Treasury Management Outturn Report 2019/20

1. BACKGROUND

1.1 The Council's Treasury Management arrangements are governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code). The Code has been developed to meet the needs of Local Authorities and it provides a basis to form clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

1.2 The Code was adopted via the Treasury Management Strategy Statement 2019/20 (TMSS), which was approved by Council in February 2019. This requires Members to consider an annual and a half yearly treasury report via consideration by the Audit Committee.

1.3 This report has been developed in consultation with the Council's external investment manager and treasury adviser, Link Asset Services (LAS) and provides an update for the year ending 31st March 2020.

2. THE CORONAVIRUS & ECONOMIC ENVIRONMENT

2.1 During the quarter ended 31st March 2020, the significant UK economic headlines are detailed below.

2.2 The coronavirus (Covid-19) pandemic has had a considerable impact upon the way services are provided by the Council and its partners, as well as presenting significant financial challenges due to the need for the Council to response to the public health crisis. This pandemic has given rise to significant economic implications, which have been wide reaching on a national, and local level.

National economic impact

- The UK government announced a fiscal package two-and-a-half times the size of that seen in the banking crisis of 2008/09. This fiscal and monetary support estimated to be worth £119b (5.3% of GBP) to provide various measures that included Term funding scheme to support small and medium enterprises with cash flow problems.
- Bank Rate was cut from 0.75% to 0.10% and the Bank of England restarted quantitative easing (QE); to support demand and aid the smooth operations of the financial markets.
- There was a significant tightening in financial conditions; with signals of recession looming and reduction in economic activity.
- Equity prices and sterling plunged; due to a delayed response to the pandemic compared to other countries and remnants of Brexit deal issues still undecided.

Local issues and operational impact

- To mitigate against the adverse impacts summarised above, the Council's Treasury Team liaised closely with its treasury adviser, Link Asset Services (LAS) to ensure that the investment of surplus cash was made in financial instruments that were not exposed to the immediate risks presenting in financial markets.
- The sharp fall in interest rates also meant that the Council followed the pragmatic approach stated in the Treasury Strategy, and only explored short term rates for borrowings that we raised in the last quarter of the financial year.
- National concerns regarding the reduction in local authority income streams and sharp increases in the need to spend on the response to the pandemic, led to many local authorities holding on to cash, thus impacting the circulation of inter local authority lending and borrowing.

3. SUMMARY PORTFOLIO POSITION

3.1 Net debt, including third party loans, at 31st March 2020 stood at £187.17m which is greater than £157m originally set out in the Treasury Management Strategy Statement for 19/20.

3.2 Further analysis on borrowing and investments is set out in the next two sections. A snapshot of the Council's debt and investment position is shown in the table 1 below:

Table 1: Debt and Investment Position at 31st March

	TMSS 2019/20 Budget		**Actual as at 31 March 2019**		**Actual as at 31 March 2020**	**Change from Mar 2019 to Mar 2020**	
	£m	Rate %	£m	Rate %	£m	Rate %	£m
Borrowing	**272**	**3.2**	**247.38**	**3.1**	**262.08**	**2.98**	**14.70**
Treasury Investments	**(115)**	**0.5**	**(48.22)**	**0.9**	**(74.91)**	**1.48**	**26.69**
Total Net Debt / Borrowing	**157**	**-**	**199.16**	**-**	**187.17**		**(11.99)**

4. BORROWING

4.1 The Council can raise loan finance in order to primarily fund its Capital spending plans and also for short term cashflow purposes. The actual amount of new borrowing required each year is determined by capital expenditure plans, capital funding available, the actual Capital Financing Requirement (CFR), forecast reserves, cashflow analysis, and current and projected economic conditions.

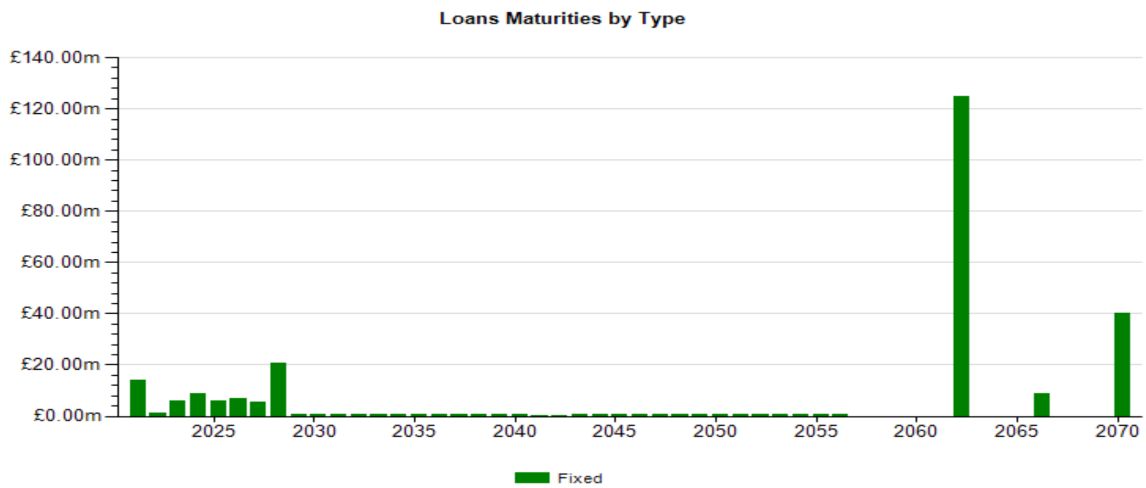
New loans and repayment of loans:

4.2 This section details new long term loans raised (i.e. loans that are for greater than one year) and loans repaid during the year, including those associated with Third Party Loans. New loans of £40.7m were taken in the year and a total of £25.4m principal repayments were made during the year. The principal repayments included an early repayment of £20m in January 2020 by the University of Northampton (UoN).

Maturity profile of borrowing:

4.3 Chart 1 below show the maturity profile of the Council's loan portfolio (including those associated with Third Party Loans), per loan, at 31st March 2020. The Councils long-term loans have fixed interest rates, which gives balance against short-dated loans and partly protects the Council from exposure to interest rate fluctuation.

Graph 1: Loan Portfolio at 31st March 2020



Loan restructuring:

4.4 When market conditions are favourable, long term loans may be restructured in order to:
- generate cash savings;
- reduce the average interest rate; and / or
- enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility (volatility is determined by the fixed/variable interest rate mix).

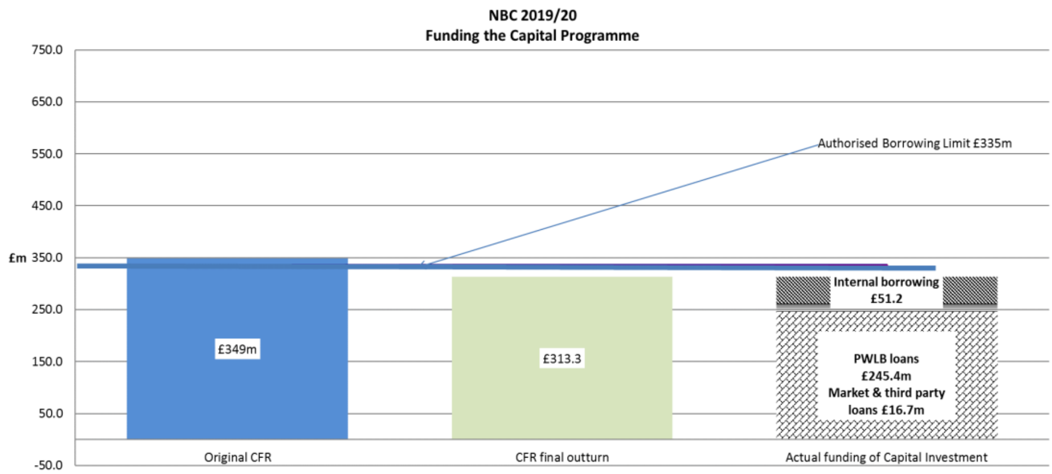
4.5 During the year, there were no opportunities for the Council to restructure its borrowing due to the composition of the Council's borrowing portfolio compared to prevailing market conditions and redemption rates. If and when opportunities for savings do arise, debt rescheduling will be undertaken to meet business needs.

5. Funding the Capital Programme

5.1 The Treasury Management Strategy Statement (TMSS) set out the plan for treasury management activities over the year. It identified the expected level of borrowing and investment levels. When the 2019/20 TMSS was set, it was anticipated that the Capital Financing Requirement (CFR) – the Council's liability for financing the agreed Capital Programme would be £349m.

5.2 The outturn position was for funding the capital programme for 2019/20 is £313.3m. £51.2m greater than total outstanding borrowing of £262.1m at 31st March 2020 which represents internal borrowing, that is the temporary use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally.

5.2 The graph 1 below demonstrated the full year's performance on the capital funding.



6. INVESTMENTS

6.1 Investment activity is carried out using the framework of the Council's counterparty policies and criteria, with a clear strategy of risk management. This ensures that the principle of considering security, liquidity and yield (in that order) is consistently applied. The Council therefore aims to achieve the optimum return on investments commensurate with proper levels of security and liquidity. Any variations to agreed policies and practices are reported to Council

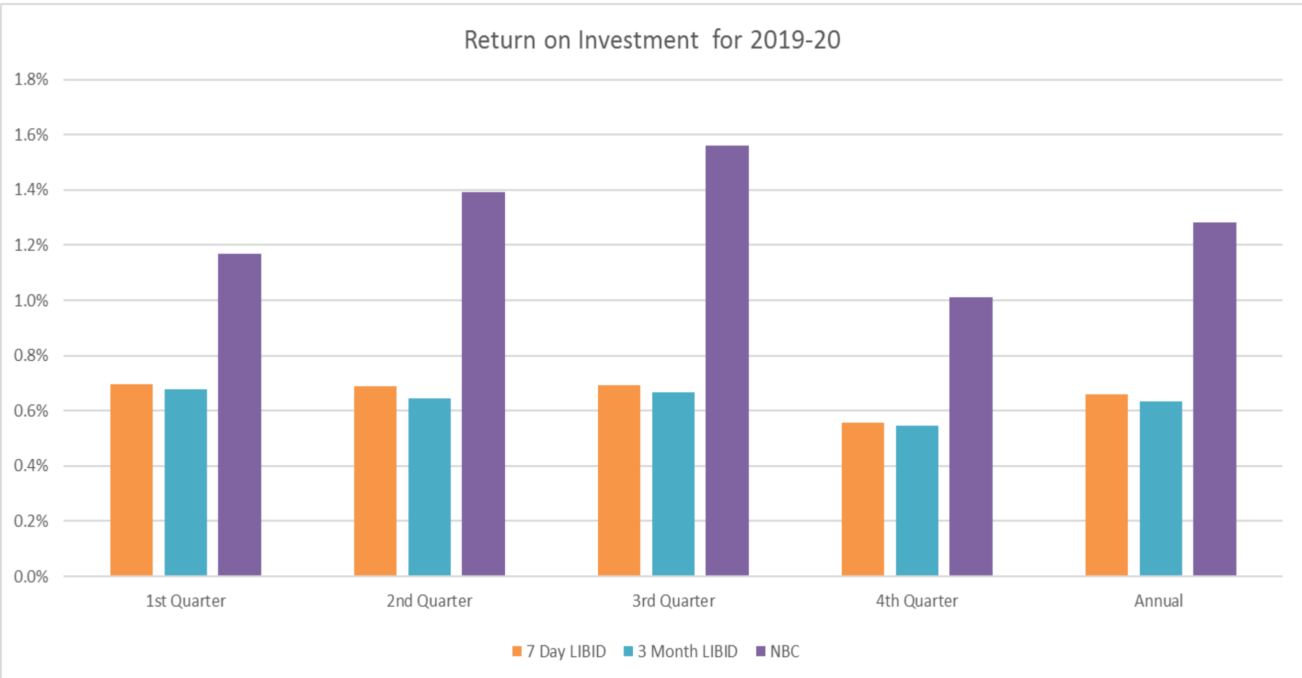
6.3 The level of cash available for investment is made up of reserves, balances and working capital that the Council holds. As at 31st March 2020 investments totalled £74.77m.

This includes total third party loans as listed below:

- £25.01m of PWLB loans advanced to University of Northampton (UoN). These loans are fully guaranteed by HM Treasury;
- £4.18m loans to Northampton Town Rugby Football Club (NTRFC). These loans are over collateralised/secured against land assets at Franklins Gardens;
- £0.030m loan to Unity Leisure.
- £45.55m was held in treasury management investments profiled in order to meet the liquidity demands, and long-term investment of units in the pooled CCLA Property Fund.

6.4 The graph below compares the return performance on the Council's treasury management investment against relevant benchmarks for each quarter during the 2019/20 financial year.

Graph 2: Benchmark Investment Performance – 2019/20



6.5 It can be seen from the graph above that treasury management investments returned 1.28% for the year, which is 0.65% better than the 3 month LIBID benchmark.

Returns were boosted significantly from the Council investment of £8m into the CCLA Property Fund which achieves a stable return during the year. The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity.

7. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

7.1 With effect from 1st April 2004, the Prudential Code (as amended) became statute as part of the Local Government Act 2003. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable. To ensure compliance with this the Council is required to set and monitor a number of Prudential Indicators.

7.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators, which were:

Table 3: Prudential Indicators

Prudential Indicator	**2019/20 Indicator**	**20190/20 Outturn**
Authorised limit for external debt (Inc' Third Party Loans)	----- £335.000m -----	
Operational boundary for external debt (Inc' Third Party Loans)	----- £325.000m -----	
Actual external debt (Inc' Third Party Loans)	----- £262.1m -----	
Capital Financing Requirement (CFR) (Inc' Third Party Loans and Finance Lease Liabilities)	£349.00m	£313.3m
Ratio of financing costs to net revenue streams: GF	7.82%	7.14%
Ratio of financing costs to net revenue streams: HRA	30.13%	29.1%
Principal sums invested > 365 days (Exc' Third Party Loans)	£14.000m	£6.95m
Maturity structure of borrowing limits:-		
Under 12 months	Max. 50% Min. 0%	5.5%
12 months to 2 years	Max. 50% Min. 0%	0.4%
2 years to 5 years	Max. 50% Min. 0%	7.9%
5 years to 10 years	Max. 50% Min. 0%	13.3%
10 years to 20 years	Max. 50% Min. 0%	2.7%
20 years to 30 years	Max. 60% Min. 0%	2.1%
30 years to 40 years	Max. 80% Min. 0%	1.6%
40 years and above	Max. 100% Min. 0%	66.6%