

Gloucester City Council

Meeting:	Cabinet	15 July 2020
	Audit and Governance Committee	20 July 2020
Subject:	Treasury Management Update – Annual Report 2019/20	
Report Of:	Cabinet Member for Performance and Resources	
Wards Affected:	All	
Key Decision:	No	Budget/Policy Framework: No
Contact Officer:	Greg Maw, Accountancy Manager	
	Email: greg.maw@gloucester.gov.uk	Tel: 396422
Appendices:	1. Prudential and Treasury Indicators	
	2. Interest Rate Forecasts	

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report covers the six months 1st October 2019 to 31st March 2020 and therefore, ensures this Council is implementing best practice in accordance with the Code.
- 1.2 This report will highlight issues specific to the Council and also highlight interest rate forecasts as provided by the Council's treasury advisors Link Asset Services.
- 1.3 The body of the report provides an overview of the Council's performance for the financial year 2019/20;
 - **Appendix 1** highlights the key performance indicators in line with the Council's Treasury Management Strategy.
 - **Appendix 2** Interest Rate Forecast.

2.0 Recommendations

- 2.1 Cabinet is asked to **RESOLVE** that the contents of the report be noted.
- 2.2 Audit and Governance Committee is asked, subject to any recommendations it wishes to make to Cabinet, to note the contents of the report.

3.0 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2019/20, which includes the Annual Investment Strategy, was approved by the Council on 21st March 2019. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.1 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

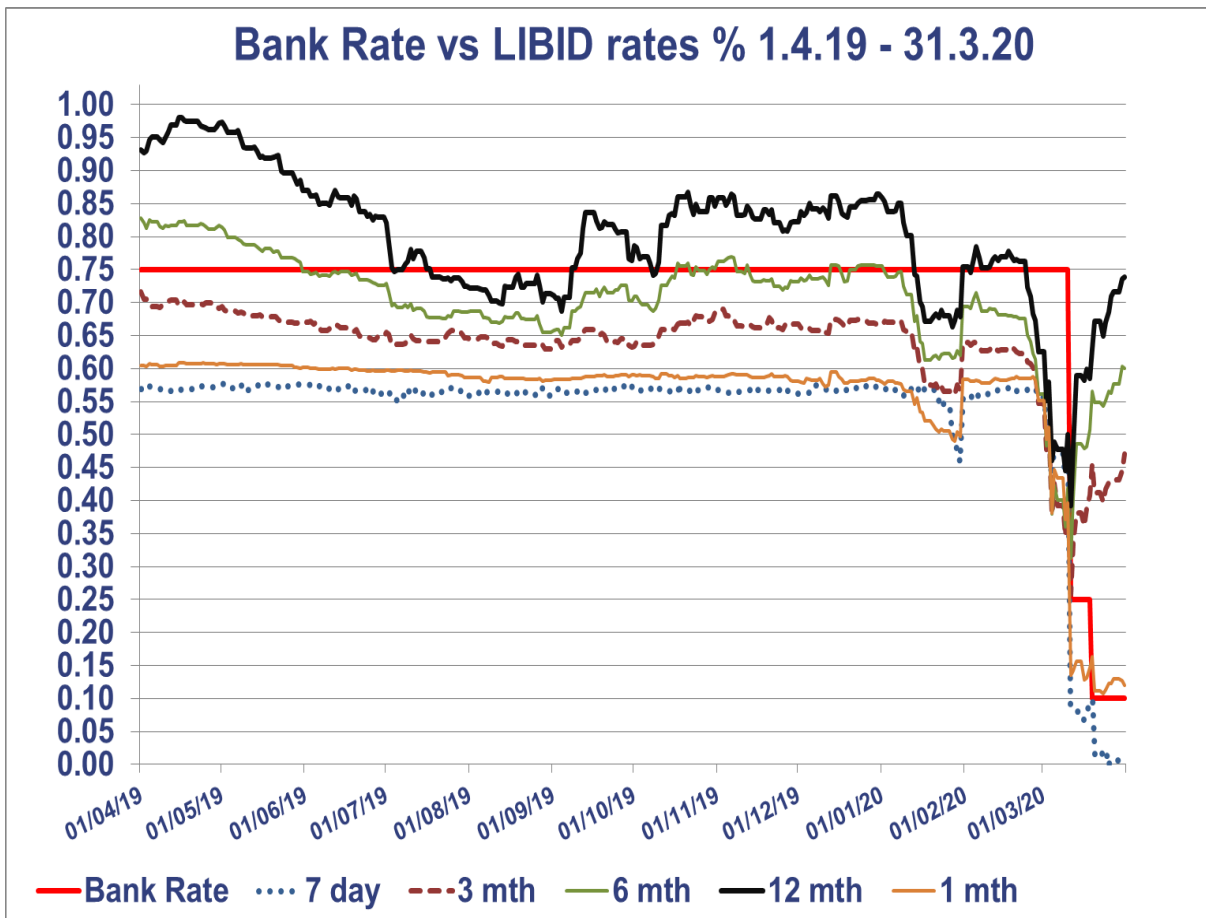
3.2 The average level of funds available for investment purposes during the year was £19.7m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds £11m core cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for the financial year to date as at 31 March 2020

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.53%	0.67%	£72,734
1 month	0.56%	0.87%	£14,242
3 month	0.63%	0.84%	£6,059
6 month	0.70%	1.10%	£10,247
12 month	0.80%	N/A	N/A

As illustrated, the Council outperformed the benchmark by 14 bps on 7 day investment returns, by 31 bps on 1 month, 21 bps on 3 month and 40 bps on 6 month investment returns.

Interest Rate Profile – Year to date to 31 March 2020



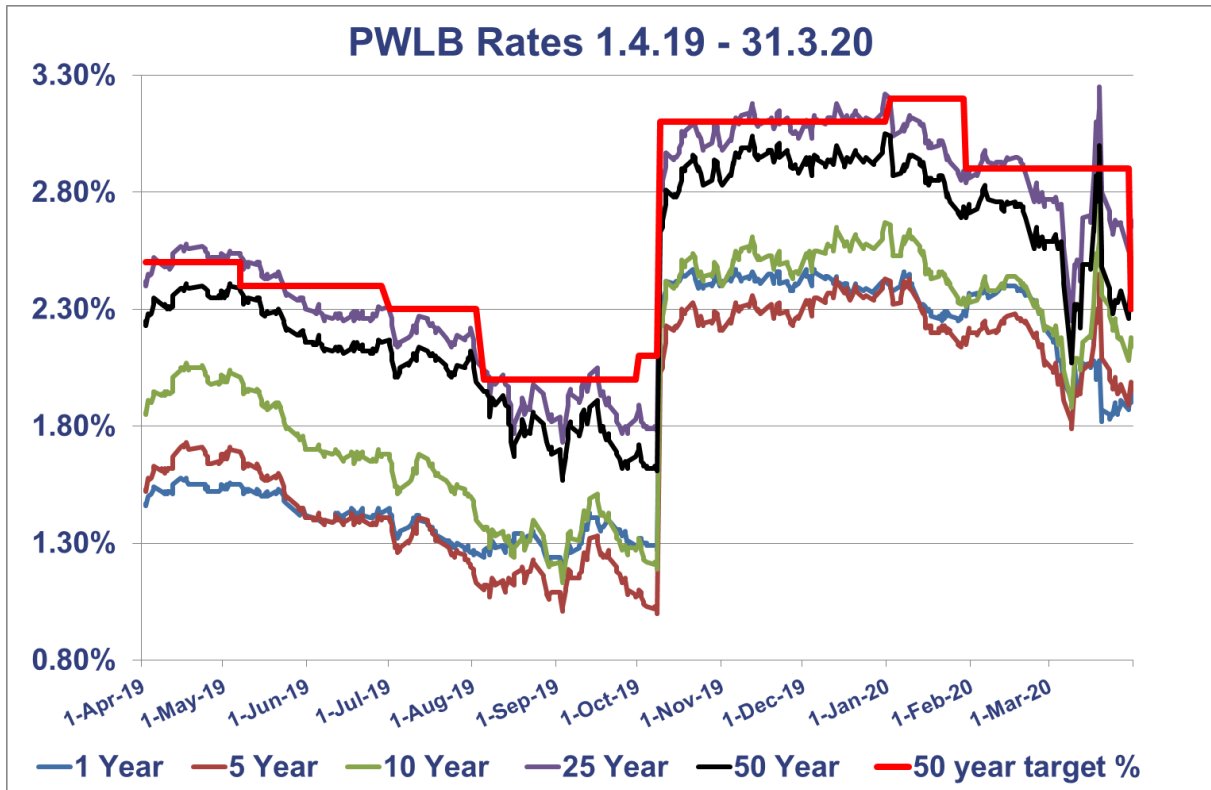
	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.58	0.61	0.72	0.83	0.98
High Date	01/04/2019	09/05/2019	15/04/2019	01/04/2019	01/04/2019	15/04/2019
Low	0.10	0.00	0.11	0.26	0.31	0.39
Low Date	19/03/2020	25/03/2020	23/03/2020	11/03/2020	11/03/2020	11/03/2020
Average	0.72	0.53	0.56	0.63	0.70	0.80
Spread	0.65	0.58	0.50	0.46	0.52	0.59

4.0 New Borrowing

- 4.1 £62.2m was borrowed from the PWLB in the 2nd half of 2019/20, this borrowing was required to facilitate the purchases of St Oswald’s Retail Park and Eastgate Shopping centre as part of the Council’s long term property investment strategy. As a result of the 100bps increase imposed by the PWLB in October £60m was borrowed via 33 separate loans to reduce the interest liability to the Council. Included within the borrowing was £2m used in the loan agreements with CYMCA and GWT to forward projects with these partners.
- 4.2 During the first six months PWLB rates were on a falling trend and longer rates reached historic lows. On 9 October, the Treasury increased the margin on PWLB rates by 100 bps (1%). Over the third quarter rates were on a rising trend but then fell sharply in the fourth quarter once the coronavirus outbreak hit the UK during March.

Over the last quarter, rates have fallen sharply once the coronavirus outbreak really hit the UK. The 50 year PWLB target (certainty) rate for new long term borrowing started the quarter at 3.20% and ended at 2.30%.

PWLB maturity certainty rates (gilts plus 180bps) year to date to 31 March 2020



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%

5.0 Debt Rescheduling

5.1 Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. During the quarter ended 31 March 2020 the following debt rescheduling was undertaken. No debt rescheduling has been undertaken during the current financial year.

6.0 Compliance with Treasury and Prudential Limits

6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

6.2 During the financial year the Council has operated within the treasury limits set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

6.3 The Council has taken out a number of long term loans to facilitate its property investment strategy. Outside of this borrowing, the Council's debt profile remains structured on short term borrowing. The Council is able to benefit from reduced costs associated with short term borrowing compared to longer term rates while operating within the Council's borrowing requirements, this strategy will continue to be reviewed in line with market expectations. The prudential and treasury Indicators are shown within appendix 1.

7.0 Other

7.1 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

7.2 The Council continued to maintain an under-borrowed position in 2019/20.

7.4 This under-borrowing reflects that the Council resources such as reserves and provisions will have reduced debt rather than be externally invested. This strategy is sensible, at this point in time, for two reasons. Firstly, there is no differential between the marginal borrowing rate and investment rate so there is nothing to be gained by investing Council resources externally. Secondly, by using the resources to reduce debt the Council will reduce exposure to investment counterparty risk.

7.5 The Council will continue to monitor its approach to short term borrowing in accordance with our treasury advisor forecasts and future Council events which impact on the Council borrowing requirement.

8.0 Social Value Considerations

8.1 This report notes the treasury management performance of the Council. There are no anticipated Social Value considerations from this report.

9.0 Environmental Implications

9.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report.

10.0 Financial Implications

10.1 Contained in the report

(Financial Services have been consulted in the preparation of this report.)

11.0 Legal Implications

11.1 There are no legal implications from this report

(Legal Services have been consulted in the preparation of this report.)

12.0 Risk & Opportunity Management Implications

12.1 There are no specific risks or opportunities as a result of this report

13.0 People Impact Assessment (PIA):

13.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

14.0 Other Corporate Implications

Community Safety

14.1 None

Sustainability

14.2 None

Staffing & Trade Union

14.3 None