ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE
ON 30 July 2020

PART A: REPORT

SUBJECT: Treasury Management Annual Report 2019/20

REPORT AUTHOR: Sian Southerton – Senior Accountant (Treasury)
DATE: June 2020
EXTN: 37861
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

To report on the Treasury Management activities for the year 2019/20 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

RECOMMENDATIONS:

Audit Committee is requested to recommend Full Council to:

(i) approve the actual prudential and treasury indicators for 2019/20 contained in the report;
(ii) note the annual treasury management report for 2019/20; and
(iii) note the treasury activity during 2019/20 which has generated interest receipts of £850,000 (1.31%). Budget £596,000 (1.24%)

BACKGROUND:

1.0 INTRODUCTION

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2019/20 the minimum reporting requirements of the code were met and Full Council received the following reports:

- the annual treasury strategy report in advance of the year (Council 13/03/19).
- the mid-year treasury update report (Council 8th January 2020).
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Audit and Governance Committee before they were reported to Full Council.

All Councillors were invited to attended a Treasury Management briefing presented by Link Asset Services (the Councils treasury advisors) explaining the roles and responsibilities of elected members and giving them an economic update. The latest session was held on 21st November 2019 of which 14 members attended.

The Annual Treasury Management Report for 2019/20 summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2.0 THE ECONOMY AND INTEREST RATES for 2019/2020 (as at 8/4/20)

UK. Brexit. The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Teresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020.

Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the **coronavirus outbreak**.

After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in **quantitative easing (QE),** essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%.

Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price.

Employment had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth.

WORLD GROWTH. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

<u>THE ECONOMY AND INTEREST RATES since 31 March 2020</u>

This section reflects data and surveys released through May, but it appears that the full extent of the impact of the pandemic has still to be fully reflected. Indeed, the longer-term effects could be quite significant if the “V” shaped recovery, that markets have been hoping for, turns out to be rather slower. It is quite clear that in the short-term there has been a severe global downturn, with mass job losses and declines in output etc. The enormous amounts of central bank and government support has eased some of the strife through this time but is not a cure all and will not prevent some businesses going to the wall or permanent job losses. There will be a slow, fragmented global recovery, as the different economies and different sectors emerge from the bunkers of this crisis at different times.

The worst of lockdown appears to now be over in the UK, with the enforced closure of businesses and social distancing measures being gradually eased. The ONS published its “Business Impact of Coronavirus Survey” which reported that the number of firms ceasing trading has slowed from 25% in early April to 18% in the first half of May. The expectation is that GDP will only make moderate progress in repairing the damage done in April, while despite the Government's worthy efforts, there are still businesses and individuals that did not meet the criteria of its schemes. The furlough scheme will be pared back in August, which will then put businesses into a position as to whether to retain staff or release them, with decisions clearly having implications for unemployment. Analysts suggest that recovery will not meet with the current levels of optimism. This could force the BoE to loosen policy further in order to generate demand and push inflation in the direction of the 2% target.

The easing of the lockdown on May 13th has generated only modest recovery in activity. Data shows that GDP declined by 5.8% m/m in March, even though lockdown was only in place for nine days. Worst hit sectors were those where social distancing was a fundamental problem such as hotels/restaurants, education and transport/leisure. A full month of lockdown in April saw an even larger decline in GDP, as some sectors will have generated no activity at all. Around 20% of all firms stopped trading for the month. For example, only 197 cars were produced in April, a 99.7% y/y decline. April should, though, be the low point for the economy, with lockdown easing now under way and workers being encouraged to return. That optimism is reflected by the improved May composite PMI but there is a suggestion that the index has not factored in the full extent of the drop in economic activity.

The Coronavirus Job Retention Scheme should ensure that the rate of unemployment has not run away during the pandemic. However, there are concerns that once "furlough" starts to wind down a pickup in job losses could occur. Prior to COVID 19, employment was healthy and rose by 210,000 in Q1, but PAYE numbers crashed by 500,000 in April, indicating that some firms were laying off employees, rather than furlough them. The claimant count unemployment rate increased to 5.8%, but with Universal Credit claims having fallen back, the rate of joblessness might peak at around 9%, which would be lower than had been initially feared. Average earnings growth fell to 2.4% in March but was set to fall further in April.

Consumer price inflation has fallen and will remain subdued as it will likely take demand some time to fully recover. April saw CPI ease to 0.8%, after the largest monthly decline since December 2008. The Governor of the Bank of England is set to be having regular correspondence with the Chancellor on why the rate has fallen outside of the 1% band of tolerance from the 2% target. This is hardly a great concern as much of this is down to lower energy prices caused by the slump in crude oil price and Ofgem's reduced utility price cap. Fuel prices should not fall too much further as oil prices have stabilised. However, underlying core inflation has also dipped, while output price inflation is in negative territory for the first time in nearly four years. With demand having collapsed, core deflation will deepen, particularly in the hardest hit industries. Analysts do not see CPI inflation getting too close to the 2% target in the next 18 months.
Lockdowns have had a severe impact on household consumption levels, which will recover gradually as restrictive measures are pared back. Q1 consumer spending in the bloc may fall by c.4.5% q/q and April retail sales fall of 11.7% m/m did not mark a good start to Q2. Nevertheless, within that, online sales did increase and it seems that some people have started to return to the High Street as shops and restaurants have been allowed to re-open, while there has also been an improvement in car sales. May retail sales should make a decent dent in reversing some of the declines of previous months. That recovery should be

maintained at a gradual, but not spectacular, pace and consumption levels will probably not get back to pre-virus levels this year. People will begin to move about more confidently over time and some households will have accumulated savings during lockdown, but spending may be held back as some will have seen incomes reduced or are worried about potential unemployment risks.

Unemployment in the bloc was only marginally higher at 7.3% in April but that is largely down to the work schemes which keep people employed, while others have exited the workforce. Lockdown easing has enabled some on the short-term schemes to return to work, but a significant proportion of workers remained beneficiaries of the schemes.

Monetary Policy

Nothing has really changed or is likely to in the short term. The coronavirus pandemic and its economic impact has been the sole focus of governments and central banks. Policy has been defined by their need and desire to underpin their economies and financial markets. They have gone an extra mile or more, in adding support of the workforce whose income streams have been wiped out by the lockdown, which would thus have compromised their ability to meet financial commitments.
As a result, governments have increased levels of debt to unprecedented levels, which will likely take some time after the pandemic clears to bring down to more manageable levels.
Central banks are maintaining stability and viability of their financial markets with massive asset purchasing programmes. These also help to suppress upside rate pressures, having followed interest rate policies that have seen all major central banks slash interest rates to, or almost zero percent.

3.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2019/20

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2018/19 Actual £,000	2019/20 Original £,000	2019/20 Actual £,000
Non-HRA capital expenditure	13,764	3,520	2,676
HRA capital expenditure	4,125	10,423	5,045
HRA Settlement	-	-	-
Total capital expenditure	**17,889**	**13,943**	**7,721**
Resourced by:			
• Capital receipts	3,398	1,500	1,261
• Capital grants	2,193	1,500	2,308
• Capital reserves	1,613	5,393	1,649
• Revenue	7,026	2,050	188
	14,230	**10,443**	**5,406**
Unfinanced capital expenditure	**3,659**	**3,500**	**2,315**

The Wave 2018/19 expenditure was also financed out of capital receipts in 2019/20 at £1.923m.

4.0 THE COUNCIL'S OVERALL BORROWING NEED

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure (see above table).

Part of the Council's treasury activities is to address the funding requirements for any borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council.

The CFR increases when capital expenditure is incurred but not financed and reduces when amounts are set aside for loan repayments.

The Council currently has no debt other than that taken out for the HRA Self-Financing (March 2012). The Council does not have an overdraft facility as it became very expensive and rather than incurring costs for the facility, an approx. £200k balance is held in the account daily. This was earning interest at 0.65% (the bank of England base rate -10bp) but due to the base rate decrease to 0.1% on 19th March 2020 this account is no longer earning interest, but the balance is required to cover any potential cashflow need.

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement (summary in appendix1).

The Council's CFR for the year is shown below, and represents a key prudential indicator:

CFR	2018/19 Actual £,000	2019/20 Original £,000	**2019/20 Actual £,000**
Opening balance	51,807	49,895	**51,718**
Add unfinanced capital expenditure	3,660	2,275	**2,315**
Less Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP)	3,749	3,754	**5,677**
Closing balance	51,718	48,416	**48,356**

The borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

Arun's only borrowing relates to the HRA Self-Financing settlement (currently £44.32m). Prior to this borrowing being undertaken Arun had a negative CFR of £2.6m which has arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this is set, the Council does not have the power to borrow above this level. The authorised limit was not breached in 2019/20.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

5.0 TREASURY POSITION AS AT 31 MARCH 2020

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

During 2019/20, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

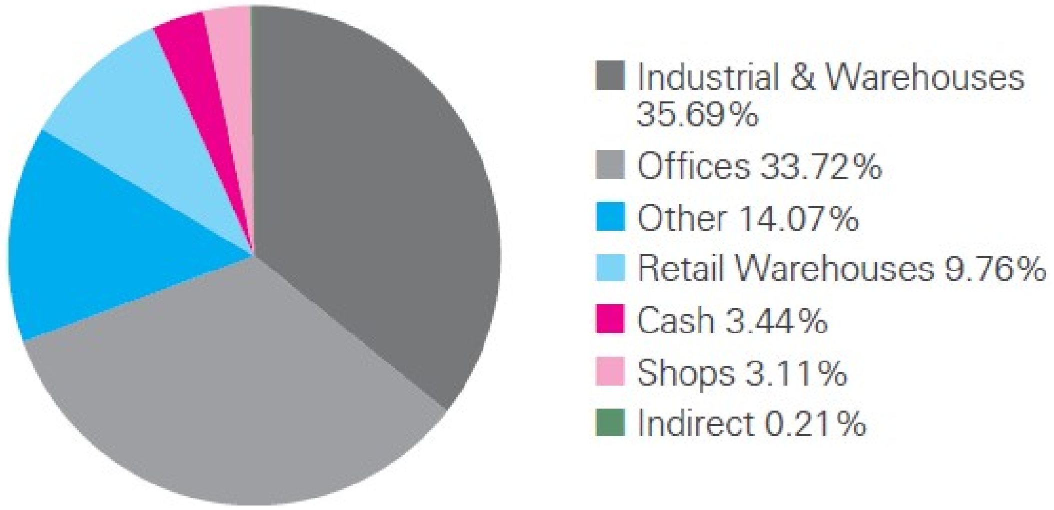
Actual prudential and treasury indicators	31 March 2019 Actual £000	2019/20 Original £000	**31 March 2020 Actual £000**
Capital expenditure	17,889	13,943	**7,721**
Total Debt	53,180	53,180	**44,320**
Capital Financing Requirement at 31st March:			
• Non-HRA	-1,876	-4,009	**-4,009**
• HRA	53,594	52,425	**52,365**
• **Total**	**51,718**	**48,416**	**48,356**
Over / (under) borrowing	1,462	4,764	**(4,036)**
Investments			
• Longer than 1 year	5,000	n/a	**6,000**
• Under 1 year	48,000	n/a	**52,700**
• **Total**	**53,000**	**n/a**	**58,700**

Other prudential and treasury indicators are to be found in the main body of this report and appendix 1.

The base rate remained at 0.75% for the majority of 2019/20 (reducing to 0.25% and then 0.10% in March 2020). Achieving a return over 1% continues to be challenging, however the CCLA (Churches Charities and Local Authorities) property fund, (investment of £5M) continues to enhance these returns.

This CCLA property fund has a diverse property investment portfolio, none of which are in shopping centres due to the current climate (although 4 stand alone shops). The spread is as follows;

Asset allocation at 31 March 20



These fund managers are experts in property management and are always actively managing their portfolio.

At the beginning and the end of 2019/20, the Council's treasury position was as follows:

Investments / Debt	2018/19 Rate/ Return (actual)	31st March 2019 Principal	**2019/20 Rate / Return (budget)**	**2019/20 Rate / Return (Actual)**	**31st March 2020 Principal**
Total Investments	1.25%	£53.00m	**1.24%**	**1.31%**	**£58.7m**
Total Debt	3.00%	£53.18m	**3.00%**	**3.00%**	**£44.32m**

The maturity structure of the debt portfolio is shown in appendix 1.

6.0 THE STRATEGY FOR 2019/20

6.1 Investment strategy and control of interest rate risk

Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled but would only rise to 1.0% during 2020.

Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the

Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer-term rates were significantly higher than shorter term rates during the year, value was sought by placing longer term investments where cash balances were sufficient to allow this. Once the virus hit, this became more challenging as there were many unknowns at the time and liquidity was very important to ensure all suppliers / businesses received funds owing without delay. (SLY – Security, Liquidity, Yield)

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

6.2 Borrowing strategy and control of interest rate risk

New borrowing was avoided by running down spare cash balances, which has served the Council well over the last few years. This was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%

PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

HM Treasury has imposed **two changes in the margins over gilt yields for PWLB rates** in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ends on 4 June. **It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.**

There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

Change in strategy during the year – the strategy adopted in the original Treasury Management Strategy Report for 2019/20 approved by the Council on 13/03/19 was subject to no revisions during the year.

A full list of the Council’s approved counterparties is included in appendix 2.

7.0 BORROWING OUTTURN FOR 2019/20

Maturity loans for £70.902m were taken out on the 28th March 2012 to fund the new HRA self-financing system. The borrowing remaining as at 31st March 2020 was £44.32m as shown below.

Lender	**Principal**	**Type**	**Interest Rate**	**Maturity**
PWLB	£8.860m	Maturity	2.40%	28/3/2022
PWLB	£8.870m	Maturity	3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	£44.32m		**3.20%**	

A maturity loan is a bullet repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in interest rates and the council has locked into very low borrowing rates. The average rate of these loans at 31st March 2020 was 3.20%. No new borrowing was undertaken during the year.

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8.0 INVESTMENT OUTTURN IN 2019/20

Investment Policy – the Council's investment policy is governed by MHCLG investment guidance, which was been implemented in the annual investment strategy approved by Full Council on 13th March 2019. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and subsequent reports and the Council had no liquidity difficulties.

Resources – the Council's cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources (£m)	31st March 2019 £m	**31st March 2020 £m**
Balances	15.4	**16.0**
Earmarked reserves	15.4	**15.8**
Provisions	2.9	**1.7**
Usable capital receipts	2.8	**2.8**
Total	36.5	**36.3**

The Council maintained an average balance of approximately £64m of internally managed funds. These internally managed funds earned an average rate of return of 1.07% plus 4.30% for the property fund giving an overall return of 1.31%. The comparable

performance indicator is the average 7-day LIBID rate, uncompounded, which was 0.53%. This compares with a budget assumption of £48m investment balances earning an average rate of 1.24%.

A full list of investments at the 31 March 20 is included in appendix 3 and appendix 4 shows a comparison of the Councils investments against other Councils which puts our performance in a favourable light.

9.0 OTHER ISSUES

IFRS 9 fair value of investments

English authorities from 2018/19: Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS 9 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 will be effective from 1 April 2018 for 2018/19. The statutory override applies for five years from this date. Local authorities are 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.

CCLA have provided the following comments regarding the £5m the Council has invested in their property fund;

Suspending dealing on the CCLA property fund;

> In recent weeks, the pervasive effects of Covid-19 (coronavirus) have resulted in a sharp fall in economic activity and in significant declines in the value of many assets.
>
> These changes will be reflected in property valuations, however, at present, the sheer pace of change in the investment environment and the relative infrequency of transactions in the sector means that it is not possible for valuers to be confident that their valuations truly reflect prevailing conditions.
>
> As asset managers our duty is to ensure that all transactions in the property funds are conducted at prices which are accurate and fair to both holders and those wishing to purchase or sell units/shares.
>
> In circumstances where that is not possible and where there is therefore a material risk of disadvantage to either party, we are obliged to suspend transactions until the required level of certainty is re-established.

Sovereign limits

The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of **AA-** from Fitch (or equivalent). The UK was downgraded in March from AA to AA- and therefore still adheres to the minimum criteria. The strategy does also have an exception stating;

"If the UK's credit rating should fall below the minimum criteria set above, investment will continue to be made in UK financial institutions if after careful consideration it is deemed appropriate to do so".

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2. PROPOSAL(S):

To approve all 3 recommendations.

3. OPTIONS:

The Treasury Management Strategy is legislative and under the Local Government act 2003 and therefore the only option is follow the proposal.

4. CONSULTATION:

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		√
Relevant District Ward Councillors		√
Other groups/persons (please specify)	√ Treasury Advisors	

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: **(Explain in more detail at 6 below)**	**YES**	**NO**
Financial	√	
Legal		√
Human Rights/Equality Impact Assessment		√
Community Safety including Section 17 of Crime & Disorder Act		√
Sustainability		√
Asset Management/Property/Land		√
Technology		√
Other (please explain)		

6. IMPLICATIONS:

Approval will enable the Council to comply with legislation and provide a Treasury Service

7. REASON FOR THE DECISION:

Statutory and the limits set, safeguard the Council against financial losses.

8. BACKGROUND PAPERS:

CIPFA'S Treasury Management in the Public Services: Code of Practice (2017)

(Link not available as copyright)

The Prudential Code for Capital Finance in Local Authorities (2017) Guidance notes (2018) *(Link not available as copyright)*

The Local Government Act 2003 (www.legislation.gov.uk/ukpga/2003/26/content)

Prudential and treasury indicators

APPENDIX 1

1. PRUDENTIAL INDICATORS	2018/19	2019/20	2019/20
Extract from budget and rent setting report	**Actual**	**Original**	**Actual**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non – HRA	*13,764	3,520	2,676
HRA	4,125	10,423	5,045
TOTAL	17,889	13,943	7,721
Ratio of financing costs to net revenue stream			
Non - HRA	-2.62%	-2.32%	-3.08%
HRA	33.11%	32.97%	32.87%
Capital Financing Requirement as at 31 March			
Non – HRA	-1,876	-4,009	-4,009
HRA	53,594	52,425	52,365
TOTAL	51,718	48,416	48,356
Annual change in Cap. Financing Requirement			
Non – HRA	1,718	-210	-2,133
HRA	-1,807	-1,269	-1,229
TOTAL	-89	-1,479	-3,362

** Increase largely due to the build of the Wave in Littlehampton*

2. TREASURY MANAGEMENT INDICATORS	2018/19	2019/20	2019/20
	Actual	**Original**	**Actual**
	£'000	**£'000**	**£'000**
Authorised Limit for external debt			
Borrowing	63,000	61,000	61,000
Other long term liabilities	0	0	0
TOTAL	**63,000**	**61,000**	**61,000**
Operational Boundary for external debt			
Borrowing	60,000	58,000	58,000
other long term liabilities	0	0	0
TOTAL	**60,000**	**58,000**	**58,000**
Actual external debt	53,180	53,180	44,300
Upper limit for total principal sums invested for over 365 days (£m)	**22**	**18**	**18**
-	-		-

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/20	lower limit	upper limit
under 12 months	0%	0%	40%
12 months and within 24 months	20%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	20%	0%	60%
10 years and above	60%	0%	100%

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

DBS Bank Ltd (SING)
HSBC Bank plc (UK)
Oversea-Chinese Banking Corp Ltd (SING)
Svenska Handelsbanken (SW)
United Overseas Bank Ltd (SING)
First Abu Dhabi Bank (U.A.E)

Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Barclays Bank plc (UK)
Goldman Sachs International Bank (UK)
Standard Charted Bank (UK)
Qatar National Bank (Qatar)
Santander (UK)
Royal Bank of Scotland plc (RFB) (UK)
National Westminster Bank plc (RFB) (UK)

Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	Fitch	A-	F1
	Moody	A3	P-2
	S&P	A-	A-1

Nationwide Building Society (UK)
Close Brothers (UK)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year
Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

Category 5 - Council's Bank
NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Banking Group (Bank of Scotland/Lloyds)
Lloyds Bank PLC (RFB)
Lloyds Bank Corporate Markets PLC (NRFB)
Bank of Scotland PLC (RFB)

Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years
banks effectively nationalised by UK government

		Long Term	Short Term
Min Criteria	Fitch	BBB-	F3
	Moody	Baa3	P-3
	S&P	BBB-	A-3

Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) –

Fitch Nav

- Money Market Funds (MMF's) - (CNAV, LVNAV, VNAV) and Enhanced MMF's
- Government Liquidity Funds

Limit of £4million for each institution

CCLA Public sector deposit fund (PSDF)	AAA	LV NAV
Deutsche Banking Group	AAA	LV NAV
Federated Investors Ltd	AAA	LV NAV
Fidelity Investments International	AAA	LV NAV
Aberdeen Standard (GBP)	AAA	LV NAV
Northern Trust	AAA	

Category 8 – Alternative Investments (Asset Backed Bonds) – 25 Years

Maximum investment of £4million

Category 9 - Debt Management Office

Debt management Account - NO LIMIT (UK Govt)

Category 10 - Bonds issued by multilateral development banks - 5 Years

Maximum investment £4 million AAA

Category 11 – Property Funds - 25 Years

Maximum investment £6 million

CCLA

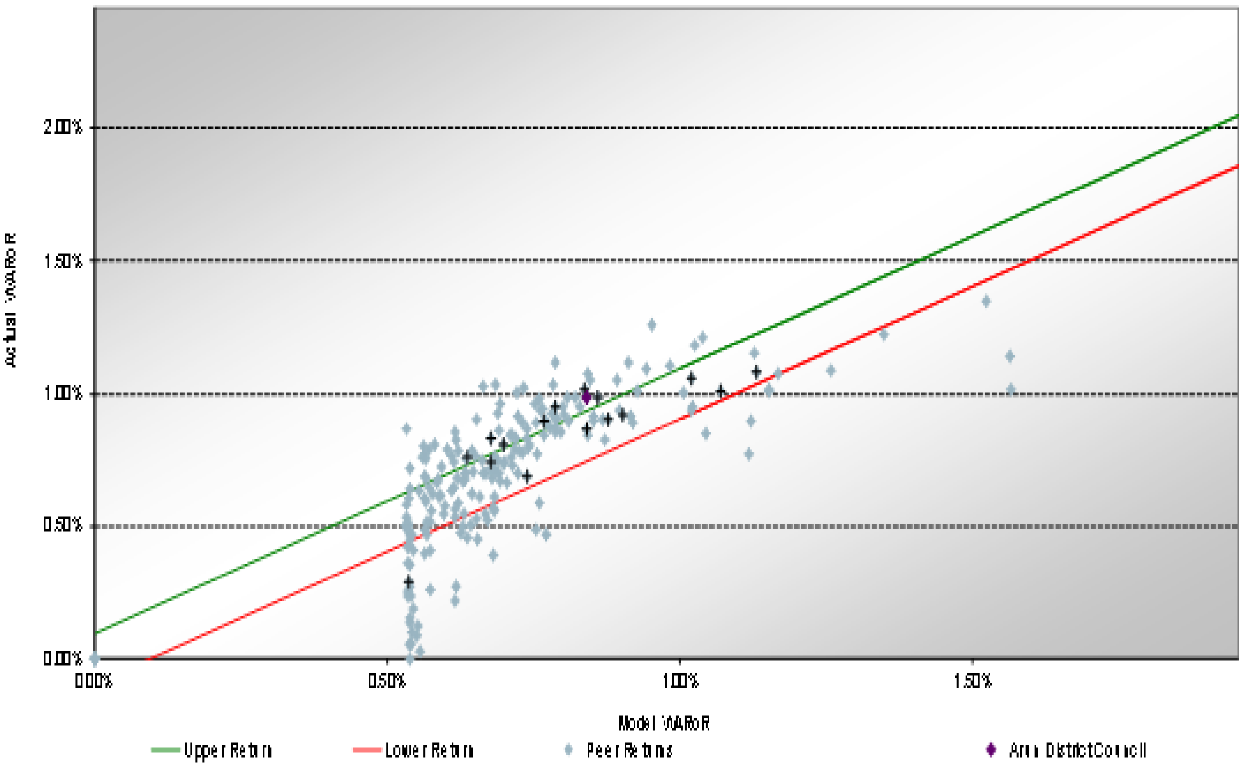
INVESTMENTS at 31st March 2020

Appendix 3

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	728	Goldman Sachs	16/08/2019	06/04/2020	£1,000,000.00	0.9150
Fixed Term Deposit	729	Santander UK Plc	16/08/2019	06/04/2020	£1,000,000.00	0.9800
Fixed Term Deposit	733	DBS	08/10/2019	06/04/2020	£2,000,000.00	0.8600
Fixed Term Deposit	734	Qatar National Bank	14/10/2019	06/04/2020	£2,000,000.00	1.1100
Fixed Term Deposit	737	DBS	31/10/2019	06/04/2020	£2,000,000.00	0.8700
Fixed Term Deposit	740	Qatar National Bank	05/12/2019	06/04/2020	£1,000,000.00	1.0300
Fixed Term Deposit	742	DBS	23/12/2019	06/04/2020	£1,000,000.00	0.8300
Fixed Term Deposit	711	Qatar National Bank	12/04/2019	09/04/2020	£1,000,000.00	1.2900
Fixed Term Deposit	710	Close Brothers	10/04/2019	14/04/2020	£1,000,000.00	1.2500
Fixed Term Deposit	735	DBS	28/10/2019	28/04/2020	£2,000,000.00	0.8600
Fixed Term Deposit	727	Skipton	01/08/2019	01/05/2020	£1,000,000.00	0.9200
Fixed Term Deposit	747	Blackpool BC	20/02/2020	20/05/2020	£1,000,000.00	0.8500
Fixed Term Deposit	717	Qatar National Bank	04/06/2019	02/06/2020	£1,000,000.00	1.2700
Fixed Term Deposit	716	Lloyds	04/06/2019	04/06/2020	£2,000,000.00	1.2500
Fixed Term Deposit	748	Fife Council	09/03/2020	09/06/2020	£2,000,000.00	1.1500
Fixed Term Deposit	719	Goldman Sachs	21/06/2019	19/06/2020	£1,000,000.00	0.9950
Fixed Term Deposit	721	Lloyds	26/06/2019	26/06/2020	£1,000,000.00	1.2500
Fixed Term Deposit	722	Lloyds	08/07/2019	06/07/2020	£2,000,000.00	1.2500
Fixed Term Deposit	725	Skipton	26/07/2019	24/07/2020	£1,000,000.00	0.9500
Fixed Term Deposit	724	Lloyds	26/07/2019	27/07/2020	£1,000,000.00	1.2500
Fixed Term Deposit	726	Lloyds	01/08/2019	30/07/2020	£1,000,000.00	1.2500
Fixed Term Deposit	731	Qatar National Bank	30/08/2018	01/09/2020	£2,000,000.00	1.2300
Fixed Term Deposit	732	Close Brothers	04/09/2019	04/09/2020	£1,000,000.00	1.1000
Fixed Term Deposit	749	Swindon BC	23/03/2020	23/09/2020	£2,000,000.00	1.2500
Fixed Term Deposit	738	Goldman	07/11/2019	05/11/2020	£2,000,000.00	1.0150
Fixed Term Deposit	746	Goldman Sachs	07/02/2020	09/11/2020	£1,000,000.00	0.9000
Fixed Term Deposit	739	Qatar National Bank	19/11/2019	17/11/2020	£2,000,000.00	1.2800
Fixed Term Deposit	736	Liverpool CC	20/12/2019	18/12/2020	£2,000,000.00	1.0000
Fixed Term Deposit	741	Close Brothers	20/12/2019	18/12/2020	£1,000,000.00	1.2000
Fixed Term Deposit	745	Lloyds	24/01/2020	25/01/2021	£2,000,000.00	1.1000
Fixed Term Deposit	730	Lloyds	16/08/2019	06/04/2021	£1,000,000.00	1.1200
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	4.25
Money Market Fund	110000	Federated			£4,000,000.00	0.43
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.47
Money Market Fund	1300000	Aberdeen Std			£1,700,000.00	0.42
					£58,700,000.00	

Arun District Council

Population Returns against Model Returns



Arun District Council	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
	0.99%	0.84%	0.15%	0.75%	0.93%	Above