



Report to Audit and Governance Committee

Date: 10th June 2020

Reference number: for cabinet member decisions only

Title: Annual Treasury Management Report

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Recommendations: The committee are asked to note and agree the Treasury management Annual Report for 2019/20.

Executive summary

- 1.1 The Council is required to report to members on the previous year's treasury management activity. It has been agreed that an overall annual treasury management report for all the legacy Councils would be reported to the Audit and Governance Committee.

Content of report

- 1.2 In line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management and the Council's Financial Regulations (B5.2), this Council is required to provide the Audit and Governance Committee with a report on the previous year's treasury management activity.
- 1.3 The Code of Practice defines Treasury Management as: The management of the organisation'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.
- 1.4 Treasury management at the legacy Councils were 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).
- 1.5 Each legacy Council had their treasury management strategies approved during February 2019. The general policy for all is the prudent investment of its treasury

balances, and the cost effective borrowing to finance long term investment in the Council's assets.

1.6 Borrowing

The legacy Councils arranged a combination of Public Works Loan Board (PWLB*) loans and short term loans from other local authorities to meet its borrowing requirements in 2019/20. Loans outstanding totalled £365.448m at 31 March 2020; £335.448m was from the PWLB, £30.000m Lenders Option Borrowers Option (LOBOs#) from the money markets. All legacy Councils pursued their strategies 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 table below sets out the borrowing maturity profile

2018/19 £m	Maturity Structure of Borrowing	2019/20 £m
35.945	Under 12 months	63.617
20.962	12 months and within 24 months	6.435
43.334	24 months and within 5 years	44.765
42.639	5 years and within 10 years	64.464
187.417	10 years and above	186.167
330.297	Total Borrowing	365.448

*PWLB Public Works Loans Board. The PWLB is a statutory body, part of HM Treasury, it's purpose is to lend money to local authorities The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

#LOBOs Lender Option Borrower Option. LOBOs are long term borrowing instruments which include an option for the lender to periodically revise the interest rate. If the lender decides to revise the interest rate, the borrower then has the option to pay the revised interest rate or repay the loan.

1.7 **Treasury Position** All legacy Councils investment policies, set out the approach for choosing investment counterparties. They are based on a system of credit ratings provided by the three main credit rating agencies, and supplemented by additional market data (such as rating outlooks, credit default swaps and bank share prices) provided by treasury advisors.

1.8 The investment activity during the year conformed to all approved strategies, and there were no liquidity difficulties.

1.9 The treasury outturn position is summarised below.

As at March 2019		Treasury Investments	As at March 2020	
£m	%		£m	%
		Specified Investments (up to 1 year)		
71.63	45%	Banks & Building Societies	42.17	31%
9.022	6%	Local Authorities	35.51	26%
48.97	30%	Money Market Funds	37.61	28%
		Non-Specified Investments (longer than 1 year)		
13.00	8%	Local Authorities	0.00	0%
5.54	3%	Gilt	0.00	0%
12.50	8%	Property Fund	20.00	15%
160.66	100%	Total Investments as at March	135.28	100%

1.10 **Covid-19** – The Council has considered the impact of Covid-19 on its cash-flow and in the short-term there has been favourable impact as the government funding in respect of business grant (£91.8m), general allocation (£25.6m) and Council Tax hardship fund (£2.8m) have been received in advance of the spend. In addition to the short-term risks, council has also considered medium to long-term risks and its impact and mitigation summarised below:-

- i. **Liquidity Risk** – There is a possibility of council not able to collect its debt on time and further additional costs due to Covid-19 are not fully funded. This could have an adverse impact on Council’s cash flow. At the end of May, the Council had £200m invested in overnight facilities, Money Market Funds and short-term deposits which are readily accessible. In addition to this the Council has sufficient headroom of over £100m for further borrowing if required.
- ii. **Market Risk** – The Council’s cash investments are exposed to interest rate movements which means the recent bank rate cut would have an impact on investment income. Investment income comprise of a very small proportion of council’s income and the returns in the recent years have been very low due to low bank base rates, therefore the impact of decrease in returns is minimal. In addition to this, during the low investment returns period, the council normally uses cash as internal borrowing to fund the capital programme resulting into lower borrowing costs and overall savings on financing costs.
- iii. **Credit Risk** – During the recession which the financial markets are forecasting, there is an increased risk from deposits with banks and financial institutions. This is minimised through the Annual Investment Strategy which requires that deposits are only made with banks and financial institutions when they meet the minimum requirements of the investment criteria set out in the Treasury Management Strategy.

Legal and financial implications

- 1.11 The publication of annual strategy, a mid-year treasury report and an annual strategy conforms to best practice as required by the Code of Practice CIPFA Treasury Management in the Public Services.

Corporate implications

- 1.12 There are none.

Background papers

Each legacy Council has produced a more detailed annual Treasury Management Report

Appendix 1 Buckinghamshire County Council Annual Treasury Management Report

Appendix 2 Wycombe District Council Annual Treasury Management Report

Appendix 3 Aylesbury Vale District Council Annual Treasury Management Report

Appendix 4 Chiltern District Council Annual Treasury Management Report

Appendix 5 South Bucks District Council Annual Treasury Management Report

Your questions and views (for key decisions)

If you have any questions about the matters contained in this report please get in touch with the author of this report. If you have any views that you would like the cabinet member to consider please inform the democratic services team. This can be done by telephone [] or email []