Appendix 2

REPORT TO:	**CABINET**
DATE:	**10 SEPTEMBER 2020**
TITLE:	**ANNUAL TREASURY MANAGEMENT REPORT 2019/20**
PORTFOLIO HOLDER:	**COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES**
LEAD OFFICER:	**SIMON FREEMAN, HEAD OF FINANCE AND PROPERTY AND DEPUTY TO THE CHIEF EXECUTIVE (01279) 446228**
CONTRIBUTING OFFICER:	**REBECCA KEENE, PRINCIPAL FINANCE MANAGER (01279) 446448**

This is not a Key Decision
It is on the Forward Plan as Decision Number I011370
The decision is not subject to Call-in Procedures for the following reason:
The decision stands as a recommendation to Full Council
This decision will affect no ward specifically.

RECOMMENDED that:

A Cabinet noted the annual Treasury Management Report for 2019/20 (Appendix A to the report), including that the Council operated within the Treasury Management Strategy Statement during 2019/20, and that the report is recommended to Full Council for approval.

REASON FOR DECISION

A In complying with latest Codes of Practice, Full Council is required to receive an annual report on the prior year's treasury management functions of the Council, which should also receive review by Cabinet in advance of its presentation to Full Council.

B The Prudential Indicators are also required to be reported to Full Council. These are included within the annual treasury management report.

BACKGROUND

1. Treasury management is defined as: "The management of the Council's investments and 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."

2. During 2019/20 the minimum reporting requirements were that Full Council should receive the following reports:

   a) An annual treasury strategy in advance of the year (Full Council, 7 February 2019);

   b) A mid-year treasury update report (Full Council, 30 January 2020); and

   c) An annual review following the end of the year describing the activity compared to the strategy (this report).

3. The annual report for 2019/20 has been produced in compliance with the Code and is set out in Appendix A to this report. The regulatory environment governing treasury management places onus on Councillors for the review and scrutiny of treasury management policies and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Councillors.

ISSUES/PROPOSALS

4. As stewards of public funds, the Council continues to take all practical steps to protect its investment portfolio. In this respect, emphasis remains in this order of priority: security, liquidity and yield.

5. Security is defined as "reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments". In practice this means placing investments with organisations which have a high quality credit rating, i.e. banks and other bodies which have a Fitch rating of A(-) and above. Local authorities do not, usually, have credit ratings but are inherently safe havens for investment.

6. Liquidity means "ensuring that investments are not committed for excessive time-periods in order to facilitate the Council's cashflow requirements and to reflect the risk of not having immediate access to funds". Councils are discouraged from investing disproportionate sums of money for long periods of time at what seem attractive rates of return.

7. Yield is "obtaining a reasonable return on investments". For most of the financial year the Bank of England base rate held steady at 0.75 per cent. However, as a result of the Covid-19 pandemic, and the measures put in place to stop the spread of the virus, the rate was reduced to a record low of 0.1 per cent in March 2020. The Council has attempted to gain the best yields without compromising security and liquidity.

8. The advice from Arlingclose is that the Council must aim towards a good investment spread as this is the best defence to protect the Council from a possible capital loss. As a result, and within the overarching powers given by

Councillors in the Treasury Management Strategy, the Council held investments with the CCLA (the Local Authority property fund), a Cash-Plus Fund, Money Market Funds, local authorities, and the Treasury's DMO. It does not currently have any investments with Banks and Building Societies other than funds held overnight with its own banker, Barclays Bank plc.

IMPLICATIONS

Environment and Planning (Includes Sustainability)
None specific.
Author: Andrew Bramidge, Head of Environment and Planning

Finance (Includes ICT, and Property and Facilities)
As contained in the report.
Author: Simon Freeman, Head of Finance and Property and Deputy to the Chief Executive

Housing
None specific.
Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)
None specific.
Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)
None specific.
Author: Simon Hill, Head of Governance

Appendices

Appendix A – Annual Treasury Management Report 2019-20

Background Papers

Treasury Management Strategy 2019/20
http://moderngov.harlow.gov.uk/documents/s14878/Appendix%20A%20-%20Treasury%20Management%20Strategy%20Mid-Year%20Review%20201920.pdf

Glossary of terms/abbreviations used

None.

APPENDIX A

HARLOW COUNCIL
ANNUAL TREASURY MANAGEMENT REPORT 2019/20

Introduction

1. This Report sets out the Council's Treasury Management outturn position in accordance with recommended practice.

2. It provides a review of external economic conditions impacting on the Council and focuses on the major issues affecting its borrowing and investments.

3. The Council uses specialist treasury management advisors to support its decision making, keep officers up to date with economic and more specifically market developments and providing specialist training and support.

4. Covid-19 and the measures put in place by the Government to slow the spread of the virus, has led to interest rates falling. The Bank of England cut rates in March to 0.25% and then cut them further to a record low of 0.1%. However, given the timing of this, the impact of lower interest rates is not evident in the figures reported below. The reduced rates of return will be felt during the current financial year (2020/21).

5. As a steward of public finance, the Council continues to take all practical steps to protect its investment portfolio. In this respect emphasis remains in this order of priority:

Security: some of the following might appear contradictory or elusive in this challenging economic environment

- Reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments
- The repayment of the sum invested; and / or,
- A return equal to or higher than the prevailing rate of inflation.

Liquidity: availability of cash when needed (adequate but not excessive liquidity)

Yield: a return commensurate with the level of risk.

6. The Council invests 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 remain central to the Council's treasury management strategy.

7. Treasury management activity is guided by the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code). The Code requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a mid-year and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

8. The Council's Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by Full Council on 7 February 2019, and was superseded by the TMSS 2020/21, contained within the Capital Strategy, approved by Council on 30 January 2020.

9. On 31 March 2019, the Council had net investments of £31.752m arising from its revenue and capital income. 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.

<u>Table 1: Balance Sheet Summary</u>

	31.3.19 Actual £m
General Fund CFR	53.358
HRA CFR	187.370
Total CFR	**240.728**
External borrowing	(-)211.837
Internal borrowing	**28.891**
Less: Usable reserves	(-)54.175
Add: Working capital	(-)6.468
Net investments	**(-)31.752**

10. The treasury management position at 31 March 2019 and the change during the year is shown in Table 2.

Table 2: Treasury Management Summary

	31.3.19 Balance £m	**Movement £m**	**31.3.20 Balance £m**	**31.3.20 Rate %**
Long-term borrowing	211.837	-	211.837	3.309%
Total borrowing	**211.837**	**1.713**	**211.837**	
Long-term investments Short-term investments Cash and cash equivalents	(-)4.000 (-)7.500 (-)20.200	0.094 7.500 (-)2.301	(-)4.000 0 (-)22.100	2.62% n/a 0.60%
Total investments	**(-)31.700**	**5.293**	**(-)26.100**	
Net borrowing	**180.137**	**7.006**	**185.430**	

Borrowing Strategy during the year

11. At 31 March 2020 the Council held £211.837m of long term loans from the Public Works Loan Board, unchanged on the previous year.

Treasury Investment Activity

12. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £25.67 million and £42.27 million due to timing differences between income and expenditure. The investment position is shown in table 3 below.

Table 3: Treasury Investment Position

	31.3.19 Balance £m	Net Movement £m	31.3.20 Balance £m	31.3.20 Income Return %
Banks and building societies (unsecured)	3.720	(-)0.24	3.480	0.50%
Government	5.280	(-)5.280	-	n/a
Local Authorities	9.000	(-)4.000	5.000	0.90%
Money Market Funds	9.700	3.920	13.620	0.53%
Other Pooled Funds				
Cash Plus Fund Royal London	2.000	-	2.000	0.94%
Property Fund (CCLA)	2.000	-	2.000	4.29%
Total Investments	**31.700**		**26.100**	

13. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

14. In furtherance of these objectives Officers have preferred to invest with local authorities rather than individual banks or building societies which carry bail-in risk. Whilst investments in Money Market Funds (MMF) carry risk of bail-in, the Funds themselves are large and diversified and hence the exposure is significantly reduced.

15. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 4 below.

Table 4: Investment Benchmarking – Treasury investments managed in-house

	Credit Score (where 1 is low risk)	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Total Rate of Return %
31.03.2018	4.10	AA-	42%	53	0.97%
31.03.2019	4.16	AA-	48%	86	1.09%
31.03.2020	4.19	AA-	77%	31	0.45%
Similar LAs	**3.95**	**AA-**	**59%**	**65**	**(-)0.79%**
All LAs	**4.03**	**AA-**	**56%**	**48**	**(-)0.34%**

Non-Treasury Investments

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

17. The Council has lent money to its subsidiary and a local business, to support local public services and stimulate local economic growth.

18. HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council which began trading on 1 February 2017. The Council provided a start-up loan to the business of £1.209m repayable over sixty two months and approved on 21 July 2016. The balance outstanding as at 31 March 2019 was £0.468m.

19. Harlow Property Limited was provided with two loans to support its developments within the Harlow Enterprise Zone, approved on 23 January 2014. The advances made were £1m on 15 March 2016 and a further £1.5m on 3 March 2017. Interest accrues on these loans. The total outstanding as at 31 March 2019 was £2.935m with security held against the increase in the property values.

20. These investments generated £167,000 of investment income for the Council, representing a rate of return of 4.5%.

Compliance

21. The Deputy to the Chief Executive and Head of Finance and Property Services reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Annex A
Prudential Indicators 2019/20

Capital Expenditure: The Council's capital expenditure and financing may be summarised and is consistent with the draft statement of accounts, as follows.

Capital Expenditure and Financing	**2019/20 Estimate £m**	**2019/20 Actual £m**	**Difference £m**
General Fund	11.156	**12.092**	0.936
HRA	24.044	**14.764**	(-)9.28
Total Expenditure	**35.200**	**26.856**	**(-)8.344**
Capital Receipts	2.525	**2.661**	0.136
Government Grants	0.535	**3.011**	2.476
Major Repairs Reserve	10.085	**10.624**	0.539
Revenue	9.347	**0.804**	(-)8.543
Borrowing	12.708	**9.756**	(-)2.952
Total Financing	**35.200**	**26.856**	**(-)8.344**

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

Capital Financing Requirement	**31.03.20 Estimate £m**	**31.03.20 Actual £m**	**Difference £m**
General Fund	62.209	**62.655**	0.446
HRA	190.070	**187.370**	(-)2.700
Total CFR	**252.279**	**250.025**	**2.254**

Actual Debt: The Council's actual debt at 31 March 2020 was as follows:

Debt	**31.03.20 Estimate £m**	**31.03.20 Actual £m**	**Difference £m**
Borrowing	220.837	**211.837**	(-)9.000
Finance leases	-	**1.714**	1.714

Total Debt	**220.837**	**213.551**	**(-)7.286**

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

Debt and CFR	31.03.20 Estimate £m	31.03.20 Actual £m	Difference £m
Total debt	220.837	**213.551**	(-)7.286
Capital financing requirement	252.279	**250.025**	(-)2.704
Headroom	**31.442**	**36.474**	**5.032**

Total debt remained below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities are not borrowing but form part of the Council's debt.

Operational Boundary and Total Debt	31.03.20 Boundary £m	31.03.20 Actual Debt £m	Complied
Borrowing	273.000	**213.551**	✓
Total Debt	**273.000**	**213.551**	✓

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit and Total Debt	31.03.20 Boundary £m	31.03.20 Actual Debt £m	Complied
Borrowing	283.000	**213.551**	✓
Total Debt	**283.000**	**213.551**	✓

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

Ratio of Financing Costs to Net Revenue Stream	31.03.20 Estimate %	31.03.20 Actual %	Difference %
General Fund	3.29%	**3.30%**	0.01%
HRA	15.16%	**13.99%**	(-)1.17%