

## REPORT

<b>SUBJECT:</b>	<b>TREASURY OUTTURN REPORT 2019/20</b>
<b>MEETING:</b>	<b>Audit Committee</b>
<b>DATE:</b>	<b>30<sup>th</sup> July 2020</b>
<b>DIVISIONS/WARD AFFECTED:</b>	<b>All</b>

### 1. **PURPOSE:**

- 1.1. During 2019/20, the Council's treasury management activity was underpinned by CIPFA's Code of Practice on Treasury Management 2011 ("the Code"), which required local authorities to annually produce Prudential Indicators and a Treasury Management Strategy Statement on their likely financing and investment activity. The Code also recommended that members are informed of treasury management activities at least twice a year. The S151 Officer reports twice a year (mid-year and after the year-end) on Treasury activity to the Audit Committee who provide scrutiny of treasury policy, strategy and activity on behalf of the Council.

### 2. **RECOMMENDATIONS:**

- 2.1. That Members note the results of treasury management activities and the performance achieved in 2019/20 as part of their delegated responsibility to provide scrutiny of treasury policy, strategy and activity on behalf of the Council.

### 3. **SUMMARY OF ISSUES:**

- 3.1. In respect of external influences, the UK's exit from the European Union and future trading arrangements, has remained one of the 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.
- 3.2. Alongside this the outbreak of the Coronavirus pandemic 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.
- 3.3. 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.
- 3.4. In a local context the treasury strategy of the Authority remained as keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

- 3.5. At the 31<sup>st</sup> March 2020 the Authority had a borrowing CFR Capital Financing Requirement (CFR) of £187.0m and gross external borrowing of 186.9m. Borrowing has increased in year by £8.5m (see section 8), which primarily relates to the capital expenditure which was incurred and funded by borrowing.
- 3.6. In year, the Authority's total treasury investments increased by £7.3m to £27.6m primarily due to higher year end balances related to the Authority's ongoing response to the Covid19 pandemic (see section 6 for further details). The Authority continues to hold a minimum of £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive).
- 3.7. £3m of the Authority's investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return -5.31%, comprising a 4.29% income return which is used to support services in year, and -9.48% of unrealised capital loss. Further details can be found in section 9 of this report.
- 3.8. As shown in section 11 the Authority achieved a saving of £368,000 against net treasury budgets of £3.99m.
- 3.9. As reported in sections 12 and 13, the Authority complied with the Cipfa code of practice on treasury management and the approved 2019/20 Treasury management strategy, during the year.
- 3.10. The ongoing Covid19 pandemic will continue to have a significant financial impact on the Authority and consequently its treasury management activity during the 2020/21 financial year. At the time of writing it is felt that the existing Treasury Strategy approved for the 2020/21 financial year provides the required flexibility both in terms of investment and borrowing approach to respond the challenges faced. The mid-year treasury report for 2020/21 will give a further update on the evolving situation.

#### 4. **INTRODUCTION**

- 4.1. The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.
- 4.2. The Authority's treasury management strategy for 2019/20 was approved by Council on 7th March 2019. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the risk of loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.
- 4.3. 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 under the Local Government Act 2003 to have regard to the CIPFA Code.
- 4.4. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 19<sup>th</sup> September 2019.

## 5. EXTERNAL CONTEXT

- 5.1. **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 29<sup>th</sup> March 2019 Brexit deadline was extended to 12<sup>th</sup> April, then to 31<sup>st</sup> October and finally to 31<sup>st</sup> 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.
- 5.2. 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.
- 5.3. 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%.
- 5.4. 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.
- 5.5. 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.
- 5.6. 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.
- 5.7. 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%.
- 5.8. **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 31<sup>st</sup> 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.

- 5.9. 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.
- 5.10. **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.
- 5.11. 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.
- 5.12. 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.
- 5.13. 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-.

## 6. LOCAL CONTEXT

- 6.1. 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

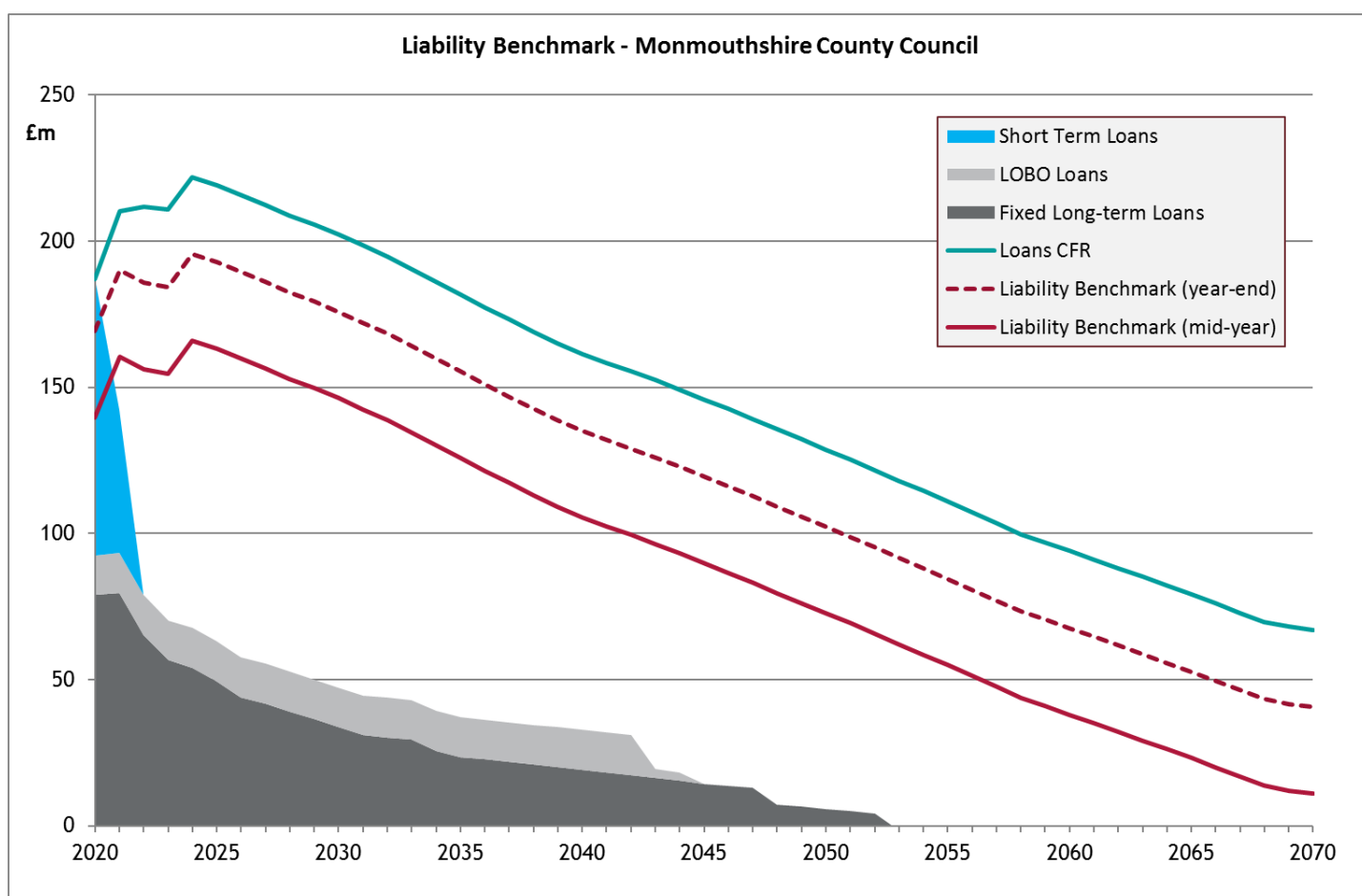
	<b>31.3.19 Actual £m</b>	<b>Movement Actual £m</b>	<b>31.3.20 Actual £m</b>
General Fund CFR	186.3	3.2	189.5
Less: *Other debt liabilities	(2.4)	(0.0)	(2.4)
<b>Borrowing CFR</b>	<b>183.9</b>	<b>3.1</b>	<b>187.0</b>
External borrowing	(178.3)	(8.6)	(186.9)
<b>Internal borrowing</b>	<b>5.6</b>	<b>(5.5)</b>	<b>0.1</b>
Less: Usable reserves	(18.1)	(0.4)	(18.5)
Less: Working capital	(7.9)	(1.4)	(9.3)

<b>(Net Investments) at 31<sup>st</sup> March 2019</b>	<b>(20.4)</b>	<b>(7.2)</b>	<b>(27.6)</b>
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\* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

6.2. 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.

6.3. The estimated borrowing requirement as determined by the Liability Benchmark (year-end) is shown in graphical form below. The Authority's existing external borrowing (in the form of Short terms loans, LOBO loans and Fixed term loans) is then compared to this benchmark to demonstrate the future borrowing requirement not already committed to.



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

**Table 2: Treasury Management Summary**

	<b>31.3.19 Balance £m</b>	<b>Movement £m</b>	<b>31.3.20 Balance £m</b>	<b>31.3.20 Rate %</b>
Long-term borrowing	106.6	(13.4)	93.2	3.5
Short-term borrowing	71.7	22.0	93.7	1.0
<b>Total borrowing</b>	<b>178.3</b>	<b>8.6</b>	<b>186.9</b>	<b>2.2</b>

Long-term investments	0.0	0.0	0.0	N/A
Short-term investments	9.0	(6.0)	3.0	0.5
Pooled Funds	2.0	0.7	2.7	4.3
Cash and cash equivalents	9.3	12.6	21.9	Included in ST above
<b>Total investments</b>	<b>20.3</b>	<b>7.3</b>	<b>27.6</b>	<b>0.9</b>
<b>Net Borrowing</b>	<b>158.0</b>	<b>1.3</b>	<b>159.3</b>	

6.5. The balance of Cash & cash equivalents at the 31<sup>st</sup> March 2020 was significantly higher than the previous year end due to the events surrounding the outbreak of the Covid19 pandemic and the financial response required by the Authority which resulted in treasury balances being made liquid and easily obtainable to allow a flexible response to the developing situation.

## 7. **BORROWING UPDATE**

7.1. On 9<sup>th</sup> 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.

7.2. 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.

7.3. 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.

7.4. The consultation closes on 31<sup>st</sup> July 2020 with implementation of the new lending terms expected in the latter part of this calendar year or financial year beginning 2021/22.

## 8. **BORROWING STRATEGY**

8.1. At 31<sup>st</sup> March 2020 the Authority held £186.9m of loans, an increase of £8.5m from 31<sup>st</sup> March 2019, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31<sup>st</sup> March are summarised in Table 3 below.

**Table 3: Borrowing Position**

	<b>31.3.19</b>	<b>Net Movement</b>	<b>31.3.20</b>	<b>31.3.20</b>	<b>31.3.20</b>
	<b>Balance</b>		<b>Balance</b>	<b>Weighted Average</b>	<b>Weighted Average</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>Rate</b>	<b>Maturity</b>

				%	(years)
Public Works Loan Board	85.7	3.4	89.1	3.2	15.5
Banks (LOBO)	13.6	0.0	13.6	4.8	21.8
Welsh Gov Interest Free	4.7	0.5	5.2	0.0	4.2
Temporary/Short term Local authorities/Other	74.4	4.5	78.9	0.9	0.3
<b>Total borrowing</b>	<b>178.4</b>	<b>8.5</b>	<b>186.9</b>	<b>2.2</b>	<b>9.2</b>

- 8.2. 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.
- 8.3. With short-term interest rates remaining much lower than long-term rates, the Authority considered it more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead where possible. The net movement in temporary / short-term loans is shown in table 3 above.
- 8.4. 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 borrowing need based on realistic projections, it was decided to take out a combination of medium term maturity loans during the year which provide some longer-term certainty and stability to the debt portfolio. The Authority borrowed the following medium term fixed rate loans:

Table 4: Longer dated loans entered into

<b>Longer-dated Loans borrowed</b>	<b>Amount £m</b>	<b>Rate %</b>	<b>Period (Years)</b>
PWLB Maturity Loan	2.0	1.33	5.0
PWLB Maturity Loan	2.0	1.51	10.0
PWLB Maturity Loan	1.5	1.16	5.5
PWLB Maturity Loan	1.5	1.28	9.5
<b>Total</b>	<b>7.0</b>		

- 8.5. The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and longer-term borrowing was maintained.
- 8.6. As this year has illustrated, PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%, i.e. the current PWLB HRA borrowing rate. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.
- 8.7. **LOBO loans:** The Authority continues to hold £13.6m 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.

## **9. TREASURY INVESTMENT ACTIVITY**

- 9.1. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between

£10m and £41m due to timing differences between income and expenditure. The investment position at year end is shown in table 5 below.

**Table 5: Treasury Investment Position**

	<b>31.3.19</b>	<b>Net</b>	<b>31.3.20</b>	<b>31.3.20</b>	<b>31.3.20</b>
	<b>Balance</b>	<b>Movement</b>	<b>Balance</b>	<b>Income</b>	<b>Weighted</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>Return</b>	<b>Average</b>
				<b>%</b>	<b>Maturity</b>
					<b>days</b>
Banks & building societies (unsecured)	4.0	(2.0)	2.0	Average 0.52%	£8m overnight; Rest up to 180 days
Government (incl. local authorities)	12.9	(2.0)	10.9		
Money Market Funds	1.5	10.5	12.0		
Multi asset income, Pooled funds	2.0	0.7	2.7	4.29%*	N/A
<b>Total investments</b>	<b>20.4</b>	<b>7.2</b>	<b>27.6</b>		

\*Multi Asset Income funds have a capital return of -9.48% for Year Ending 31.03.20 to give a total Return of -5.31%.

- 9.2. 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.
- 9.3. Given the increasing risk and low returns from short-term unsecured bank investments, the Authority has continued to diversify into more secure and/or higher yielding asset classes as shown in table 5 above. As a result, investment risk was diversified while the average income return has remained broadly similar to 2018/19 despite a falling interest rate environment.
- 9.4. The progression of risk and return metrics are shown in the extracts from Arlingclose’s quarterly investment benchmarking in Table 6 below.

**Table 6: Investment Benchmarking – Treasury investments managed in-house**

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>Weighted Average Maturity (days)</b>	<b>Rate of Return</b>
					<b>%</b>
31.03.2019	AA-	3.84	35%	36	0.26
31.03.2020	AA-	4.01	64%	2	0.30
<b>Similar LAs</b>	AA-	3.88	29%	27	0.44
<b>All LAs</b>	AA-	4.03	56%	20	0.64

- 9.5. £3m of the Authority’s investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return -5.31%, comprising a 4.29% income return which is used to support services in year, and -9.48% of unrealised capital loss.



- 9.6. In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses and individuals. Volatility measured by the VIX index was almost as high as during the global financial crisis of 2008/09 and evidenced in plummeting equity prices and the widening of corporate bond spreads, very close to rivalling those twelve years ago. Gilt yields fell but credit spreads widened markedly reflecting the sharp deterioration in economic and credit conditions associated with a sudden stagnation in economies, so corporate bonds yields (comprised of the gilt yield plus the credit spread) rose and prices therefore fell.
- 9.7. The unrealised capital losses will not have an impact on the General Fund as the Authority has elected to present changes in the funds' fair values in other comprehensive income (FVOCI).
- 9.8. 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.
- 9.9. 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.

## 10. **NON-TREASURY INVESTMENTS**

- 10.1. 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.
- 10.2. 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.
- 10.3. The Authority held a book value of £35.4m of such non-financial asset investments at the 31<sup>st</sup> March 2020 (£34.0m as at 31<sup>st</sup> March 2019) made up of:
- Oak Grove Solar Farm £6.76m NBV
  - Castlegate Business Park & service loan £7.65m NBV
  - Newport Leisure Park & service loan £21.0m NBV
- 10.4. The rest of the Authority's Investment Properties have been held for over a decade and are retained purely for income or capital gain :
- Agricultural Properties £25.7m NBV
  - Industrial Properties and Retail Units £2.75m NBV
- 10.5. These investments generated approximately £2.58m of investment income for the Authority after taking account of direct costs and contributes to supporting the Authority's ongoing revenue budget.

## 11. TREASURY PERFORMANCE

11.1. The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown in the table below:

Table 7: Performance

<b>Interest Payable</b>	<b>Actual £'000</b>	<b>Budget £'000</b>	<b>Over/ (under)</b>
PWLB	2,817	2,915	(98)
Market loans	653	653	0
Short term loans	625	627	(2)
<b>Total Interest payable on borrowing</b>	<b>4,095</b>	<b>4,195</b>	<b>(100)</b>
<b>Interest Receivable</b>	<b>Actual £'000</b>	<b>Budget £'000</b>	<b>Over/ (under)</b>
Invested cash short term	(139)	(205)	66
Pooled Funds	(119)	Included above	(119)
Finance lease income	(64)	Included above	(64)
Recoupment	(151)	0	(151)
<b>Total income from Investments</b>	<b>(473)</b>	<b>(205)</b>	<b>(268)</b>
<b>Net Over/(Under)spend</b>	<b>3,622</b>	<b>3,990</b>	<b>(368)</b>

## 12. COMPLIANCE

12.1. The acting Section 151 officer 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 tables below.

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

Table 8: Debt Limits

	<b>2019/20 Maximum during year  £m</b>	<b>31.3.20 Actual  £m</b>	<b>2019/20 Operational Boundary  £m</b>	<b>2019/20 Authorised Limit  £m</b>	<b>Complied? Yes/No</b>
Borrowing	186.9	186.9	189.7	219.9	Yes
PFI, Finance Leases & Other LT liabs	2.4	2.4	3.0	4.5	Yes
<b>Total debt</b>	<b>189.3</b>	<b>189.3</b>	<b>192.7</b>	<b>224.4</b>	<b>Yes</b>

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

Table 9: Investment Limits

	31.3.20	2019/20	Complied?
	Maximum	Limit	Yes
Local Authorities per counterparty	£2m or 10%	£2m or 10%	Yes
Banks per counterparty, rating A- or above	£2m	£2m	Yes
Any group of pooled funds under the same management	£2m	£2m	Yes
Limit per non-UK country	£2m	£4m	Yes
Money Market Funds	£2m or 10%	£2m or 10%	Yes
Investments over 1 year	£0m	£6m	Yes

### 13. TREASURY MANAGEMENT INDICATORS

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

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

Table 10: Credit Risk

	31.3.20 Actual	2019/20 Target	Complied?
Portfolio average credit	AA-/4.01	A-/5.0	Yes

13.3. **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:

Table 11: Interest rate exposure

Interest rate risk indicator	£000
Forecast impact on revenue over the next 12 months of a 1% rise in interest rates	621
Forecast impact on revenue over the next 12 months of a 1% fall in interest rates	(621)

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

13.5. **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:

Table 12: Maturity Structure of borrowing

	<b>31.3.20 Actual</b>	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>Complied?</b>
Under 12 months	51%	0%	60%	Yes
12 months and within 24 months	4%	0%	20%	Yes
24 months and within 5 years	7%	0%	40%	Yes
5 years and within 10 years	7%	0%	30%	Yes
10 years and above	31%	0%	100%	Yes

13.6. **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:

Table 13: Principal invested for period longer than a year

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Actual principal invested for 365 days & beyond year end	£0m	£0m	£0m
Limit on principal invested for 365 days & beyond year end	£6m	£6m	£6m
Complied?	Yes	Yes	Yes

#### 14. **OTHER ISSUES**

14.1. **IFRS 16:** CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2021/22. Work continues to be carried out in preparation for its introduction.

#### 15. **OPTIONS APPRAISAL**

15.1. Not applicable.

#### 16. **EVALUATION CRITERIA**

16.1. Not applicable.

#### 17. **REASONS**

17.1. The Authority's Treasury Management Strategy for 2019/20 was underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011.

17.2. The code requires the Authority to set a treasury strategy each financial year for financing and investment activities and recommends that members are informed of Treasury Management activities

at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

18. **RESOURCE IMPLICATIONS**

18.1. The outturn position is explained in the report, there are no other resource implications arising directly from this report.

19. **WELLBEING OF FUTURE GENERATIONS (INCORPORATING EQUALITIES, SUSTAINABILITY, SAFEGUARDING AND CORPORATE PARENTING):**

19.1. There are no implications directly arising from the recommendations and decisions highlighted in this report.

20. **CONSULTEES**

20.1. Chief Officer, Resources (Acting Section 151 officer)  
Arlingclose – Treasury Management Advisors to Monmouthshire CC

21. **BACKGROUND PAPERS**

21.1. None

22. **AUTHORS:**

22.1. Jonathan Davies – Finance Manager

23. **CONTACT DETAILS**

23.1. email: [jonathandavies2@monmouthshire.gov.uk](mailto:jonathandavies2@monmouthshire.gov.uk)