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# **Briefing to: The Audit Committee**

**Date: 21 July 2020**

**Subject:**  
**Treasury Management Review 2019/20**

**For Discussion/ Information**

**Report of:**  
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**Portfolio holder:**  
Councillor Jabbar MBE  
Deputy Leader and Cabinet Member for  
Finance and Green

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## **Summary of the issue:**

To advise Members of the Audit Committee as to the key issues within the 2019/20 Treasury Management Review. The paper therefore sets out below 8 matters that Audit Committee Members may wish to focus on.

## **Key Items to Consider:**

### **1) Compliance with Statutory and CIPFA requirements**

The presentation of the Treasury Management Review 2019/20 to Audit Committee 21 July 2020 (this meeting) Cabinet and full Council ensures that the Council complies with its statutory requirements.

### **2) The Council's Capital Expenditure and Financing During 2019/20**

The actual level of capital expenditure forms one of the required prudential indicators. The actual expenditure (£54.3m) in 2019/20 was less than had been estimated at month 8 (£63.9m) due primarily to the re-phasing and re-alignment of a number of projects. These projects and their associated financing packages will slip into 2020/21 and future years.

Capital Grants (£42m), contributions from revenue including HRA (£2.4m) and capital receipts (£9.9m) were the sources of capital financing.

### **3) The Councils Overall Borrowing Need**

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position.

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Part of the Council's treasury activity is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements.

At the end of 2019/20, the CFR was £472.4m compared to £493.9m at the end of 2018/19. This decrease in year was mainly due to financing 2019/20 capital expenditure in year through revenue resources and previous year's capital expenditure debt repayments (MRP).

#### **4) Authorised Limit and Operational Boundary**

The authorised limit (AL) is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. This was £512m at the end of 2019/20. The operational boundary (OB) is the expected borrowing position of the Council during the year. This stood at £495m at the end of 2019/20. Actual debt (including PFI related debt) was £403.7m which meant that the Council was well within both the Authorised Limit and Operational Boundary.

#### **5) Treasury Position at 31st March 2020**

At the end of March 2020, the Treasury position was such that the overall external debt was £403.7m. This was made up of:

- a) Total borrowing £167.8m
- b) PFI and Finance Lease liabilities £235.9m

Comparing this to the CFR of £472.4m meant that the Council was £68.7m under borrowed compared to £99.4m at the same point in 2019, reflecting the reduction in CFR along with continuing use of its own resources (cash) rather than borrowing.

#### **6) Borrowing Outturn**

The Council borrowed £20m from the PWLB in August 2019. The borrowing was undertaken when market rates reached the Council's internal trigger points. This ensured borrowing was undertaken at the optimum point to minimise future costs, securing good value for money.

Date	Lender	Principal £'000	Type	Interest Rate	Maturity (Years)
20-Aug-19	PWLB	10,000	Maturity	1.720%	50
20-Aug-19	PWLB	5,000	Maturity	1.810%	30
20-Aug-19	PWLB	5,000	Maturity	1.740%	20
<b>Total</b>		<b>20,000</b>			

The council has repaid a small amount of debt throughout the year. The overall debt position which includes PFI and Finance leases has increased as a result of the additional borrowing of £20.000m. However, it must be noted that the net increase is £9.3m as it takes into account the PFI repayment made throughout the year.

Furthermore, it is confirmed that throughout the year the Council operated within the prudential indicators as set out in the annual treasury management strategy.

## 7) Investment Portfolio

The key investment portfolio issues are that:

- The Council held £118.1m of investments at 31 March 2020 an increase of £33.2m over the £84.9m held at 31 March 2019. £103.1m of the investments held at 31 March 2020 are scheduled to mature within 12 months.
- The Council's investment strategy was to maintain sufficient cash reserves to give it necessary liquidity, whilst trying to attain a benchmark average rate of return of London Interbank Bid Rate (LIBID) on the relevant time deposit multiplied by 5%, whilst ensuring funds were invested in institutions which were the most secure. The table below shows the returns by the relevant time period

	LIBID + 5%	Actual Return %
7 Day	0.56%	0.73%
1 Month	0.59%	0.89%
3 Month	0.67%	1.01%
6 Month	0.74%	0.89%
12 Month	0.84%	0.97%
Average		0.90%
Target	0.68%	

- The property fund investment (£15m) which is a longer term investment with a minimum time horizon of 5 years, provided a return of 4.32% generating £0.632m.

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## **8) Other Key Issues**

### **a) International Financial Reporting Standard (IFRS 9) – Financial Instruments**

The Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for Local Authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018 and applies for five years from this date. The Council has elected to utilise the mandatory override. The Council is required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

### **b) International Financial Reporting Standard (IFRS 16) – Leases**

IFRS 16 should have been introduced for Local Authorities from 1 April 2020 which meant that the annual accounts for 2020/21 were to be the first set of accounts produced in accordance with this standard. The Code of Practice on Local Authority Accounting requires the Council to disclose information relating to the impact of an accounting change required by a new standard that has been issued but not yet adopted by the 2019/20 Code as a note in the 2019/20 accounts. Therefore, the Treasury team have been looking at the impact of the standard on the Council's treasury indicators that would be included in the Treasury Management strategy 2020/21.

However, due to the Coronavirus and the additional pressure Local Authorities are facing in these unprecedented times, on 20 March 2020, the Financial Reporting Advisory Board (FRAB), announced the deferral of International Financial Reporting Standard 16 (IFRS 16) implementation to 2021/22.

### **c) Other Treasury Management Issues**

The Council is currently involved in legal action against Barclays Bank with regards to certain Lender Option Borrower Option (LOBO) transactions. This is based on the Bank's involvement in manipulation of the LIBOR benchmark rate and the subsequent impact on the Council's financial position. This matter is on-going.

## **Conclusion**

As Members of the Audit Committee are aware, there are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in the External Auditors' Annual Governance Report presented to the Audit Committee.

The Treasury Management activities followed the pattern of the established experience and good practice.