial year. The Well-being of Future Generations Act requires public bodies to balance short-term needs with the needs to safeguard the ability to meet long-term needs. As stated in this report, the Council continues to be both a short-term investor of cash and borrower to manage day-to-day cash flows but current forecasts indicate that in future temporary borrowing will continue to be required and longer-term borrowing will increase to fund the capital programme. This annual report fits in with the well-being goal of a Prosperous Wales.

Comments of Cabinet Member

The Leader of the Council, as lead member for strategic finance confirms she has been consulted on the report.

Local issues

N/A

Scrutiny Committees

N/A

Equalities Impact Assessment and the Equalities Act 2010

The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of ‘protected characteristics’, namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

Children and Families (Wales) Measure

N/A

Wellbeing of Future Generations (Wales) Act 2015

This report is a backwards looking report of the treasury management activities of the Council. It shows that we followed the treasury management strategy and the compliance with prudential code and treasury management indicators. This links into the long-term objectives of the authorities and ensures that the councils activities are carried out in an affordable, prudent and sustainable manner.

Crime and Disorder Act 1998

Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.

Consultation
N/A

Background Papers
Set out a list of any relevant background papers and whether they are available to the public.

Dated:

APPENDIX A

External Context

Economic background: The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial markets: Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

Credit review: In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

Appendix B

Local Context

On 31st March 2020, the Authority had net borrowing of £153.8m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.20 Actual £m
General Fund CFR	280
Less: *Other debt liabilities	43
Borrowing CFR	**237**
Less: Usable reserves	(87)
Less: Working capital inc. non-treasury investments	4
Net borrowing	**154**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 31st March 2020 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.19 Balance £m	**Movement £m**	**31.3.20 Balance £m**	**31.3.20 Rate %**
Long-term borrowing	149.3	1.3	150.6	3.6
Short-term borrowing	43.5	(43.5)	-	N/A
Cash and cash equivalents	-	15.7	15.7	2.1
Total borrowing	**192.8**	**(26.5)**	**166.3**	**3.5**
Long-term investments	-	-	-	-
Short-term investments	(10.3)	10.3	-	N/A
Cash and cash equivalents	(45.9)	33.5	(12.5)	0.8
Total investments	**(56.2)**	**43.8**	**(12.5)**	**0.8**
Net borrowing	**136.6**	**17.2**	**153.8**	**N/A**

The table above shows significant movement in both the borrowing and investment levels of the Council, however overall the NET borrowing position for the Council has increased by £17.2m.

Borrowing Update

On 9th October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears relatively very expensive. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans to 0.80% above equivalent gilt yields, available from 12th March 2020 and £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

The consultation titled "Future Lending Terms" represents a frank, open and inclusive invitation, allowing key stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals on allowing authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

The consultation closes on 4th June 2020 with implementation of the new lending terms expected in the latter part of this calendar year or financial year beginning 2021/22.

Borrowing Strategy during the year

At 31st March 2020 the Authority held £166.3m of loans, (a decrease of £41.5m to 31st March 2019, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.19 Balance £m	Net Movement £m	31.3.20 Balance £m	31.3.20 Weighted Average Rate %	31.3.20 Weighted Average Maturity (years)
Public Works Loan Board	107.9	(2.2)	105.7	3.8	19.7
Banks (LOBO)	30.6	(0.6)	30.0	4.4	34.2
Stock Issue	40.0	(40.0)	-	-	-
Banks (fixed-term)	5.0	-	5.0	3.8	57.9
Local Authority (short-term)	-	-	15.0	2.1	0.0
Other inc. WG loans	6.0	3.9	9.9	-	8.8
Accrued interest	3.3	(2.6)	0.7	N/A	N/A
Total borrowing	**192.8**	**(41.5)**	**166.3**	**3.5**	**23.1**

The Authority's chief 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 Authority's long-term plans change being a secondary objective.

In line with advice from the Authority's treasury advisors, a decision was made to undertake early borrowing for the re-finance of £40m debt maturing on 10th April 2019. Borrowing of £40m was undertaken on 14th March on terms spanning from 20 years to 48 years to spread the maturity profile and risk. The interest rate of the new borrowing was fixed at 2.05-2.55%, compared to the maturing borrowing at 8.875%. A decision was made to undertake the borrowing early due to the growing uncertainty surrounding Brexit and the imminent deadline that was approaching, which could have led to Britain leaving the EU without a deal. The reduction in borrowing between years is largely in relation to the repayment of the maturing debt on 10th April.

The Authority has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the Authority's borrowing need based on realistic projections and reducing investments, the Authority only required to borrow an additional £2.7m longer-term loans related tp specific projects from Welsh Government and Salix, details of which are below.

Long-dated Loans borrowed	Amount £m	Rate %	Period (Years)
Welsh Government Loan 1	2.0	0	3
Welsh Government Loan 2	0.6	0	15
Salix Loan	0.1	0	8
Total borrowing	**2.7**		

LOBO loans: The Authority continues to hold £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year.

<u>Other Debt Activity</u>

After £0.8m repayment of prior years' Private Finance Initiative and finance leases liabilities, total debt other than borrowing stood at £42.4m on 31st March 2020, taking total debt to £208.7m.

<u>Treasury Investment Activity</u>

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £12.5m and £69.0 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

<u>Table 4: Treasury Investment Position</u>

	31.3.19 Balance £m	Movement £m	31.03.20 Balance £m	31.03.20 Income Return %	31.03.20 Weighted average maturity Years
Banks & building societies (unsecured)	7.7	(7.7)	-	-	-
Government (incl. local authorities)	48.5	(36.0)	12.5	0.8	-
Total investments	**56.2**	**(43.7)**	**12.5**	**0.8**	**-**

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority'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.

In the Treasury Management Strategy it was agreed that the Authority will move into higher risk/higher yield investments such as pooled funds. However, this has been delayed while the Authority reviewed its risk appetite. While an increased income target has been included in the 2020/21 budget, due to the current economic uncertainty surrounding Covid-19, the Authority has invested into secure institutions such as local authorities and Central Government.

In November 2019 the Welsh Government published new Statutory Guidance on Local Government Investments to be effective from the 2020/21 financial year. This involves a complete re-write along the lines of the guidance issued last year by the Ministry of Housing, Communities and Local Government (MHCLG) for local authorities in England.

The definition of investments is widened to include "all of the financial and non-financial assets a local authority has invested money into primarily or partially for the purpose of generating a surplus including investment property" providing it has been made using the power to invest contained in the Local Government Act 2003. In addition, loans to wholly-owned companies or associates, to a joint venture, or to a third party count as investments, irrespective of the purpose or legal power used.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government's (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Authority also held such investments in:

- directly owned property such as office and commercial units of £10.8m
- loans to local businesses and landlords £3.3m
- shareholding in subsidiaries £0.3m

These investments generated £1.2m of investment income for the Authority after taking account of direct costs.

Compliance

The Head of Finance reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	2019/20 Maximum	**31.3.20 Actual**	**2019/20 Operational Boundary**	**2019/20 Authorised Limit**	**Complied?** Yes/No
Borrowing	192.8	166.3	220	230	✓
PFI and Finance Leases	42	42	44	44	✓
Total debt	**234.8**	**208.3**	**264**	**274**	✓

Table 8: Investment Limits

	2019/20 Maximum	**31.3.20 Actual**	**2019/20 Limit**	**Complied?** Yes/No
Any single organisation, except the UK Central Government	£5m	0	£10m each	✓

Above table only shows limits where the Council have invested money in during the year, excluding the UK Central Government.

Treasury Management Indicators

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

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:

Interest rate risk indicator	31.3.20 Actual	2019/20 Limit	Complied?
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0	50%	✓

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.03.20 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	9%	70%	0%	✓
12 months and within 24 months	2%	60%	0%	✓
24 months and within 5 years	6%	60%	0%	✓
5 years and within 10 years	19%	50%	0%	✓
10 years and within 20 years	18%	30%	0%	✓
20 years and within 30 years	14%	20%	0%	✓
30 years and within 40 years	19%	20%	0%	✓
40 years and within 50 years	8%	20%	0%	✓
50 years and above	6%	20%	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.

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:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	10	10	10
Complied?	✓	✓	✓

Other

IFRS 16: CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2021/22.