Cabinet Meeting Date 21/07/20	**Classification** Public
From The Deputy Leader / Cabinet Member for Finance & Resources to the Cabinet	
Strategy and Resources Scrutiny Committee 15/07/20	**Title of Report** Treasury Management Outturn 2019/20

1. Executive Summary

1.1 The 2019/20 Treasury Management Strategy, which covers the Council's borrowing and investment of cash balances, and treasury prudential indicators was approved by Council on the 28 February 2019. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual review of treasury management activities and actual prudential indicators.

1.2 As required by the Code of Practice and Council's Standing Orders, the treasury management outturn position and prudential indicators will be reported to the Council, at its meeting on the 17 September 2020.

2. Recommendation

2.1 That the Cabinet refers this report to Council so that it may note the Treasury Outturn position and actual Prudential Indicators, and that all treasury management activities have operated within the Council's Treasury Management Strategy.

THE DECISION PROPOSED IN THE RECOMMENDATON TO THIS REPORT MAY NOT BE CALLED IN ACCORDANCE WITH STANDING ORDER 54.1(j).

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3. Background and Proposals

3.1 The Treasury Management Strategy and Prudential Indicators for 2019/20 were approved by Council on the 28 February 2019.

3.2 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual review of treasury management activities and the actual prudential indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code). The Code was adopted by Council on 27 May 2010 (Minute COU/07d/270510).

3.3 Standing Order 140.6 requires the Corporate Director of Resources to report the treasury management outturn position to Cabinet. In accordance with the requirements of the Code and Standing Order 140.3 the outturn position will then be presented to full Council at its meeting on the 17 September 2020.

3.4 The treasury management strategy was subject to scrutiny by the Governance and Assurance Committee who concluded that robust arrangements were in place. Half yearly reports were presented to the Strategy and Resources Scrutiny Committee and Cabinet. As required by the Code a half yearly review of the treasury management strategy was presented to Council at its meeting of the 16 January 2020.

3.5 This report covers treasury borrowing and investment activities undertaken during the last financial year, includes commentary on the strategy adopted for 2019/20 and the outturn position including the prudential indicators.

4. External Borrowing and Lending Portfolios as at 31 March 2020

4.1 External Borrowing

Portfolio	Balance 31/03/19	Average Rate	Balance 31/03/20	Average Rate
Long Term	**£m**	**%**	**£m**	**%**
General Fund				
Public Works Loans Board	135.138	3.05	200.625	2.56
Market Loans	30.000	4.06	30.000	4.06
Bond	-	-	37.500	1.88
Housing Revenue Account:				
Public Works Loans Board	67.121	3.51	67.121	3.51
Total Long Term	**232.259**	**3.31**	**335.246**	**2.81**
Short Term/Temporary Borrowing	-	-	-	-
Total Borrowing	**232.259**	**3.31**	**335.246**	**2.81**

4.2 General Fund

- £4.513m of maturing Public Works Loans Board (PWLB) debt, with an average rate of 3.92% was repaid during 2019/20.

- £70.0m was borrowed from the PWLB at an average rate of 1.69% towards financing capital expenditure and refinancing debt.

- The Council issued a £63.8m 50-year Zero Coupon Instalment Indexed (Inflation Linked) Redemption Bonds in November 2019, at a premium (117.84%) yielding total cash receivable of £75m from subscribers. The first instalment of £37.5m equating to 50% of the total bond issue was paid to the Council on 7 November 2019. The second and third instalments of £18.75m (25%) each, are expected in November 2020 and November 2021 respectively.

4.3 **Housing Revenue Account**

- There was no new external borrowing or principal repayments during 2019/20.

The table at Appendix A shows the maturity profile of the council's borrowing portfolio.

4.4 **Investments**

Portfolio	Balance 31/03/19	Average Rate	Balance 31/03/20	Average Rate
	£m	%	£m	%
Long term	10.000	4.27	20.000	4.32
Short term	103.900	0.77	125.850	0.92
Total	**113.900**	**1.04**	**145.850**	**1.30**

4.5 **Balances** - As at the 31 March 2020, the Council had investment balances of £145.850m. Cash available for investment represents timing differences between the receipt and payment of cash, balances held on behalf of schools, HRA balances, grants and contributions and reserves. In accordance with the Council's approved Investment Strategy, £25m of short-term resources are required to meet cashflow requirements.

4.6 **Performance** - The average rate of return of 1.30% compares favourably against the seven-day London Interbank Bid (LIBID) rate of 0.56% which is the standard local authority benchmark. However, the Authority seeks to achieve 20 basis points above this, i.e. 0.76%.

4.7 The overall level of cash balances increased by £31.950m, this was due in part to timing differences between the receipt and payment of cash transactions, and the receipt of grants received in advance for Covid-19 purposes.

4.8 Appendix B provides details of the investment portfolio as at the 31 March 2020.

5. Treasury Management Strategy 2019/20

5.1 The Annual Treasury Management Strategy and the Prudential Indicators were approved by Council on the 28 February 2019. This report provided commentary on the borrowing requirements and debt management arrangements for 2019/20, along with the Annual Investment Strategy, and the Annual Minimum Revenue Provision Statement. The Annual Treasury

Management Strategy was reviewed and updated by Council at its meeting on the 16 January 2020

5.2 **Borrowing Strategy** - The borrowing requirement to finance 2019/20 capital expenditure and to replace / refinance maturing debt was £162.5m. The options available for financing the borrowing requirement were either to use internal cash balances, or to raise loans via an external provider. In order to allow maximum flexibility, the agreed financing strategy was:

(i) That cash balances may be used to finance capital expenditure on a temporary basis, pending permanent funding at a time when rates, and the timing of such decisions, are deemed favourable;

(ii) All available sources of finance are evaluated when undertaking decisions for long term borrowing and advice sought as appropriate;

(iii) That the maturity schedule is maintained so that no more than 30% of total borrowing is due for renewal in any one year;

(iv) That the upper limit for fixed rate borrowing is set at 100% and the upper limit for variable rate borrowing is set at 50%.

5.3 The principal source of borrowing for the Council and local authorities in general is the Public Works Loans Board (PWLB). The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury whose primary function is to lend money from the National Loans Fund to local authorities, and to collect the repayments. Interest rates are calculated by the Treasury and are based on Government cost of borrowing (gilt yields) plus a margin. Loans can be taken at fixed rates for periods up to 50 years or variable rates for up to 10 years. 80% of the Council borrowing portfolio is in PWLB loans. Loans can also be taken from the money market. 9% of the Council borrowing portfolio is in market loans.

5.4 On 9 October 2020 the PWLB unexpectedly increased its margin over gilt yields by 1% from 0.80% to 1.80% making future borrowing from the PWLB more expensive. This increase was partially reversed in March 20 for some forms of borrowing. The increase, however had limited impact on the cost of borrowing for 2019/20 as financing already secured during the year, at rates lower than expected, mitigated the increase.

5.5 As set out at paragraph 5.2, the borrowing strategy makes provision for all available sources of finance to be evaluated when undertaking decisions for long term borrowing and to seek advice as appropriate. The Council had been evaluating other forms of finance available from the debt market such as the issue of inflation linked bonds, which can provide finance at a very competitive rate when compared to the increased cost of PWLB. In November 19, the Council issued £63.8m 50-year Zero Coupon Instalment Indexed (Inflation Linked) Redemption Bonds in November 2019, at a premium (117.84%) yielding total cash receivable of £75m from subscribers. Cash from the bond subscribers is payable in three tranches as follows:

50% in November 2019;
25% in November 2020; and
25% in November 2021.

The Council has retained the right to raise additional funds from this issue should it prove the most optimal option.

6. Outturn 2019/20

6.1 **Economic growth** in 2019 has been very volatile, with quarter 1 unexpectedly strong at 0.5%, quarter 2 dismal at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as the result of the general election in December settled the Brexit issue. However, the three-monthly GDP statistics in January were disappointing, remaining at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, whether there could be a second wave of the outbreak later in the year, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

6.2 **Rates** - After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March 20, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn.

6.3 Gilt yields were on a generally falling trend during the last year, with PWLB rates falling to historic lows. This led to a steep rise in local authority borrowing. Then without warning, HM Treasury imposed two changes in the margins over gilt yields for PWLB rates in 2019-20, the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins.

6.4 **Public Works Loan Board Rates** - In 2012 the Government introduced the PWLB "Certainty Rate Discount" which provides a 20-basis point discount on standard PWLB rates for new borrowing. The certainty rate was made available from 1 November 2012 and is currently renewable annually. The PWLB rates shown in the table below are net of the certainty rate discount.

Period	01/04/19	31/03/20		Lowest	Highest	Average rate
5 years	1.52%	1.95%		1.00%	2.45%	1.77%
10 years	1.84%	2.14%		1.13%	2.76%	2.00%
25 years	2.41%	2.65%		1.73%	3.25%	2.45%
50 years	2.24%	2.39%		1.57%	3.05%	2.40%

6.5 During 2019/20 the Council was required to make provision to finance loan redemptions of £4.513m, General Fund capital expenditure of £75.983m, and HRA capital expenditure of £7.481m

6.6 **New Borrowing** - In 2019/20 the Council borrowed £70.0m from the PWLB to fund capital requirements. Borrowing was taken over an average period of 45 years at an average rate of 1.69%. This rate compares favourably to the average rate available during the year.

6.7 As set out at paragraph 5.5 the Council issued 50-year Zero Coupon Instalment Indexed (Inflation Linked) Redemption Bonds at a current effective interest rate of 1.88%. At the time, the rate for 50 year borrowing from the PWLB was 3.05%. The first tranche of £37.5m was received in November 19. The proceeds of the bond will be used to finance the Council's capital priorities.

6.8 Proactive measures taken to secure borrowing at favourable rates has helped to reduce the rate paid on the total long-term borrowing portfolio, as shown at paragraph 4.1, from 3.31% to 2.81%

6.9 **Market Loans Lender Option Borrower Option Type loans (LOBO's)** between the years 2005 to 2008, Redbridge entered into five of these loan arrangements borrowing a total of £35m, at an average rate of 4.07%. The average rate for borrowing the same amount from the PWLB at the time would have been 4.30%. Therefore, these loans have provided value for money for the Authority. Since then, one lender has amended the terms of their two loan agreements with a principal value of £10m to waiver their option to vary the interest rate, and one lender with a loan agreement of £5m offered premature repayment.

The remaining two LOBOs are at fixed rates which can be varied by the lender at specific times (i.e. every six months) in accordance with their specific loan agreement. The Council has the option to repay the loan if it did not wish to accept the new interest rate. Each year, when formulating the Treasury Management Strategy, provision is made within the Council's borrowing requirement to repay and/or replace these loans if required. Neither lender exercised their options during the year.

6.10 **Internal borrowing**: As at the 31 March 2020, the Council's Capital Financing Requirement to fund Council owned assets was £411.597m. Long term external borrowing amounted to £335.246m, therefore a total of £76.351m of internal resources have been utilised in lieu of external borrowing.

6.11 The approved Treasury Management Strategy provides for the temporary use of internal resources to fund capital expenditure and loan redemptions. The use of internal resources is kept under review and a phased replacement with external borrowing will be undertaken when deemed appropriate.

7. Debt Rescheduling

7.1 The Council kept its borrowing portfolio under review throughout the year. No PWLB loans were rescheduled or prematurely repaid. This was because the PWLB interest rate differential between the actual loan rate and repayment loan rate would not have provided a cost benefit to the Council.

8. Minimum Revenue Provision Policy

8.1 In accordance with the Local Government Act 2003, the Council is required to pay off an element of accumulated General Fund capital expenditure each year through a revenue charge known as the Minimum Revenue Provision (MRP). In

2017/18, a review of the provision and methodology for calculating MRP was undertaken by the Council's treasury Adviser's Link Treasury Services, and a new MRP policy was agreed. Due to this change, the Council has reduced its MRP for the year 2019/20 from £7.789m to £6.059m, to utilise the remaining benefit of the change in policy. Therefore, such a reduction is not anticipated in future financial years, however the Council will continue to benefit in terms of having a more prudent policy for the calculation of MRP. The saving was used to offset overspends in Service Directorate budgets.

8.2 In addition, the Policy makes provision for principal repayments in respect of reclassified Leases and the Private Finance Initiative Scheme (Oak Park High School) which relate to assets that have been brought on balance sheet as a result of accounting in accordance with International Financial Reporting Standards. As permitted under regulations, MRP is met by a charge equal to the element of the rental or charge that is used to write down the balance sheet liability. This ensures that the effect on the General Fund is neutral.

9. Annual Investment Strategy for Treasury Investments 2019/20

9.1 Each year the Council is required to produce an Annual Investment Strategy that sets out the Council's policies for managing its treasury investments. The Council's investment strategy must have regard to guidance issued by Communities and Local Government (CLG). The Council's investment strategy gives priority to the security and liquidity of its investments before yield.

The approved investment strategy for 2019/20 was as follows:

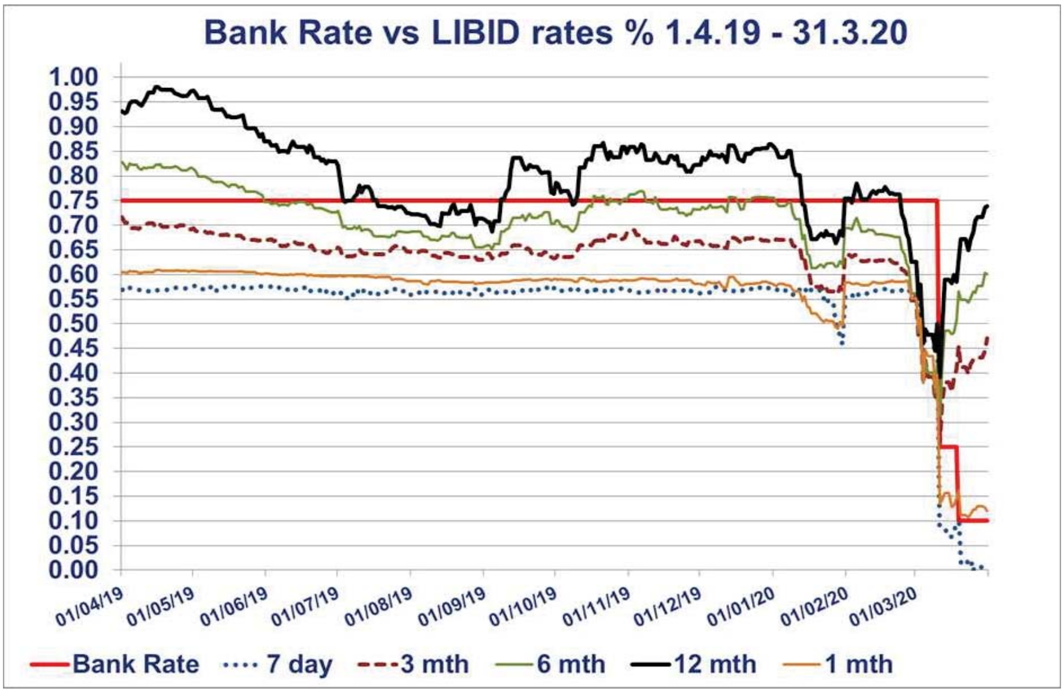
- (i) That cash balances, not immediately required to finance expenditure, are lent to the money market for the most appropriate periods as indicated by the cashflow model and current market and economic conditions;
- (ii) That liquidity is maintained by the use of overnight deposits and call account funds;
- (iii) That the minimum amount of short-term cash balances required to support cashflow management is £25m;
- (iv) That the upper limit for investments longer than one year is £40m;
- (v) That the maximum period for longer term lending be 5 years;
- (vi) That all investment with institutions and investment schemes is undertaken in accordance with the Council's approved creditworthiness criteria;
- (vii) That more cautious investment criteria are maintained during times of market uncertainty;
- (viii) That all investment with institutions and investment schemes is limited to the types of investment set out under the Council's approved "Specified" and "Non-Specified" investments;
- (ix) That all investment is managed within the Council's approved asset class limits.

9.2 **Investment Rates -** Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that the Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that

Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

9.3 However, whilst short term rates (0-1 month) tended to remain flat, rising concerns over the timing of when the UK would leave the EU caused longer term investment rates to fall over the first half of the financial year. These rates then began to rise in October. When the coronavirus outbreak hit the UK in February/March, all rates initially plunged but then the longer-term rates rose sharply back up again due to a shortage of liquidity in financial markets.

The movement in Investment rates in 2019/20 are shown in the chart below.



9.4 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

9.5 **Investment Outturn** - A prudent investment strategy was in place throughout the year and the operational lending list comprised financial institutions considered highly rated or who were part owned by the Government. All investment activity was carried out in accordance with the approved creditworthiness criteria and investment strategy set out above.

9.6 **Investments held by the Council –** during 2019/20 the Council managed and invested an average balance of £161.018m. Cash available for investment represents timing differences between the receipt and payment of cash, balances held on behalf of schools, HRA balances, grants, contributions and reserves. The majority of deposits were short term and made with British owned banks and building societies and other local authorities. A limited number of investments were made to highly rated overseas banks. To provide liquidity, deposits were placed overnight with triple A rated money market funds. The three investments totalling £20m in the CCLA Property Fund are treated as longer term investments.

- **Long term returns** – The longer-term investments of £20m, realised a gross return of 4.32%;
- **Short term returns** - The Council held £125.85m of short term investments as at 31 March 2020. The average return for the year was 0.92%.

9.7 The average rate of return on the total investment portfolio was 1.30%. This compares favourably against the seven-day London Interbank Bid (LIBID) rate of 0.56% which is the standard local authority benchmark. However, the Authority seeks to achieve 20 basis points above this, i.e. 0.76%.

9.8 **Credit risk** - The Council has robust procedures in place to ensure that only high-quality institutions are used by:

- the use of credit ratings provided by the three main credit rating agencies.
- information gathering and research on institutions to identify any changes in the status of investment counterparties as soon as possible.

No breaches of the Council's Strategy occurred during the reporting period and the Council does not expect any losses from its investment portfolio.

9.9 **International Financial Reporting Standard 9 (IFRS 9) -** From the 1 April 2018, the Council is required to value and account for financial instruments in accordance with the requirements of IFRS 9. For most of the Council's treasury activities during 2018/19 (simple time deposits and loans) applying the principles of the standard has had an immaterial effect on their value and therefore had no impact on the Council's budget. However, investment in the Pooled Property Fund is classified differently, and the fair value pricing methodology applied to this type of investment will result in an unrealised profit or loss at year end. Previously any such gains or losses were allowed to be reversed back to an unusable reserve, but under IFRS 9 these gains or losses would be credited/chargeable to the Council's budget.

9.10 Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9, the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This is effective from 1 April 2018. The statutory override applies for five years from that date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. The net impact for the Council in relation to the year-end valuation of its Pooled Funds was an unrealised loss of £1.818m. This is disclosed in an unusable reserve called the Pooled Investment Revaluation Reserve and recognised within the Council's Balance Sheet.

9.11 **Non-Treasury Investments –** The scope of investments within the Council's operations now includes both conventional treasury investments (the placing of residual cash from the Council's functions) and more commercial type investments such as property purchases. In 2018, changes to the MHCLG Investment Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code included the introduction of a Capital Investment Strategy, to provide a longer-term focus to the Council's capital plans, and greater reporting requirements surrounding any non-operational/commercial activity.

The Capital Investment Strategy is reported separately from the Treasury Management Strategy; non-treasury investments are reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy for non-operational/commercial investments which is usually driven by expenditure on a capital asset.

10 Markets in Financial Directives II (MiFID II)

10.1 The introduction of MiFID II on the 3 January 2018, automatically classified Local Authorities as retail clients. In order to continue to access certain investment products such as money market funds and the CCLA property fund, the Council is required to meet certain regulatory requirements and seek elective professional client status from relevant financial institutions. This was considered and approved by Council at its meeting on the 16 November 2017. The Council has been successful in retaining professional client status where required and continues to implement an effective investment strategy.

11. Prudential Indicators

11.1 The Local Government Act 2003 and supporting regulations requires the Council to have regard to the Prudential Code and to set Treasury Management and Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are approved by Council as part of the budget setting process. The Prudential Indicators for 2019/20 were:

Treasury Management	
Authorised Limit for External Debt	Maximum gross debt limit
Operational Boundary for External Debt	Operational gross debt limit beyond which external borrowing is not normally expected to exceed
Interest Rate Exposure	To manage risk and help mitigate the impact of adverse interest rate movements
Maturity Structure of Borrowings	Profile of maturing debt set to avoid the need to refinance a significant proportion of outstanding debt in any one period
Upper Limit for investments of more than 365 days	Upper limit for principle sums that can be prudently invested for between 1 and 5 years.

Capital	
Capital Financing Requirement	Total of historic unfinanced capital expenditure, and therefore a measure of the Councils borrowing need.
Capital Expenditure	Summary of the Council's capital expenditure plans
Ratio of Financing Cost to Revenue Stream	Cost of capital against the net revenue stream

11.2 The Treasury Management and Capital Prudential Indicators outturn position for the year 2019/20 is attached as Appendix C. The Council operated within all approved limits.

11.3 The benefit of the Prudential Indicators will be derived from monitoring them over time rather than the absolute value of each. The indicators are not intended to be used as comparators between councils. A reporting process has been established which includes a half yearly report to Council.

12. Conclusion

12.1 The Council continues to have a good record of managing both its debt and investment portfolios. The Council's average long-term cost of borrowing was 2.81% a fall of 0.5% from the previous year. The average return on the Council's investment portfolio was 1.30%, which compares favourably against the return objective of 0.76%.

12.2 All treasury management activities were undertaken in accordance with the approved strategy. Accordingly, borrowing was taken at a competitive rate, and risks to the Council's investments were minimised. No losses have been incurred.

13. Fairness Implications, including Equality and Diversity

13.1 In summary, section 149 of the 2010 Act requires the Council, when exercising its functions, to have 'due regard' to the need to:

a) Eliminate discrimination, harassment and victimisation and any other conduct that is prohibited by or under the Act (which includes conduct prohibited under section 29);

b) Advance equality of opportunity between people who share a relevant protected characteristic and those who don't share it;

c) Foster good relations between people who share a relevant protected characteristic and those who do not (which involves having due regard, in particular, to the need to tackle prejudice and promote understanding).

13.2 Under the PSED the relevant protected characteristics are:

- Age;

- Disability;
- Gender Reassignment;
- Pregnancy & Maternity;
- Race;
- Religion;
- Sex;
- Sexual Orientation.

13.3 In respect of the first aim only i.e. reducing discrimination, the protected characteristic of marriage and civil partnership is also relevant.

13.4 Having due regard to the need to 'advance equality of opportunity' between those who share a protected characteristic and those who do not includes having due regard, in particular, to the needs to:

- Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons who share a protected characteristic where those needs are different from the needs of persons who do not share that characteristic;
- Encourage those who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

13.5 Further, section 149 provides that the steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

13.6 Compliance with the duties in section 149 may involve treating some persons more favourably than others, but that is not to be taken as permitting conduct that would otherwise be prohibited under the Act (which includes breach of an equality clause or rule, or of a non-discrimination rule).

14. Staffing Implications

14.1 There are no staffing implications arising from this report.

15. Financial Implications

15.1 The financial implications are contained within the body of the report.

16. Legal Implications

16.1 No investment is without risk. The responsibility to manage local authority investments are part of what is known as Treasury Management", which CIPFA defines as:

> *"the management of the organisation'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."*

16.2 The Legal Framework of treasury management consists of legislation, guidance and best practice. Until 2004 local authorities had to invest in a Government-approved list of banks and other bodies despite the fact that the list was 'government approved', it was still possible for councils to lose money: The collapse of BCCI and the Icelandic Banks prompted the Government to change the rules. From 2004, a new system of local government capital control was introduced, including new arrangements that allowed councils greater freedom to make their own decisions about where to lend money. That system is set out in the Local Government Act 2003. Section 1 of the Local Government Act 2003 gives local authorities a clear power to borrow *"(a) for any purpose relevant to its functions under any enactment, or (b) for the purposes of the prudent management of its financial affairs"*, requiring local authorities to self-regulate their capital finance, borrowing and investment activities. According to the Government guidance, the core principles that local authorities should follow when investing money are:

- to make the deposits secure,
- to ensure they have sufficient liquidity for their daily demands,
- to produce the highest available yield, once the first two considerations have been met.

16.3 The guidance also stipulates that local authorities must have regard to the Treasury Management Code of Practice, published by the Chartered Institute of Public Finance and Accountancy. Members are asked to bear these principles in mind when considering the Treasury Management Strategy.

16.4 Under part 1 chapter 1 of the Local Government Act 2003 governs the powers and obligations on a local authority to set a borrowing limit.

A local authority's power of investment is under section 12 of the Local Government Act 2003 where a local authority may invest (a)for any purpose relevant to its functions under any enactment, or (b)for the purposes of the prudent management of its financial affairs

Section 13 of the Local Government Act 2003 covers rules on security on money borrowed where a local authority may not mortgage or charge any of its property as security for money which it has borrowed or which it otherwise owes. Any such security shall be unenforceable.

All money borrowed by a local authority, together with any interest on the money borrowed, shall be charged indifferently on all the revenues of the authority. All securities created by a local authority shall rank equally without any priority

Under Section 15 of the Local Government Act 2003 the local authority shall have regard to such guidance as the Secretary of State may issue.

The total amount that a local authority may borrow is governed by the requirements of CIPFA's Prudential Code for Capital Finance in Local Authorities; and by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), as amended. Each authority must set a total borrowing limit for itself in accordance with the principles of the Prudential Code. The borrowing limit will be related to the revenue streams available to the local authority, with which it can repay the debt. Authorities are prevented by law from using their property as collateral for loans.

The Prudential Code does not prescribe formulae allowing some flexibility in exactly how individual local authorities set these limits.

Background papers

- Report and minute to the Governance and Assurance Committee 30/01/19 - Treasury Management Strategy 2019/20;
- Report and minute to Council 28/02/19 - Revenue and Capital Budget 2019/20 – 2023/24 and Council Tax;
- Report and minute to Strategy and Resources Scrutiny Committee 18/11/19 – 2019/20 Treasury Management Strategy Mid-Year Review;
- Report and minute to Council 16/01/20 – 2019/20 Treasury Management Strategy Mid-Year Review;
- The Chartered Institute of Public Finance and Accountancy Code of Practice for Treasury Management in Public Services;
- The Prudential Code for Capital Finance in Local Authorities;
- Guidance on Local Government Investments issued by the Secretary of State.

LONG TERM BORROWING AS AT 31 MARCH 2020

YEAR	PWLB		MARKET / BOND			
	BORROW £m	REPAY £m	BORROW £m	REPAY £m	IN YEAR £m	TOTAL %
Bal c/f	*267.746*		*67.500*	-	-	-
2020/21	-	5.012	-	20.000	25.012	7.5
2021/22	-	3.013	-	-	3.013	0.9
2022/23	-	3.012	-	-	3.012	0.9
2023/24	-	6.013	-	-	6.013	1.8
2024/25	-	6.012	-	-	6.012	1.8
2025/26	-	3.013	-	-	3.013	0.9
2026/27	-	5.700	-	-	5.700	1.7
2027/28	-	6.700	-	-	6.700	2.0
2028/29	-	6.700	-	-	6.700	2.0
2029/30	-	6.700	-	-	6.700	2.0
2030/31	-	6.700	-	-	6.700	2.0
2031/32	-	6.700	-	-	6.700	2.0
2032/33	-	6.700	-	-	6.700	2.0
2033/34	-	12.950	-	-	12.950	3.9
2034/35	-	5.200	-	-	5.200	1.6
2035/36	-	12.500	-	-	12.500	3.7
2036/37	-	7.500	-	-	7.500	2.2
2037/38	-	7.500	-	-	7.500	2.2
2038/39	-	15.000	-	-	15.000	4.5
2039/40	-	15.000	-	-	15.000	4.5
2040/41	-	15.000	-	-	15.000	4.5
2041/42	-	15.121	-	-	15.121	4.5
2046/47	-	5.000	-	-	5.000	1.5
2056/57	-	-	-	10.000	10.000	3.0
2057/58	-	5.000	-	-	5.000	1.5
2058/59	-	5.000	-	-	5.000	1.5
2059/60	-	10.000	-	-	10.000	3.0
2060/61	-	5.000	-	-	5.000	1.5
2061/62	-	10.000	-	-	10.000	3.0
2064/65	-	10.000	-	-	10.000	3.0
2065/66	-	10.000	-	-	10.000	3.0
2066/67	-	10.000	-	-	10.000	3.0
2067/68	-	10.000	-	-	10.000	3.0
2068/69	-	10.000	-	37.500	47.500	14.2
TOTAL		**267.746**	**0.000**	**67.500**	**335.246**	**100.00**

Investment Portfolio as at 31 March 2020

Amount £m	Institution	Institution type	Vehicle Type	Maturity	Rate (%)
9.400	Aberdeen MMF	Investment Fund	Call Deposit	1-Apr-20	0.48
4.450	Invesco MMF	Investment Fund	Call Deposit	1-Apr-20	0.38
5.000	Prinicipality B/Soc	Building Society	Time Deposit	6-Apr-20	0.86
5.000	DBS Bank LTD	Bank	Time Deposit	7-Apr-20	0.82
5.000	Lloyds Bank plc	Bank	Time Deposit	15-Apr-20	1.25
5.000	Thurrock Borough Council	Local Authority	Time Deposit	17-Apr-20	0.85
5.000	Peterborough City Council	Local Authority	Time Deposit	29-Apr-20	0.86
10.000	Yorkshire Building Society	Building Society	Time Deposit	7-May-20	0.95
5.000	Santander UK PLC	Bank	Time Deposit	7-May-20	0.89
5.000	Lloyds Bank plc	Bank	Time Deposit	13-May-20	1.25
5.000	Australia & New Zealand Bank	Bank	Time Deposit	15-May-20	0.84
5.000	Thurrock Borough Council	Local Authority	Time Deposit	19-May-20	0.85
5.000	Surrey County Council	Local Authority	Time Deposit	27-May-20	1.10
5.000	L B Sutton	Local Authority	Time Deposit	28-May-20	0.85
5.000	DBS Bank LTD	Bank	Time Deposit	4-Jun-20	0.89
5.000	Plymouth City Council	Local Authority	Time Deposit	10-Jun-20	0.85
2.000	Australia & New Zealand Bank	Bank	Time Deposit	19-Jun-20	0.85
5.000	DBS Bank LTD	Bank	Time Deposit	8-Jul-20	0.88
5.000	Australia & New Zealand Bank	Bank	Time Deposit	9-Jul-20	1.03
5.000	Lloyds Bank plc	Bank	Time Deposit	31-Jul-20	1.25
5.000	Lloyds Bank plc	Bank	Time Deposit	12-Aug-20	1.10
5.000	DBS Bank LTD	Bank	Time Deposit	20-Aug-20	0.91
5.000	Highland Council	Local Authority	Time Deposit	16-Sep-20	0.90
5.000	Thurrock Borough Council	Local Authority	Time Deposit	4-Dec-20	1.10
5.000	CCLA	Investment Fund	Time Deposit	31-Dec-21 *	4.42 **
5.000	CCLA	Investment Fund	Time Deposit	31-Dec-21 *	4.42 **
10.000	CCLA	Investment Fund	Time Deposit	31-Dec-21 *	4.42 **
145.850					

* subject to review
** gross variable rate

PRUDENTIAL INDICATORS

Treasury Management Indicators

Authorised Limit for External Debt (maximum total gross debt limit)	**2019/20 Revised Limit £m**	**31/03/20 Actual £m**
Borrowing	506.140	335.246
Other Long Term Liabilities*	10.875	10.875
TOTAL	517.015	346.121

Operational Boundary for External Debt (gross limit for operational activities)	**2019/20 Revised Limit £m**	**31/03/20 Actual £m**
Borrowing	491.140	335.246
Other Long Term Liabilities*	10.875	10.875
TOTAL	502.015	346.121

*Other long term liabilities relate to assets financed by a PFI arrangement which were reclassified as on-balance sheet in accordance with International Financial Reporting Standards.

Upper Limits on Interest Rate Exposures (net borrowing and investment)	**2019/20 Limit %**	**31/03/20 Actual %**
Fixed Rate	100%	100%
Variable Rate	80%	48%

Maturity Structure of Borrowing Fixed Rate	**2019/20 Revised Estimate Upper Limit %**	**2019/20 Revised Estimate Lower Limit %**	**2019/20 Actual %**
Under 12 months	30	-	7.5
12 Months and within 24 months	45	-	1.8
24 Months and within 5 years	60	-	4.5
5 Years and within 10 Years	80	-	9.7
10 Years and above	100	-	76.6

Maturity Structure of Borrowing Variable Rate	**2019/20 Revised Estimate Upper Limit %**	**2019/20 Revised Estimate Lower Limit %**	**2019/20 Actual %**
Under 12 months	30	-	-
12 Months and within 24 months	30	-	-
24 Months and within 5 years	30	-	-
5 Years and within 10 Years	40	-	-
10 Years and above	50	-	-

Upper Limit for Total Principal Sums Invested for more than 364 days

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Approved Limits	40	40	40	40	40
As at 31/03/20	20	20	-	-	-

Capital Indicators

Capital Financing Requirement (gross debt outstanding on capital investment in assets)	2019/20 Revised Estimate £m	31/03/20 Actual £m
General Fund	382.945	325.583
HRA	98.195	75.139
Other Long Term Liabilities	10.875	10.875
TOTAL	492.015	411.597

Capital Expenditure	2019/20 Revised Estimate £m	31/03/20 Actual £m
General Fund	242.839	110.893
HRA	48.937	25.581
TOTAL	291.776	136.474

Ratio of Financing costs to Net Revenue stream	2019/20 Revised Estimate %	31/03/20 Actual %
General Fund	7.95	6.33
HRA	11.72	8.30