

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

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| TO: Joint Audit & Standards Committee | REPORT NUMBER: JAC/19/24 |
| FROM: Katherine Steel, Assistant Director, Corporate Resources | DATE OF MEETING: 11 August 2020 |
| OFFICER: Melissa Evans, Corporate Manager, Finance and Commissioning & Procurement Sue Palmer, Senior Finance Business Partner | |

ANNUAL TREASURY MANAGEMENT REPORT – 2019/20

1. PURPOSE OF REPORT

- 1.1 The report is part of the Councils' management and governance arrangements for Treasury Management activity under the CIPFA Code of Practice on Treasury Management ("the Code"). It provides Members with a comprehensive assessment of activities for the financial year 2019/20.
- 1.2 The report specifically sets out the performance of the treasury management function, the effects of the decisions taken, and the transactions executed in the past year and any circumstances of non-compliance with the Councils' treasury management policy statement and treasury management practices.
- 1.3 The report also includes performance on Prudential Indicators which were set in the 2019/20 Treasury Management Strategy (shown in Appendix E).
- 1.4 The figures contained in this report are subject to the external auditor's review which should be concluded by the end of December.

2. OPTIONS CONSIDERED

- 2.1 This report fulfils the Councils' legal obligations to have regard to the Code and there are no options to consider.

3. RECOMMENDATION TO BOTH COUNCILS

- 3.1 That the Treasury Management activity for the year 2019/20 be noted. Further, that it be noted that performance was in line with the Prudential Indicators set for 2019/20.

RECOMMENDATION TO BABERGH COUNCIL

- 3.2 That it be noted that Babergh District Council treasury management activity for 2019/20 was in accordance with the approved Treasury Management Strategy, and that the Council has complied with all the Treasury Management Indicators for this period.

RECOMMENDATION TO MID SUFFOLK COUNCIL

- 3.3 That it be noted that Mid Suffolk District Council treasury management activity for 2018/19 was in accordance with the approved Treasury Management Strategy, and that, except for one occasion when the Council exceeded its daily bank account limit with Lloyds by £129k, as mentioned in Appendix C, paragraph 4.6, the Council has complied with all the Treasury Management Indicators for this period.

REASON FOR DECISION

It is a requirement of the Code of Practice on Treasury Management that full Council notes the position for the financial year 2019/20.

4. KEY INFORMATION

- 4.1 The 2019/20 Treasury Management Strategy for both Councils was approved in February 2019.
- 4.2 The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. The attached appendices summarise the regulatory framework, economic background and information on key activities for the financial year.
- 4.3 The Half Year Report on Treasury Management 2019/20 was presented to Members at the Joint Audit and Standards Committee on 27 January 2020.
- 4.4 The Treasury Management Indicators aim to ensure that the capital investments of local authorities are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good professional practice.
- 4.5 Appendix D shows the position on key Treasury Management Indicators for 2019/20.
- 4.6 The following key points relating to activity for the year are set out below:
- The UK unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020.
 - The annual rate of GDP growth remained below-trend at 1.1%.
 - The Bank of England's Monetary Policy Committee (MPC) reduced the official Bank Rate by 0.50% to 0.25% in March 2020 and then swiftly further reduced it to a record low of 0.1%.
 - COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets. The UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions as a result of the COVID-19, culminating in pretty much the entire lockdown of the UK.

- Investment of surplus funds - As market conditions, credit ratings and Bank ring fencing have changed during the year, institutions that the Councils invest with and the period of the investments have been reviewed.
- Credit risk scores were within the benchmark A- credit ratings.
- Babergh's short-term debt increased by £9.5m offset by a reduction in long-term debt of £1m, to take advantage of lower rates after the PWLB rates were increased. This was for the £4.1m of approved investment in the non-treasury investments of CIFCO Ltd, the purchase of various HRA new build properties totalling £3.4m and for general cashflow purposes.
- Mid Suffolk's short-term debt increased by £6.4m, offset by the repayment of £1.3m long term borrowing to take advantage of lower rates after the PWLB rates were increased. The increase in debt was mainly due to the £4.1m of approved investment in the non-treasury investments of CIFCO Ltd. and £4.7m in Gateway 14 Ltd.

4.7 Specific highlights relating to 2019/20 activity are provided below:

| Area/Activity | Babergh | Mid Suffolk | Comments |
|---|----------------|--------------------|---|
| Long Term Borrowing – average interest rate | 2.82% | 3.07% | All at fixed rates |
| Credit Risk Scores during the year (value weighted average) | 4.61 – 5.28 | 4.79 – 5.16 | Both within the score for the approved A- credit rating for investment counterparties |
| Compliance with Prudential Indicators | ✓ | ✓ | See Appendix E |

4.8 The Section 151 Officer can report that, except for one occasion when Mid Suffolk exceeded its daily bank account limit with Lloyds by £129k, as mentioned in Appendix C, paragraph 4.6, all treasury management activities undertaken complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy.

5. LINKS TO JOINT CORPORATE PLAN

5.1 Ensuring that the Councils have the resources available underpins the ability to achieve the priorities set out in the Joint Corporate Plan.

6. FINANCIAL IMPLICATIONS

6.1 As detailed in the report and appendices.

7. LEGAL IMPLICATIONS

7.1 The legal status of the Treasury Management Code derives in England from regulations issued under the Local Government Act 2003 (the 2003 Act).

7.2 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the 2003 Act.

7.3 The latest statutory guidance on local government investments was issued under section 15(1)(a) of the 2003 Act and effective for financial years commencing on or after 1 April 2018. Under that section local authorities are required to “have regard” to “such guidance as the Secretary of State may issue”.

8. RISK MANAGEMENT

8.1 This report is most closely linked to the Councils’ Significant Risk Register, Risk no. 13. “We may be unable to respond in a timely and effective way to financial demands”.

8.2 Key risks are set out below:

| Risk Description | Likelihood | Impact | Mitigation Measures |
|---|---------------------|----------------|--|
| If the Councils lose the investments this will impact on their ability to deliver services. | Highly Unlikely (1) | Bad (3) | Strict lending criteria for high credit rated institutions. |
| If the Councils achieve a poorer return on investments than planned, there will be fewer resources available to deliver services. | Probable (3) | Noticeable (2) | Focus is on security and liquidity, and careful cash flow management in accordance with the TM Strategy is undertaken throughout the year. |
| If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities. | Unlikely (2) | Noticeable (2) | As above. |

9. CONSULTATIONS

9.1 Regular meetings have taken place with the Councils’ Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

10. EQUALITY ANALYSIS

10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 All Council activities will need to be reviewed as part of the work of the Climate Change Task Group and have regard to the Councils’ ambition to be carbon neutral by 2030.

12. APPENDICES

| Title | Location |
|-------------------------------------|------------|
| (a) Background, Economy and Outlook | Appendix A |
| (b) Borrowing Strategy | Appendix B |
| (c) Investment activity | Appendix C |
| (d) Treasury Management Indicators | Appendix D |
| (e) Prudential Indicators | Appendix E |
| (f) Glossary of Terms | Appendix F |

13. BACKGROUND DOCUMENTS

- 13.1 CIPFA's Code of Practice on Treasury Management ("the Code").
- 13.2 Joint Treasury Management Strategy 2019/20 (Paper JAC/18/16)
- 13.3 Half Year Report on Treasury Management 2019/20 (Paper JAC/19/10)