

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**29 JULY 2020**

**9**

<b>Report Title</b>	<b>ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2019/2020</b>			
<b>Purpose of Report</b>	To advise on the treasury management activities in 2019/2020, in accordance with the Council's Treasury Policy Statement. To report on actual 2019/2020 Prudential Indicators in accordance with the requirements of the Prudential Code.			
<b>Decision(s)</b>	<b>The Audit &amp; Standards Committee RESOLVES to approve the treasury management activity annual report for 2019/2020 and the actual Prudential Indicators.</b>			
<b>Consultation and Feedback</b>	Link Asset Services (LAS).			
<b>Report Author</b>	Graham Bailey, Principal Accountant Tel: 01453 754133 Email: <a href="mailto:graham.bailey@stroud.gov.uk">graham.bailey@stroud.gov.uk</a>			
<b>Options</b>	None			
<b>Background Papers</b>	None			
<b>Appendices</b>	A – Temporary Investments 2019/2020 B – Actual Prudential Indicators 2019/2020 C – Explanation of the Prudential Indicators D – The Economy and Interest Rates 2019/2020 E – Borrowing and Investment Rates in 2019/2020			
<b>Implications (further details at the end of the report)</b>	Financial	Legal	Equality	Environmental
	No	No	No	No

## Background

1. This Council fully complies with the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code for Capital Finance in Local Authorities.
2. For the financial year 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:
  - Annual treasury strategy (Council 21/02/2019)
  - Half year treasury management report (Council 19/12/2019)
  - Annual treasury review (this report)

3. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Audit & Standards Committee.

## Treasury Activity

4. A summary of treasury management activity for 2019/2020 is shown below:

<b>Treasury Activity 2019-20</b>				
	<b>April 2019</b>	<b>Increase</b>	<b>Decrease</b>	<b>March 2020</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Debt</b>				
<b>Borrowing:</b>				
Long-term	-103,717	-	-	-103,717
Short-term	-	-	-	-
<b>Total debt</b>	<b>-103,717</b>	<b>-</b>	<b>-</b>	<b>-103,717</b>
<b>Investments</b>				
Externally managed	-	-	-	-
Internally managed - Long term	-	9,013	-311	8,702
Internally managed - Short term	39,371	-	-2,899	36,472
<b>Total investments</b>	<b>39,371</b>	<b>9,013</b>	<b>-3,210</b>	<b>45,174</b>
<b>Net debt</b>	<b>-64,346</b>	<b>9,013</b>	<b>-3,210</b>	<b>-58,543</b>

## Investment Strategy

5. Investment strategy for 2019/2020 was to give primary importance to security of capital and liquidity. This was achieved through having regard to government 'Guidance on Local Government Investment' issued in March 2004, and our own investment policy which set out permitted specified and non-specified investments. In addition, the Council received and followed weekly investment advice from Link Asset Services detailing counterparty credit ratings, which were also subjected to a credit default swap overlay. This was supplemented by daily update emails from Link Asset Services, economic briefings and monitoring the financial press.
6. The Council's Investment Strategy, set out in the report to Council in February 2019, stated that in 2019-20 the Council would continue to invest for the longest permitted duration with quality counterparties to maximise return without compromising security. In particular instances the Section 151 Officer would authorise investments in the LAS blue category for a period of up to two years, which was longer than the LAS recommended duration of one year. Otherwise, the length of investments permitted would vary if necessary in line with LAS advice and subject to the Council's 3-year upper limit.

7. The expectation for interest rates within the strategy for 2019/20 was for Bank Rate to rise to 1.25% from 0.5% in March 2019. In fact the rate decreased to 0.10% in March 2020, which is the lowest ever in UK history.
8. The 2019-20 financial year would mark the start of the Council taking a more diverse approach to investments. The Section 151 officer would consider a range of investments under the unspecified investment category to gain a greater return on the Council's core balances that can be invested over the medium to long term. After a selection process managed by Link and involving cross-party members in the process, £10m of property fund and multi-asset fund investments were agreed, of which £9m had been transacted at 31 March 2020 (Lothbury property fund £4m, Hermes property fund £2m and Royal London Multi-Asset fund £3m).
9. During 2019-20 the Council invested short term with other local authorities as opportunities arose. Two short term £2m investments (6 days and 14 days) with Peterborough City Council at a rate of 0.67% and £2m for 34 days with Rugby Borough Council at 0.7% indicated that there are opportunities for the best rates to be found with local authority counterparties. An option that will be pursued when opportunities arise in future.
10. **Appendix A** has a summary of investments during the year.

### **Borrowing Outturn for 2019/20**

11. The Council had total borrowing of £103.717m as at 31 March 2020. No new loans or repayments occurred during the financial year. With a Capital Financing Requirement of £110.014m as at 31 March 2020, the Council has continued and extended an element of internal borrowing during the year to help offset low investment returns. As at 31 March 2020 there is internal borrowing of £6.297m.

Lender	Principal	Type	Interest Rate	Years to Maturity	Maturity Date	New 19-20
PWLB	£1m	Fixed Interest Rate	1.63%	1 year	11/02/2021	
PWLB	£2m	Fixed Interest Rate	1.93%	3 years	11/02/2023	
PWLB	£6m	Fixed Interest Rate	3.32%	12 years	31/03/2032	
PWLB	£10m	Fixed Interest Rate	3.45%	17 years	31/03/2037	
PWLB	£7m	Fixed Interest Rate	3.51%	22 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.51%	22 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.53%	27 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.53%	27 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.52%	32 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.52%	32 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.51%	37 years	31/03/2057	
PWLB	£7m	Fixed Interest Rate	3.51%	37 years	31/03/2057	
PWLB	£10m	Fixed Interest Rate	3.48%	41 years	31/03/2061	
PWLB	£9.717m	Fixed Interest Rate	3.48%	41 years	31/03/2061	
PWLB	£1m	Fixed Interest Rate	2.51%	43 years	21/06/2063	
PWLB	£2m	Fixed Interest Rate	3.16%	43 years	20/08/2063	
PWLB	£1m	Fixed Interest Rate	3.55%	45 years	28/11/2064	
PWLB	£2m	Fixed Interest Rate	3.20%	45 years	18/08/2065	
PWLB	£2m	Fixed Interest Rate	2.96%	46 years	11/02/2066	
PWLB	£1m	Fixed Interest Rate	2.65%	46 years	14/06/2066	
<b>Total Loans</b>	<b>£103.717m</b>					

## The Economy and Interest Rates

12. An analysis of UK economic performance and interest rates and the world economic context during 2019/2020 is in **Appendix D**.

### Performance Measurement

13. **Appendix A** has details of the investments made during the year. All of these were ‘approved investments’ with counterparties included on the Council’s lending list, and within permitted limits as regards time and amount.
14. The average level of internally managed investments held was £46.404 million and the average return on these investments was 0.88%, compared with the average un compounded 7-day LIBID rate of 0.534% which is a generally accepted benchmark rate (the 3 month un compounded LIBID rate is given as well for comparative purposes). The interest earned was £407k.
15. The average invested in Property and Multi-Asset Funds was £2.033 million and the average return on these investments was 2.99%. Interest earned was £61k. Capital values had fallen as at 31 March by £0.310m, however a statutory override for the accounting treatment for local authorities means the change in capital value is taken to the balance sheet, rather than the 2019-20 revenue account. In addition, the Council has an earmarked investment risk reserve of £0.1m set aside, and as part of 2019-20 closure process the Council is increasing this to £0.310m.
16. Budgeted income from investments in 2019-20 was £305k and interest earned was £468k. The better performance is accounted for by higher average investment balances, higher average interest rate than forecast, and the contribution from long-term investments.

	Average Investment	Rate of Return	Benchmark Return 7 day LIBID un compounded	For comparison 3 month LIBID un compounded
<b>Internally Managed Specified</b>	£46,404,229	0.88%	0.534%	0.634%
<b>Property Fund / Multi-Asset</b>	£2,032,787	2.99%	0.534%	0.634%
<b>Externally Managed</b>	N/A	N/A	N/A	N/A

17. Stroud is a member of a Link Asset Services Benchmarking group. The group is comprised of North Warwickshire Borough Council, Northampton Borough Council, Northamptonshire County Council, Nuneaton and Bedworth Borough Council, Oxford City Council, Rugby Borough Council, Stratford-on-Avon District Council, Warwick District Council, Warwickshire County Council, Worcester City Council, Worcestershire County Council and Wyre Forest District Council. A primary aim of the group is to evaluate and compare return on investment taking into account the level of risk for the investment portfolio. During 2019/20 Stroud has again compared well with the benchmark group in terms of return achieved, whilst maintaining a predominantly low risk portfolio.

18. In line with the budget strategy and the 2020/21 Treasury and Investment Strategies approved by Council in February 2020 the Council is continuing to target an increase the return on investments through an increased risk appetite and permitting a wider range of investments.

### **Prudential Indicators and Compliance with Borrowing Limits**

19. The Council is required by the Prudential Code to report actual prudential indicators after the year end. These are shown in **Appendix B**.
20. The Council had maximum loans totalling £103.717m during 2019/2020. This amount of borrowing was well within both the authorised and operational borrowing limits of £135m and £127m respectively.

<b>Borrowing limits 2019/2020</b>	<b>Approved Limit</b>	<b>Actual</b>
Authorised limit for external debt	£135m	£103.7m
Operational boundary for external debt	£127m	£103.7m

### **Member Training**

21. A fund selection process during 2019 conducted by Link Asset Services included an element of training for those members on the selection panel. Training for members would have been scheduled after the local government elections in May 2020 which were postponed. Further training for Members will now be scheduled later in 2020/21.

### **Local Authority Mortgage Scheme update**

22. The Local Authority Mortgage Scheme offered a financial guarantee to enable first time buyers to obtain a mortgage. The maximum value of the guarantee was £1.2m. The Council invested £1m and the county council £200k with Lloyds bank for 5 years at a market rate of 3.8%. Premium interest of 0.7% was payable in return for the financial guarantee. Premium interest was set aside to pay for any liability realised as a result of the financial guarantee. This scheme commenced in April 2012 and closed to new loan applications in 2015. A total of £4.7m of loans to 37 first time buyers were issued which utilised £0.9m of the available £1.2m guarantee. As at March 2020 there are no arrears cases, and there have been no repossessions under the scheme since inception. There is one loan remaining with an unexpired financial guarantee of £24,500 which, provided that mortgage is not in arrears during the last six months of its 5 year period, will expire in July 2020. If it is in arrears the financial guarantee for that mortgage will extend for a further 2 years.

## IMPLICATIONS

### 23. Financial Implications

There are no financial implications arising from this report as it is detailing the outturn position.

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### 24. Legal Implications

There are no legal implications arising from the recommendations made in this report.

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### 25. Equality Implications

An EqlA is not required because there are not any specific changes to service delivery proposed within this decision.

### 26. Environmental Implications

There are no significant implications within this category.