AG0029
AUDIT & GOVERNANCE COMMITTEE

REPORT TITLE: TREASURY MANAGEMENT OUTTURN REPORT 2019/20

28TH JULY 2020

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet Member for Finance and Risk

Contact Officer: Neil Aitken Tel No: 01962 848099 Email naitken@winchester.gov.uk

WARD(S): ALL WARDS

PURPOSE

In accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, this report provides detail of the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and confirmation that there were no instances of non-compliance with the Council's Treasury Management Policy Statement and Treasury Management Practices, for the year 2019/20, other than that has already been reported.

In 2019-20 the Council's investment strategy delivered £407,000 of additional income above budget. The level of borrowing undertaken was in line with the budget for the financial year; all borrowing related to the Housing Revenue Account and was undertaken in 2012.

RECOMMENDATIONS:

1. Note the Annual Treasury Outturn Report 2019/20.
2. Note that on 16 June 2020, the total money market funds limit of 50% was passively breached and note the mitigating actions agreed to prevent this occurring again in paragraphs 22.6 to 22.8.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

1.1 Treasury management is an integral part of helping to deliver the Council Strategy and all of its outcomes. The Council set a target of achieving a 1% return on its investments in 2019/20 and achieved a return of 1.27%. This additional income is available to be used by the Council in achieving its objectives.

2 FINANCIAL IMPLICATIONS (to be reviewed by s151 officer)

2.1 Effective treasury management ensures both the financial security and liquidity of the Council. The 2019/20 outturn shows £657,000 of income achieved against a budget of £250,000; thus delivering an additional £407,000 of income above budget. This was a consequence of the higher than forecast rate of return, and higher than forecast average cash and investment balances (£50.9m vs £25.0m budgeted) which was primarily due to slippage in the capital programme.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 The Council's Treasury Management Strategy Statement follows the latest codes of practice and the MHCLG and CIPFA guidance.

3.2 With effect from September 2014 Hampshire County Council (HCC) and Winchester City Council (WCC) established arrangements for the joint discharge of functions under Section (101)(1) and (5) of the Local Government Act 1972 and Section 9EA and 9EB Local Government Act 2000. Under this arrangement, HCC's Investments and Borrowing Team provide a Treasury Service which includes the management of WCC's cash balances and investment of surplus cash or sourcing of short-term borrowing in accordance with the agreed Treasury Management Strategy Statement.

4 WORKFORCE IMPLICATIONS

4.1 HCC's Investments and Borrowing Team carry out the day to day management of the Council's cash balances and investments. The Council's in-house finance team undertake the accounting and retain responsibility for long-term borrowing decisions.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 None

6 CONSULTATION AND COMMUNICATION

6.1 This report has been produced in consultation with HCC's Investments & Borrowing team.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 Following the Council's declaration of a Climate Emergency in June 2019 and in line with the ethical stances in its investment policy, the Council has no direct or indirect equity investments in companies directly involved in the fossil fuel industry.

8 EQUALITY IMPACT ASSESSEMENT

8.1 None

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None required

10 RISK MANAGEMENT

Risk	**Mitigation**	**Opportunities**
Returns from investments are too low	A diversified strategy that attempts to manage the balance between liquidity risk, credit risk and yield within the Council's risk appetite.	Returns above budgeted levels
A counterparty fails	A diversified strategy that has relatively low levels of counter-party risk	
Cash is not available	A balanced portfolio of liquid and long term funds are held to ensure cash is available to utilise. The Council also mitigates this risk through cashflow forecasting	More accurate and immediate cashflow forecasting can help improve the return on investments through more active treasury management activity

11 SUPPORTING INFORMATION:

12 Introduction

12.1 The Council adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report.

12.2 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2019/20.

13 Summary

13.1 Treasury management in the context of this report is defined as:

"The management of the organisation's investments and 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."

13.2 The Council's Treasury Management Strategy (TMS) was most recently updated and approved at a meeting of Full Council in February 2020. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's TMS.

13.3 This annual report sets out the performance of the treasury management function during 2019/20, to include the effects of the decisions taken and the transactions executed in the past year.

13.4 HCC's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since September 2014 but overall responsibility for treasury management remains with WCC. No treasury management activity is without risk and as such the effective identification and management of risk are integral to the Council's treasury management objectives.

13.5 All treasury activity during 2019/20 has complied with relevant statute, guidance and accounting standards. It has also complied with the Council's TMS and Investment Strategy for 2019/20, with one exception reported to the Committee on 25 July 2019 in the Treasury Management Outturn Report for 2018/19, whereby the principal sum invested for longer than 364 days was £15.035m at 31 March 2019 and fell below the £15m limit on 16 May 2019. In addition, the Council's treasury advisers, Arlingclose, provide support in undertaking treasury management activities.

14 External Context

14.1 The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2019/20.

Economic Commentary

14.2 The UK's exit from the European Union was one of the main drivers of sentiment on the UK economy for the majority of 2019/20, before focus then shifted to the nation's response to the global coronavirus pandemic in the latter part of the year.

14.3 Prior to the pandemic, labour market data remained positive as the employment rate reached a record high of 76.6% in the three months to

March 2020, unemployment was 3.9%, and annual pay growth was positive in real terms.

14.4 As the early effects of the pandemic and the government measures to reduce transmission began to be felt, the headline rate of UK Consumer Price Inflation fell to 1.5% year on year in March 2020 (and further still to 0.8% in April 2020), below the Bank of England's target of 2%. Gross Domestic Product growth in Quarter 1 of 2020 is also estimated to have reduced by 2.0% alongside falls in financial markets not seen since the Global Financial Crisis, triggered by a flight to quality into sovereign debt and other perceived 'safe' assets.

14.5 In response to the spread of the virus, the UK government enforced lockdowns, central banks and governments around the world cut interest rates, and massive stimulus packages were introduced in an attempt to reduce the negative economic impact on domestic and global growth.

14.6 The Bank of England, which had previously held policy rates at 0.75% through 2019/20, moved in March 2020 to cut rates to 0.25% and then swiftly brought them down further to the record low of 0.10%. In conjunction with these cuts, the UK government introduced measures to help businesses and households impacted by a series of social restrictions.

Financial markets

14.7 Financial markets sold off sharply towards the end of the financial year as the impact of the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30%, with stock markets in other countries seeing similar drops. In March, sterling touched its lowest level against the dollar since 1985.

14.8 The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark fell from 0.75% in April 2019 to 0.26% on 31 March 2020 and there were similar falls in 10-year and 20-year gilts over the same period, dropping from 1.00% to 0.40% and 1.47% to 0.76% respectively.

Credit review

14.9 Prior to the coronavirus pandemic, both the Fitch and Standard & Poor's rating agencies affirmed the UK's AA sovereign rating and revised the outlook from negative to stable.

14.10 However, Fitch then downgraded the UK sovereign rating to AA- in March 2020 and revised the outlook on the majority of banks on the Arlingclose counterparty list to negative and in some cases also amended the long-term rating (upwards in the case of Canadian and German banks and downwards for Australian banks).

14.11 While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the recommended maximum duration for unsecured investments with all these banks was cut to 35 days in mid-March 2020.

14.12 In December 2019, the Bank of England announced its latest stress test results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice the level it was before the 2008 financial crisis, suggesting the banks are in a much stronger position than in 2008.

14.13 After remaining flat in January and February, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March but remained above their initial 2020 levels.

15 Local Context

15.1 At 31/03/2020 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £204.0m. The Council held £29.9m of investments (principal invested plus gains on investments with a variable net asset value) and £156.7m of external borrowing. These factors and the year-on-year change are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/19 Balance £m	Movement £m	31/03/20 Balance £m
General Fund CFR Housing Revenue Account CFR	(27.1) (162.9)	(14.0) 0.0	(41.1) (162.9)
Total CFR	(190.0)	(14.0)	(204.0)
Total investments	39.2	(9.3)	29.9
External borrowing Internal borrowing	(156.7) (33.3)	0.0 (14.0)	(156.7) (47.3)
Total funding of the CFR	(190.0)	(14.0)	(204.0)

15.2 The CFR rose due to an increase in General Fund underlying need to borrow, as a result of an increase in unfinanced capital expenditure. The Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. This internal borrowing policy means that no additional external borrowing has been taken out, with the increase in CFR instead funded through a reduction in investment balances and usable reserves.

15.3 The treasury management position as at 31 March 2020 and the year-on-year change is shown in Table 2 below.

Table 2: Treasury Management Summary

	31/03/19 Balance £m	Movement £m	31/03/20 Balance £m	31/03/20 Rate %
Long-term borrowing	(156.7)	-	(156.7)	3.30%
Short-term borrowing	-	-	-	-
Total borrowing	(156.7)	-	(156.7)	3.30%
Long-term investments	16.0	(3.1)	12.9	2.48%
Short-term investments	15.1	(10.1)	5.0	0.69%
Cash and cash equivalents	8.1	3.9	12.0	0.48%
Total investments	39.2	(9.3)	29.9	1.28%
Net borrowing	(117.5)	(9.3)	(126.8)	

15.4 Table 2 shows that the Council's external borrowing has not changed and that investment balances have reduced due to the Council's internal borrowing policy.

16 <u>Borrowing Update</u>

16.1 On 9 October 2019 the Public Works Loan Board (PWLB) raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears expensive relative to other options. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

16.2 The Chancellor's March 2020 Budget statement included significant changes to PWLB policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields (the value of this discount is 1% below the rate at which the Council usually borrows from the PWLB), available from 12 March 2020 and £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

16.3 The consultation closes on 31 July 2020 with implementation of the new lending terms expected in the latter part of this calendar year or financial year beginning 2021/22.

17 <u>Borrowing Activity</u>

17.1 At 31 March 2020 the Council held £156.7m of loans, the vast majority of which relates to the refinancing resettlement of the HRA in 2012. The year-end treasury management borrowing position and year-on-year change is shown in Table 3 below. There has been no change during 2019/20 as no new borrowing has been taken out, and no borrowing has matured and been repaid.

Table 3: Borrowing Position

	31/03/19 Balance £m	Movement £m	31/03/20 Balance £m	31/03/20 Rate %	31/03/20 WAM* years
Public Works Loan Board	156.7	0.0	156.7	3.30	20.6
Total borrowing	156.7	0.0	156.7	3.30	20.6

* Weighted average maturity

Note: The figures in the table above are from the balance sheet in the Council's statement of accounts but adjusted to exclude accrued interest.

17.2 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

17.3 Short-term interest rates have remained much lower than long-term rates and the Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.

17.4 With the assistance of Arlingclose, the benefits of this internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years, when long-term borrowing costs may be higher.

18 Investment Activity

18.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20 the Council's investment balances have ranged between £31.4m and £66.5m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4 below.

Table 4: Investment Position (Treasury Investments)

Investments	31/03/19 Balance £m	Movement £m	31/03/20 Balance £m	31/03/20 Rate %	31/03/20 WAM* years
Short term investments					
Banks and Building Societies:					
Unsecured	6.0	(4.2)	1.8	0.70%	0.0
Secured	2.0	1.0	3.0	0.86%	0.2
Money Market Funds	7.1	5.5	12.6	0.38%	0.0
Local Authorities	7.0	(7.0)	-	N/A	N/A
Cash Plus Funds	1.0	-	1.0	1.37%	0.0
UK Treasury Bills	-	1.0	1.0	0.17%	0.1
	23.1	(3.7)	19.4	0.53%	0.0
Long term investments					
Banks and Building Societies:					
Secured	8.5	(3.0)	5.5	1.13%	1.7
Local Authorities	1.5	-	1.5	1.33%	1.2
	10.0	(3.0)	7.0	1.17%	1.6
High yield investments					
Pooled Property Funds**	5.0	-	5.0	4.32%	N/A
	5.0	-	5.0	4.32%	N/A
TOTAL INVESTMENTS	38.1	(6.7)	31.4	1.28%	0.5

* Weighted average maturity

** The rate provided for pooled property fund investments is reflective of the average dividend return over the last 12 months

Note: the figures in the table above are from the balance sheet in the Council's statement of accounts but adjusted to exclude operational cash and accrued interest and other accounting adjustments.

18.2 The CIPFA Code and government guidance both require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against the risk of receiving unsuitably low investment income.

18.3 Security of capital has remained the Council's main investment objective and has been maintained by following the Council's counterparty policy, as set out in its Treasury Management Strategy Statement for 2019/20.

18.4 Counterparty credit quality was assessed and monitored with reference to credit ratings, the analysis of funding structures and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

18.5 The Council also makes use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

18.6 To reduce risk, at 31 March 2020 44% of the Council's surplus cash was invested so that it was not subject to bail-in risk, as it was invested in local authorities, secured bank bonds, UK treasury bills and pooled property funds. Of the remaining balance, the majority of the balance was invested in overnight money market funds and cash plus funds, which are subject to reduced bail in risk. By comparison, other Local Authorities also invested 44% of their cash in investments not subject to bail-in risk.

18.7 The UK Bank Rate was cut from 0.75% to 0.25% and then 0.10% in March 2020 due to the effect of the coronavirus pandemic on the economy. Rates had been historically low even prior to these cuts, impacting the Council's ability to generate income on cash investments.

18.8 Against this backdrop, the Council has sought to optimise returns commensurate with the objectives of security and liquidity, achieving an average rate of return for the portfolio of 1.27% during 2019/20 whilst also maintaining sufficient liquidity through the use of call accounts and money market funds.

18.9 The progression of credit risk and return metrics for the Council's investments managed in-house (excluding pooled funds) are shown in the extracts from Arlingclose's quarterly investments benchmarking in Table 5 below. This compares the data for the quarter ended 31 March 2020 with the same period from the previous year.

Table 5: Investment Benchmarking (investments managed in-house)

	Credit Rating	Bail-In Exposure	WAM* (days)	Rate of Return
31.03.2019	AA	40%	354	1.01%
31.03.2020	AA	56%	174	0.68%
Similar LAs	AA-	59%	53	0.68%
All LAs	AA-	56%	20	0.64%

* Weighted average maturity

18.10 Table 5 shows the average credit rating of the portfolio remained at a high level of AA at 31 March 2020. This was alongside increased liquidity in part to fund the prepayment of one year's Pension Fund contributions on 1 April 2020. This increased liquidity meant a lower weighted average maturity and higher bail-in exposure for the portfolio as a greater proportion of the Council's funds were invested in money market funds, which invest in instruments that are liable to bank bail-in but which are highly diversified therefore reducing this risk.

18.11 Interest rates on shorter duration investments are often lower and, coupled with the impact of the two Bank Rate cuts in March, meant average investment returns at 31 March 2020 were lower than at the same time the previous year. These returns were however greater than the average of all other Local Authorities covered by Arlingclose's benchmarking and the Council's internal investment portfolio also compared favourably to the benchmark in terms of the average credit rating with comparable bail-in exposure. The weighted average maturity for the portfolio was shorter than at 31 March 2019 and while a higher weighted average maturity duration reflects a portfolio that is less affected by short-term interest rates, a lower figure also better meets the criteria of investing cash in the order of 'security, liquidity, and then yield'.

18.12 In order to minimise the risk of receiving unsuitably low investment income, the Council has continued to invest in the externally managed CCLA Property pooled fund as part of its high yielding strategy.

18.13 This investment allows the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments, with £5m currently invested. A further £1m is held in cash plus funds, which forms part of the Council's short-term cash portfolio.

18.14 Pooled fund investments are likely to be more volatile than cash in the short-term but generate regular revenue income whilst also providing diversification and the potential for enhanced returns over the longer term.

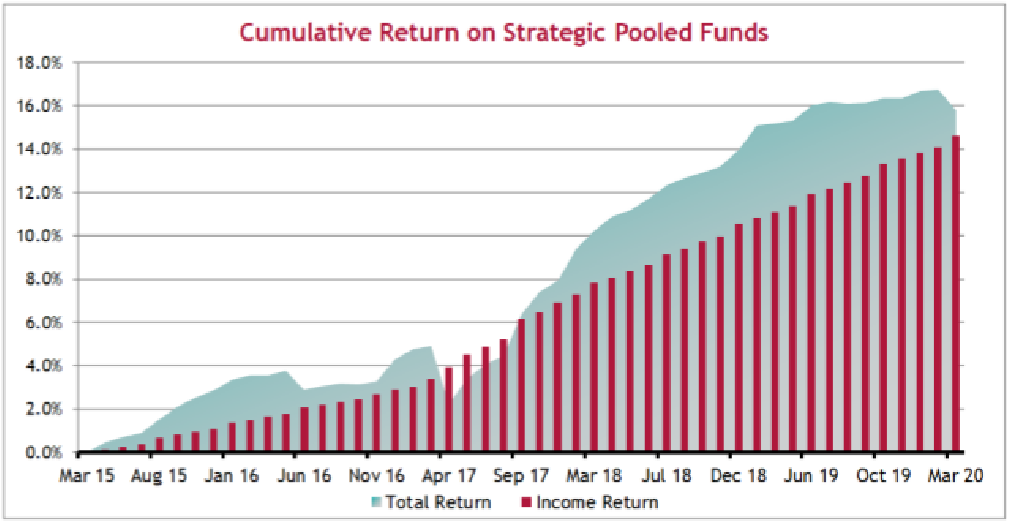
18.15 The impact of the COVID-19 pandemic on financial markets at the end of the financial year meant that the Council's investments in this pooled fund suffered a £0.20m fall in capital value (-3.58%) over the year to 31 March 2020, however this loss will only be realised if the assets are sold before they have regained their value. Under the accounting standard IFRS 9 the Council must in the meantime defer these fair value losses to the Pooled Investment Funds Adjustment Account until at least 2023/24.

18.16 The fall in the capital value of the Council's pooled property fund during 2019/20 reflects the wider market reaction to the coronavirus pandemic, with large falls in equity prices and corporate bond markets, and property markets also affected. The pandemic's effect on the property market in 2019/20 has been particularly bad for retail property as retail tenants looked to defer rental payments.

18.17 Although capital values fell, the pooled fund delivered strong positive income returns during 2019/20, contributing £0.24m income (a return of 4.24%) to the revenue budget to support the provision of services by the Council, significantly more than could have been achieved through cash investments. Income returns from this fund in 2018/19 were 3.80%.

18.18 The total return in 2019/20 was a gain of £0.4m (0.66%) as the fall in capital value was more than offset by the income generated

18.19 The cumulative total return from the Council's investment in pooled funds in the previous five years is shown in the graph below. This highlights that the Council has benefited from strong and steady income returns over time. During this period, the Council has held other pooled funds, which it is now no longer invested in. The volatility experienced by markets due to the COVID-19 pandemic has been significant, and although the pooled property fund is reporting a negative capital return of -3.58% for the year to 31 March 2020, the cumulative total return from this investment for the last five years is positive at 18.45% (made up of an 0.41% capital gain and a 18.03% income return). The effect of previously held investments over this period resulted in a cumulative total return of 15.83% (made up of 1.24% capital gain and a 14.59% income return).



18.20 Strategic pooled fund investments are made as long-term investments using core balances that aren't required for current day-to-day liquidity. Investments are made with advice from Arlingclose and in the knowledge that capital values will move both up and down in the short term but with confidence that over longer periods total returns should exceed cash interest returns.

18.21 These investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the Council's investment objectives is monitored regularly and discussed with Arlingclose.

18.22 Given the exceptional impact of the COVID-19 crisis on financial markets, the investment in the pooled fund owned by the Council has been reviewed with Arlingclose. Despite the current fall in capital values, Arlingclose's advice remains that this investment continues to be appropriate for the Council and will have a positive impact on the Council's investment income.

19 Financial Implications

19.1 The outturn for debt interest paid in 2019/20 was £5.2m on an average debt portfolio of £156.7m at an average interest rate of 3.30%, against a budgeted £5.2m on an average debt portfolio of £156.7m at an average interest rate of 3.30%.

19.2 The outturn for investment income received in 2019/20 was £657,000 on an average investment portfolio of £50.9m, therefore giving a yield of 1.29%, against a budgeted £250,000 on an average investment portfolio of £25m at an average interest rate of 1%. In comparison in 2018/19 investment income received was £660,000 on an average investment portfolio of £55.4m, therefore giving a yield of 1.19%.

20 Other Non-Treasury Holdings and Activity

20.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

20.2 This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons.

20.3 Further information on the Council's non-Treasury investments is included in CAB3246 Quarter 4 Financial and Performance Monitoring presented to Cabinet on 9 July 2020.

21 Compliance Report

21.1 The Council confirms compliance of all treasury management activities undertaken during 2019/20 with the CIPFA Code of Practice. It has also complied with the Council's Treasury Management Strategy for 2019/20, with one exception. This was reported to the Committee on 25 July 2019 in the Treasury Management Outturn Report for 2018/19, whereby the principal sum invested for longer than 364 days was £15.035m at 31 March 2019 and fell below the £15m limit on 16 May 2019.

21.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 6 below.

Table 6: Debt Limits

	2019/20 Maximum £m	31/03/20 Actual £m	2019/20 Operational Boundary £m	2019/20 Authorised Limit £m	Complied
Borrowing	(156.7)	(156.7)	(229.0)	(245.8)	✓
Other long term liabilities	0.0	0.0	0.0	0.0	✓
Total debt	(156.7)	(156.7)	(229.0)	(245.8)	✓

21.3 Total debt has remained below the Capital Financing Requirement (see Table 1) during the period.

22 Treasury Management Indicators

22.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures

22.2 The following indicator shows the sensitivity of the Council's current investments and borrowing to a change in interest rates:

Table 8 – Interest Rate Exposures

	31/03/20 Actual	Impact of +/-1% interest rate change
Variable interest rate exposure:		
Investments	£21.4m	+/- £0.2m
Borrowing	£0.0m	N/A

22.3 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

22.4 This indicator is set to control the Council's exposure to refinancing risk.

Table 9: Maturity Structure of Borrowing

	31/03/20 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	0%	25%	0%	✓
12 months and within 24 months	0%	25%	0%	✓
24 months and within 5 years	10%	25%	0%	✓
5 years and within 10 years	16%	30%	0%	✓
10 years and within 20 years	32%	50%	0%	✓
20 years and within 30 years	13%	50%	0%	✓
30 years and within 40 years	13%	75%	0%	✓
40 years and within 50 years	17%	100%	0%	✓

Principal Sums Invested for Periods Longer than a year

22.5 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

Table 10: Principal Sums Invested for Periods Longer than a year

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	£12m	£7m	£5m
Limit on principal invested beyond year end	£15m	£15m	£15m
Complied	✓	✓	✓

Events Subsequent to the 2019/20 Financial Year

22.6 The Treasury Management Strategy Statement sets a limit of 50% for the proportion of the Council's investment balances that can be invested in Money Market Funds (MMFs) at any one time. On 16 June 2020, this limit was passively breached when a non-MMF investment matured, and the required action was not taken to reduce the total MMF balances accordingly when the Council's overall investment balance also reduced. This was identified during routine control checks but after the daily window for dealing in MMFs had closed. The Section 151 Officer was notified and money was withdrawn from the MMFs on 17 June 2020 with no loss to the Council.

22.7 The MMFs used by the Council are considered by its treasury advisor Arlingclose to have a high degree of security due to their size, liquidity, and the diversified assets they hold. In addition, the balances held on 16 June 2020 were held in 7 different MMFs, providing a further layer of diversification. The level of risk to the Council associated with this 1 day breach was therefore very low, however this event does constitute a breach of the agreed limits and it is therefore being reported to the Audit and Governance Committee at the earliest opportunity.

22.8 The Council's daily treasury management activity is carried out by Hampshire County Council, as it has been since 2014. There have been no previous breaches of strategy limits other than the temporary breach of the limit for investments of durations longer than a year reported to the Committee in July 2019 (described in paragraph 21.1). An internal audit of the County Council's treasury management function was conducted during 2019/20 and found that a sound framework of internal control was in place and was operating effectively, resulting in the issuance of a 'substantial assurance' opinion. In light of the breach of the MMF limit described above, however, the County Council has undertaken to review its processes to ensure that any lessons are learnt from this incident and that the risk of a future breach of any strategy limits is suitably mitigated.

22.9 Separately, the Council's bank account was overdrawn by approximately £3m for one night on 18 June 2020. This does not constitute a breach of any strategy limits or agreed governance, however due to the breach described above it is being reported to the Committee for noting. It can be challenging to exactly predict all of the Council's income and expenditure on a daily basis and as a result accounts do go overdrawn at times as part of normal treasury management activity, although strong processes and a degree of prudence ensure this is an infrequent occurrence. The instance described above was the result of incorrect assumptions made by Hampshire County Council's treasury team rather than the Council's own staff and the County Council has therefore agreed to pay the associated overdraft fees.

23 OTHER OPTIONS CONSIDERED AND REJECTED

23.1 The Council could elect to bring all treasury management activity back in-house. This option has been rejected as the arrangement with Hampshire County Council's Investments and Borrowing team provides significant resilience and economies of scale.

23.2 The Council could make more risky investments than those proposed in the Strategy to increase its yield. This has been rejected as priority is given to ensuring security and liquidity in line with the key principles of the CIPFA Treasury Management Code.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AUD119: Treasury Management Practices, 22 June 2015

CAB3133: Treasury Management Strategy 2019-20, 13 February 2019

AG006: Treasury Management Outturn 2018/19, 25 July 2019

AG017: Treasury Management Mid-Year Monitoring Report 2019/20, 9 January 2020

CAB3218: Treasury Management Strategy 2020/21, 12 February 2020

Other Background Documents:-

None

APPENDICES:

None