

Report to:	Cabinet	Date of Meeting:	30 July 2020
Subject:	Treasury Management Outturn 2019/20		
Report of:	Executive Director for Corporate Resources and Customer Services	Wards Affected:	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	No		

Summary:

This outturn report provides Members with a review of the Treasury Management activities undertaken to 31st March 2020. Cabinet receives this outturn report to allow monitoring against the Treasury Management Policy & Strategy and Prudential Indicators approved by Cabinet and Council in February 2019. This report is also provided to Audit & Governance Committee, whose role it is to carry out scrutiny of treasury management policies and practices.

Recommendation(s):

Members are requested to note the Treasury Management position to 31st March 2020 and the update to 31st May 2020, to review the effects of decisions taken in pursuit of the Treasury Management Strategy and to consider the implications of changes resulting from regulatory, economic and market factors affecting the Council's treasury management activities.

Reasons for the Recommendation(s):

To ensure that Members are fully apprised of the treasury activity undertaken to 31st March 2020 and to 31st May 2020 in order to meet the reporting requirements set out in Sefton's Treasury Management Practices and those recommended by the CIPFA code.

Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

What will it cost and how will it be financed?

(A) Revenue Costs
None

(B) Capital Costs

None

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): None
Legal Implications: The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and Treasury Management Activities.
Equality Implications: There are no equality implications.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned and cash is available when needed by the Council for improvements to the borough through its service provision and the Capital Programme.
Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities and minimising the cost of borrowing and the effective management of the associated risk continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director for Corporate Resources and Customer Services (FD 6062/20) is the author of the report.

The Chief Legal and Democratic Officer (LD 4244/20) has been consulted and has no comments on the report.

(B) External Consultations

None.

Implementation Date for the Decision

Immediately following the meeting.

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Appendices:

None

Background Papers:

There are no background papers available for inspection.

BACKGROUND:

1. Introduction

- 1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. The Prudential Code details a number of measures / limits / parameters (Prudential Indicators) that, to comply with legislation, must be set in respect of each financial year to ensure that the Council is acting prudently and that its capital expenditure proposals are affordable.
- 1.2. A requirement of the Prudential Code is the reporting to Cabinet and Full Council of the outturn position of indicators following the end of the financial year. In accordance with this requirement, this report outlines the 2019/20 outturn for the following Prudential Indicators:-
 - i. Capital Expenditure (Section 2);
 - ii. Capital Financing Requirement (Section 3.1);
 - iii. Gross Debt and the CFR (Section 3.2);
 - iv. Borrowing Limits (Section 3.3);
 - v. Financing Costs as a proportion of Net Revenue Stream (Section 3.4);
 - vi. Treasury Management Indicators (Section 6).
- 1.3. The Treasury Management Policy and Strategy Statements are agreed annually by the Council as part of the budget process. A requirement of the Policy Statement is the reporting to Cabinet and Full Council of the results of the Council's treasury management activities in the previous year. Treasury management in this context is defined as:

'The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
- 1.4. In accordance with the above this report outlines the results of treasury management activities undertaken in 2019/20 covering the following issues:
 - borrowing strategy and practice
 - compliance with Treasury Limits
 - compliance with Prudential Indicators
 - investment strategy and practice.
- 1.5. The results of treasury management activities in 2019/20 are reflected in the net expenditure on Capital Financing Costs included within the Council's Revenue Budget.
- 1.6. The Capital Programme is also agreed annually as part of the budget process. It sets out the anticipated capital expenditure to be incurred within the year.

2. Capital Expenditure

- 2.1. The original estimate for 2019/20 expenditure together with the actual capital expenditure calculated on an accruals basis for the financial year is as follows:

	Estimate £m	Actual £m
Capital Expenditure	36.542	25.175

- 2.2. Capital expenditure in 2019/20 was £11.367m less than the original estimate reported in February 2019. The Council has therefore remained within the limits for expenditure set at the start of the year. The variation is due to the phasing of capital budgets and grant allocations to future years. These adjustments were approved as part of the monthly budget monitoring for the capital programme during 2019/20.
- 2.3. A full report on capital expenditure and the out-turn position for 2019/20 can be found in the separate Financial and Corporate Performance 2019/20 report also presented at this meeting.

3. The Council's Overall Borrowing Need

3.1. Capital Financing Requirement

- 3.1.1. The Capital Financing Requirement (CFR) reflects the Authority's underlying need to borrow for capital purposes and is based on historic capital financing decisions and the borrowing requirement arising from the financing of actual capital expenditure incurred in 2019/20.
- 3.1.2. The Council is currently internally borrowed meaning it temporarily uses its own cash balances to fund some capital schemes instead of external borrowing which saves the cost of interest payments on loans. This reflects the current national low interest rates for investment of cash balances and the need to find savings for the revenue budget.
- 3.1.3. The actual level of Capital Financing Requirement as at 31 March 2020 compared to the initial estimate for 2019/20 is as follows:

	Estimate £m	Actual £m
Capital Financing Requirement	236.414	230.300

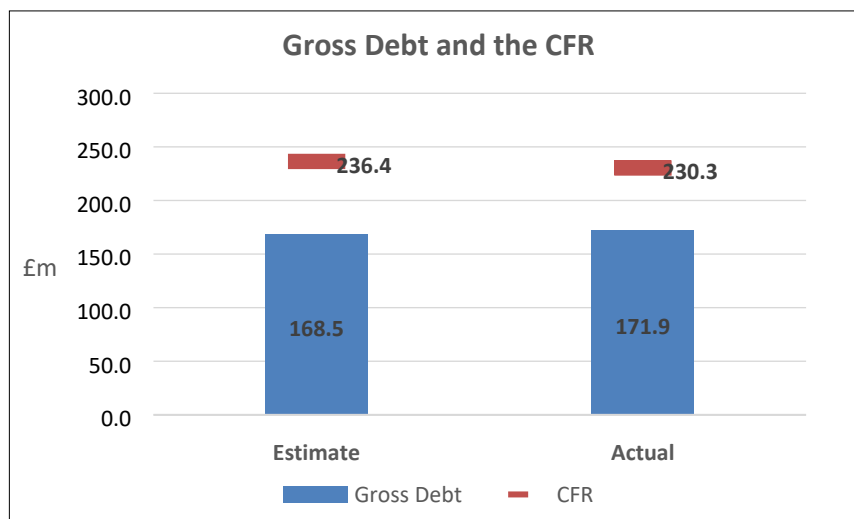
- 3.1.4. As mentioned in paragraph 2.2 (above), the level of capital expenditure for 2019/20 was less than anticipated and therefore the requirement for the financing of this expenditure is also lower.

3.2. Gross Debt and the CFR

3.2.1. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key factor of prudence:

"In order to ensure that over the medium-term debt will only be for a capital purpose, the local authority 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."

3.2.2. In the report to Cabinet in February 2019, it was stated that the Authority would comply with this requirement in 2019/20. During the financial year, gross external borrowing did not exceed the total of the Capital Financing Requirement. The chart below shows the out-turn position compared to the original estimate:



3.3. Borrowing Limits

	2019/20 £m
Authorised limit	205.000
Operational boundary	195.000
Maximum Gross Borrowing Position	172.612

3.3.1. The Operational Boundary sets a boundary on the total amount of long term borrowing that the Council should enter into. It reflects an estimate of the Authority's current commitments, existing capital expenditure plans, and is consistent with its approved Treasury Management Policy Statement and practices.

3.3.2. The Authorised Limit sets a limit on the amount of external borrowing (both short and long term) that the Council can enter into. It uses the Operational Boundary as its base but also includes additional headroom to allow for exceptional cash movements.

3.3.3. The Maximum Gross Borrowing Position shows the highest level of actual borrowing undertaken during 2019/20 financial year. This level remained within the Operational Boundary and did not exceed the Authorised limit.

3.4. Financing Costs as a Proportion of Net Revenue Stream

3.4.1. This indicator measures the financing costs of capital expenditure as a proportion of the net resource expenditure of the General Fund.

	Estimate 2019/20	Actual 2019/20
Financing Costs / Net Revenue	4.3%	3.7%

3.4.2. The overall ratio is lower than the original estimate by 0.6%. The financing costs for the repayment of debt incurred in previous years was lower than originally forecast. The net revenue stream for 2019/20 by comparison remained broadly on target hence the reduced ratio. The Council's debt therefore remained within affordable levels.

4. Borrowing Strategy and Practice

4.1. The Council's debt portfolio at the 31st March 2020 and a comparison to the position at the end of last financial year is summarised as follows:

Actual Debt Outstanding	31st March 2019 £m	31st March 2020 £m
Public Works Loans Board	148.692	162.674
Other Long-Term Liabilities	10.158	9.274
TOTAL	158.850	171.948

4.2. The category of other long-term liabilities represents transferred debt from the Merseyside Residuary Body (£2.626m) and finance lease liabilities (£6.648m).

4.3. The Council's PWLB debt activity during 2019/20 is summarised in the following table:

Movement in Year	Actual £m
PWLB opening debt 1 st April 2019	148.692
Less principal repayments	(6.018)
Add new borrowing	20.000
Closing PWLB debt 31st March 2020	162.674

- 4.4. The policy of internally borrowing, utilising the Authority's cash balances rather than taking out new borrowing, continued with regards to the Capital Programme in 2019/20 as no new expenditure was financed from external borrowing. The Council did however, opt to reverse an element of its internal borrowing for previous years to the value of £20m by taking out a new loan with the PWLB.
- 4.5. The average rate of interest on Council loans with the Public Works Loans Board (PWLB) in 2019/20 and a comparison to the previous year is shown below:

	2018/19	2019/20
Average PWLB Interest Rate in Year	3.86%	3.94%

5. Debt Maturity Profile

- 5.1. This is a profile measuring the amount of borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate:

Fixed Rate Debt Maturity	Upper Limit	Lower Limit	Actual 31st March 2020
Under 12 months	35%	0%	2%
12 months and within 24 months	40%	0%	1%
24 months and within 5 years	40%	0%	27%
5 years and within 10 years	40%	0%	8%
10 years and within 15 years	40%	0%	19%
15 years and above	90%	25%	43%

- 5.2. As can be seen our debt profile highlights that most of our debt is due to mature in 10 years and above, reflecting the internal borrowing position of the Council.

6. Compliance with Treasury Limits

- 6.1. The following Treasury Limits were approved by Council during the 2019/20 Budget Setting process:

	Limit £m	Max. Borrowing 2019/20 £m
Authorised Borrowing Limit	205.000	172.612
Short Term Borrowing Limit	15.0	0.0
Proportion of external borrowing subject to variable interest rates	20%	0%

6.1.1 During the financial year the Council operated within the agreed borrowing limits. No short term borrowing or borrowing subject to variable rates was undertaken.

6.2. Non-Specified Investment Indicator

	Upper Limit	Max. Invested 2019/20 £m
Non-specified Investments	40%	100%

6.2.1. An investment of £5m was made in 2014 with the Church, Charities and Local Authorities (CCLA) Property Fund. During a brief period from 13 to 17 March 2020, this investment represented up to 100% of the Council's total investments and therefore exceeded the 40% limit.

6.2.2. The Council's cashflows are naturally lower towards the end of the financial year and thus there is less surplus cash available to make investments. Temporary fluctuations in cash balances may occur due to the timing of expenditure and whilst the Council awaits further income from central government grants. These fluctuations can be accommodated by recalling short term investments, but this may mean that longer term investments represent a higher proportion of the Council's overall portfolio. Given that the actual level of non-specified investments returned below 40% before year end however, the Council's risk exposure remained low.

7. Investment Strategy and Practice

7.1. The Council invests all available cash balances, which includes school balances and the insurance fund, following a policy of obtaining maximum returns whilst minimising risks.

i. **Externally Managed Investments**

No externally managed funds are held.

ii. **Internally Managed Investments**

The Council's available funds during the year averaged £30.37m and were managed internally with advice from our treasury consultants.

7.2. The level of the Council's investments during 2019/20 and comparable figures from the previous year are summarised in the following table:

	2018/19	2019/20
Total Investment of Cash Balances at year end	£18.00m	£42.36m
Average Investment Balance during the year	£35.10m	£30.37m
Average Return on Investments	1.28%	1.41%

- 7.3. In 2019/20 a weighted average return of 1.41% was achieved. This is more than the benchmark 7-day LIBID figure of 0.18% and is considered to be an acceptable return. The majority of the funds are invested with major banks and Money Market Funds (MMF's), with the remaining balance of £5m invested with the CCLA Property Fund. The return of 1.41% can be disaggregated into a return of 0.73% on bank and MMF investments, whilst 4.30% was returned by the CCLA investment.
- 7.4. The year on year increase in the average return on investments reflects a minor improvement in Money Market Fund rates during the first half of 2019/20. The actual performance of investments has therefore over-achieved against the total budget for 2019/20 as follows:

Budget Profile	Budget £m	Actual £m	Variance £m
Outturn 2019/20	0.415	0.428	0.013

8. Treasury Position for 2020/21 – Update to 31st May 2020

8.1. Investments Held

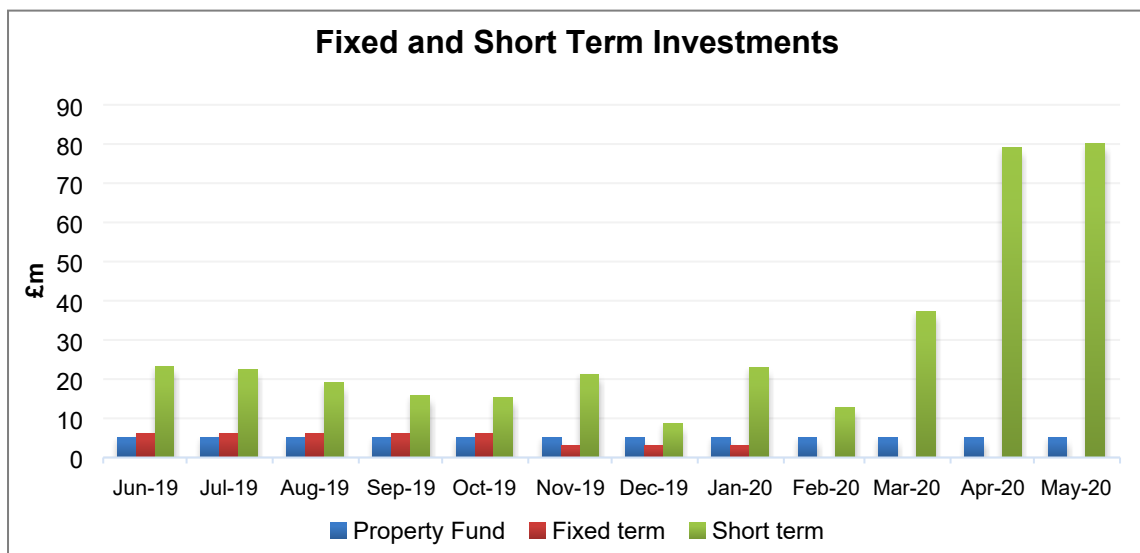
8.1.1. Investments held to 31st May 2020 comprise to the following:

Institution	Deposit £m	Rate %	Maturity	Rating
Money Market Funds:				
Aberdeen	8.43	0.28	n/a	AAA
Amundi	8.43	0.13	n/a	AAA
Aviva	8.43	0.32	n/a	AAA
BNP Paribas	8.43	0.20	n/a	AAA
Goldman-Sachs	4.73	0.11	n/a	AAA
Invesco	8.43	0.29	n/a	AAA
Morgan Stanley	8.43	0.22	n/a	AAA
Federated	7.80	0.32	n/a	AAA
Insight	7.80	0.23	n/a	AAA
Total	70.91			
Deposit Accounts:				
Natwest SIBA	9.20	0.30	n/a	A+
Total	9.20			
Property Fund:				
CCLA	5.00	4.56	n/a	n/a
Total	5.00			
TOTAL INVESTMENTS	85.11			

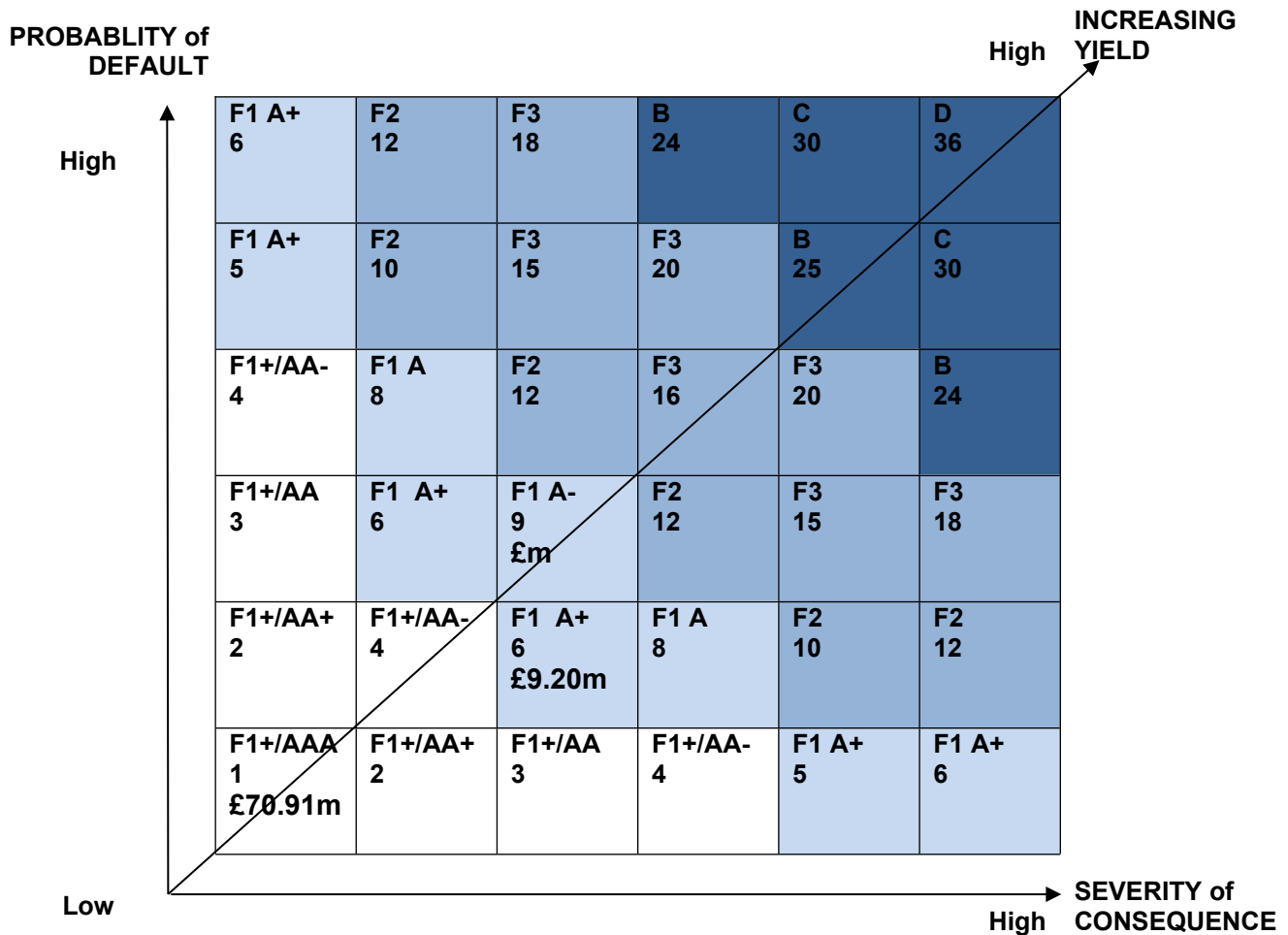
8.1.2. The above cash balances represent the full range of earmarked reserves such as school's balances. The balances also include money received from the government's COVID-19 response fund which is being redistributed to local businesses on a daily basis. The cash is initially held in a number of highly liquid Money Market Funds to ensure security of the funds until they required to be paid out. This approach is consistent with the Council's approved Treasury Management Policy and Strategy for 2020/21. The balance of investments is therefore expected to fall significantly over the coming months as the funds are fully distributed.

8.1.3. All of the investments made since April 2020 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £25m. Whilst the maximum should be retained, in light of current economic conditions, a day to day operational maximum of 10% of the total portfolio is currently being imposed for specified investments. This will spread the risk for the Council but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.

- 8.1.4. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 8.1.9.).
- 8.1.5. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises such as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where the market is often more buoyant than the north. The Council has in effect bought a share of the property portfolio and returns paid are in the region of 4%. This is seen as a long-term investment with the potential for the capital value of the investment to vary as property prices fluctuate.
- 8.1.6. The Net Asset Value (NAV) of the Property Fund has decreased over a 12-month period to May 2020 from 306.94p per unit to 286.55p per unit, a decrease of 6.6%. Much of this decrease has been during the period March to May 2020 as the COVID-19 crisis has impacted on the property market, weakening values in the retail sector. Trading on the fund has currently been suspended by the CCLA and the Council therefore has little choice but to maintain its position until the crisis subsides.
- 8.1.7. The yield on the Property fund at the end of May 2020 was 4.56% which is consistent with returns received in the past. Rents collected by the fund since the onset of COVID-19 however, have fallen to around 50% but are anticipated to improve to around 75% later in the year. The forecast income from investments (see 8.2, below) has therefore been adjusted to reflect a prudent estimate of a 50% reduction from the property fund.
- 8.1.8. The ratio of overnight deposits (short term) to fixed term investments and the property fund is shown below:



8.1.9. The matrix below shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield when investing:



SEFTON RISK TOLERANCE:

Risk Level	Score	Grade	Amount Invested
LOW	1 - 4	Investment Grade	£70.91m
LOW - MEDIUM	5 - 9	Investment Grade	£9.20m
MEDIUM	10 - 20	Investment Grade	£0
HIGH	21 - 36	Speculative Grade	£0

8.1.10. The Council will continue to maximise any investment opportunities as they arise, but in light of current economic conditions and low investment yields it is not envisaged that any substantial increase in returns can be achieved for the remainder of the current financial year. Cash balances available for investment will be held in overnight deposits to allow the council to respond to any exceptional demands for cash as they arise. The possibility for making long term deposits will be reviewed once economic conditions stabilise.

8.2. Interest Earned

8.2.1. The actual performance of investments against the profiled budget to the end of May 2020 and the forecast performance of investments against total budget at year end is shown below:

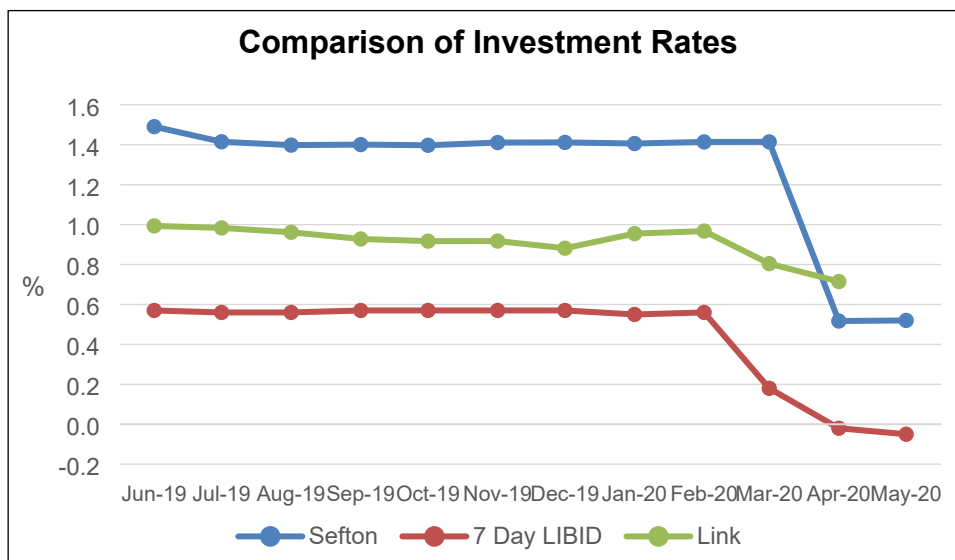
	Budget £m	Actual £m	Variance £m
May-20	0.069	0.042	-0.027

	Budget £m	Forecast £m	Variance £m
Outturn 2020/21	0.415	0.247	-0.168

8.2.2. The forecast outturn for investment income shows a significant shortfall against the budget for 2020/21. The impact of COVID-19 and declining economic conditions in general mean that investment rates are low and yields are expected to be well below the estimate originally forecast in the budget.

8.2.3. As mentioned in paragraph 8.1.10, it is not envisaged that improved rates will lead to a significant increase in the current forecast income from investments during 2020/21 as cash balances are diminishing and held in short term deposits.

8.2.4. The Council has achieved an average rate of return on its investments of 0.52% that has out-performed the 7-day LIBID to the end of May 2020. As can be seen from the chart below, investment rates are declining since March 2020 and this is consistent with the model portfolio provided by our treasury advisors (Link Asset Services).



NB: Link's May data unavailable at the time of writing.