



NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

CABINET

REPORT OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES – MR HYWEL JENKINS

30 JULY 2020

MATTER FOR MONITORING

WARDS AFFECTED: ALL

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2019/20

Purpose of Report

1. This Council is required through 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).
2. 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). Some information incorporated within this report has been provided by the Council's Treasury Advisors Link Asset Services.
3. Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is 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.

4. This report also confirms that Council has complied with the requirement under the Code to give prior scrutiny to the annual strategy report, which was submitted to Cabinet in February 2019 before being reported and approved by full Council.

Executive Summary

5. 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:

Prudential and Treasury Indicators	2018/19 Actual £000	2019/20 Mid-Year Estimate £000	2019/20 Actual £000
Capital Expenditure	43,395	43,976	39,131
Capital Financing Requirement	338,618	343,940	342,874
External debt(gross)	281,770	285,804	307,872
Less Investments	(55,100)	(61,000)	(56,500)
Net Borrowing	226,670	224,804	251,372

6. The full list of prudential and treasury indicators are to be found in Appendix 1. During the financial year the Council operated within its treasury limits and Prudential Indicators.
7. The financial year 2019/20 was once again a challenging environment as in previous years with low investment returns and continuing counterparty risk.

Introduction and Background

8. This report summarises:
- Capital activity during the year;
 - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
 - Reporting of the required 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

The Council's Capital Expenditure and Financing 2019/20

9. 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.
- 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 Mid- Year Estimate £'000	2019/20 Actual £'000
Total capital expenditure	43,395	43,976	39,131
Resourced by:			
• Capital receipts *	0	1,653	0
• Capital grants & contributions	20,196	25,285	24,684
• Capital Reserves and DRF	606	1,690	182
Unfinanced capital expenditure (to be funded from Borrowing)	22,593	15,348	14,265

* Capital receipts are currently being retained to fund potential future City Deal revenue expenditure.

The Council's Overall Borrowing Need

10. 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. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure (see Table 2) and prior years' net of unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
11. Part of the Council's treasury activities 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. 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.
12. Reducing the CFR – Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
13. The total CFR can also be reduced by:
 - The application of additional capital financing resources (such as unapplied capital receipts); or
 - Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
14. The Council's CFR for the year is shown below, and represents a key prudential indicator.

CFR	2018/19 Actual £'000	2019/20 Mid-Year Estimate £'000	2019/20 Actual £'000
Opening balance	325,241	338,618	338,618
Add unfinanced capital expenditure (as above)	22,593	15,348	14,265
Less MRP	(9,216)	(9,951)	(10,009)
Closing balance	338,618	344,015	342,874

15. The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.
16. Net borrowing and the CFR – in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be used for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2019/20 plus the expected changes to the CFR over 2020/21 and 2021/22. The table below highlights the Council's net borrowing position against the CFR which shows that at 31 March 2020 we have self-funded the net position of £91.502m. The Council has complied with this prudential indicator.

	2018/19 Actual £'000	2019/20 Mid-Year Estimate £'000	2019/20 Actual £'000
Net borrowing position	226,670	224,804	251,372
CFR	338,618	344,015	342,874
Self-funded	111,948	119,211	91,502

17. The authorised limit – the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level.
18. The operational boundary – the operational boundary is the expected borrowing position of the Council during the year.

19. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	Actual 2019/20 £000
Operational boundary	372,873
Authorised limit	392,873
Total Maximum Borrowing compared to Operational Boundary at any point during the year	307,872

The Council has maintained gross borrowing below the Authorised limit.

Treasury Position as at 31st March 2020

20. The Council's debt and investment position is managed by Finance Treasury Staff 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 executive summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2019/20 the Council's treasury position was as follows:

	31 March 2019 Principal	Rate / Return	31 March 2020 Principal	Rate / Return
Fixed rate funding:	£m	%	£m	%
-PWLB	217.771	3.96%	241.804	3.40%
-Market (LOBO)	62.500	3.93%	62.500	3.93%
Other:				
WG Crown Loan	1.500	0.00%	1.500	0.00%
Salix	N/A	N/A	0.500	0.00%
Temp Loans	1.552	0.78%	1.568	0.71%
Total debt	283.323		307.872	

Investments:				
- in house	55.100	0.80%	56.500	0.74%
Total investments	55.100		56.500	

PWLB = Public Works Loans Board which is a body the Government has established to lend money to Local Government.

Market LOBO's = Lender Option Borrower Option – this is borrowing from the market when the lender has offered a long term loan but with options to continue or foreclose on the loan at various specific intervals.

Other:

WG Crown Loan = interest free loan from Welsh Government used to fund the purchase of the former Crown Building in Briton Ferry

Salix = interest free loan from Welsh Government via Salix Finance Ltd to be used towards funding new Street Lighting

Temp Loans = these include several loans the council have for the Education Trust Funds, Welsh Church Act Funds, Mayor's Charity Funds that we hold.

The Strategy for 2019/20

21. The strategy for 2019/20 was approved by Council in February 2019 and included the following:

New Borrowing:

22. The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However this strategy can only be used as a short term measure therefore consideration will be given to entering into external borrowing.
23. The following types of loan arrangement will be considered (in no particular order):
- Temporary borrowing from the money markets or other local authorities.
 - Short dated borrowing from the market or PWLB.

- Long term fixed rate market or PWLB loans

Investments

24. The Council continued with its main investment priorities:

- (a) security of capital
- (b) liquidity of capital

with the aim of achieving the optimum return commensurate with proper levels of security and liquidity. With investments being dominated by low counterparty risk considerations, relatively low returns were expected when compared to borrowing rates.

25. For balances generated through normal cashflow the strategy looked to utilise the business reserve (call account) and short dated deposits.

Debt Rescheduling

26. The strategy allowed for the use of investment balances to repay debt prematurely providing it was economically worthwhile and it enhanced the maturity profile of the debt portfolio.

27. No debt rescheduling was anticipated (or took place) in 2019/20 particularly as the PWLB rate structures have made it more expensive in recent years to do so.

Borrowing Outturn for 2019/20

28. The following long term loans were entered into during 2019/20 due to the fact that PWLB loan interest rates were low. These loans are used to finance capital expenditure on projects such as the 21st Century Schools Programme, Street Lighting Replacement Programme and Regeneration.

Lender	Date	Amount £'000	Rate %	Period	Details
PWLB	02/09/19	10,000	1.70	49.5yrs	Maturity
PWLB	30/03/20	20,000	1.89	2.5yrs	Maturity

29. Treasury Borrowing – There were no short-term temporary loans taken out during 2019/20

Investment Outturn for 2019/20

30. Investment Policy – the Council’s investment policy is governed by Welsh Government guidance, which has been implemented in the annual investment strategy approved by Council in February 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).
31. During the last two weeks of 2019/20, as part of our planning for dealing with COVID19 pandemic, we decided to increase the amount of money invested in our Santander call account. This was done to ensure the Authority had enough liquid cash to deal with any unknown issues that would arise from the pandemic. The strategy says we can invest up to £15m with our own bankers, but this can be temporarily exceeded where necessary. The most we had invested with them during this two week period was £32.9m. This strategy will also continue into 2020/21 for the same reason.
32. All other investment activity during the year conformed to the approved strategy.
33. Resources – the Council’s longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council’s core cash resources comprised the following:

Balance Sheet Resources	31 March 2019 £'000	31 March 2020 £'000
Balances and Earmarked Reserves	61,394	59,093
Provisions	5,093	4,836
Usable capital receipts	6,971	8,076
Total	73,458	72,005

34. Investments held by the Council – The Council received the following return on its investments:

Average Investment	External Interest Earned	Rate of Return	Benchmark Return
£'000	£'000	%	%
66,168	469	0.74	0.63

35. The benchmark for funds managed in house is the 3 month LIBID uncompounded. The rate reflects a more realistic neutral position for core investments with a medium term horizon and a rate which is more stable with fewer fluctuations caused by market liquidity.

Treasury Management Reserve

36. The below table shows the Treasury Management Equalisation reserve as at 31 March 2020, broken down between the different elements:

	£000s
General - Closing Balance	3,041
Earmarked:	
City Deal	4,098
Neath Town Centre	500
Total Earmarked	4,598
TOTAL Treasury Management Reserve	7,639

Performance Measurement

37. One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide (see table in paragraph 20). The Council's original performance indicators for 2019/20 were set out in the Annual Treasury Strategy approved by Council in February 2019.

Financial Impact

38. All financial impacts are detailed within the body of the report.

Integrated Impact Assessment

39. There is no requirement for an integrated impact assessment for this report.

Valleys Communities Impacts

40. No implications

Workforce impacts

41. There are no workforce impacts resulting from this report.

Legal impacts

42. The report deals with the Council's legal requirements as set out in Local Government Act 2003.

Risk management

43. Compliance with the strategies outlined in this report should be sufficient in terms of managing risks in this area.

Consultation

44. There is no requirement under the Constitution for external consultation on this item.

Recommendation

45. It is recommended that Members note the 2019/20 treasury management function performance as set out in this report including the actual 2019/20 prudential and treasury indicators.

Appendices

Appendix 1 – Prudential Indicators

List of Background Papers

Statement of Accounts 2019/20

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PRUDENTIAL INDICATORS	2018/19 Actual	2019/20 Mid-Year Estimate	2019/20 Actual
Capital Expenditure	£'000 43,395	£'000 43,976	£'000 39,131
Capital Financing Requirement as at 31 st March	338,618	344,015	342,874
Ratio of financing costs to net revenue stream	% 6.90	% 7.27	% 7.04
Authorised Limit for External Debt: Borrowing and other long term liabilities	373,725	393,940	392,873
Operational Boundary for External Debt: Borrowing and other long term liabilities	353,725	373,940	372,873
External Debt (Gross)	281,770	285,804	307,872
Less Investments	(55,100)	(61,000)	(56,500)
Net Borrowing Position	226,670	224,804	251,372

Maturity Structure of Fixed Rate Borrowing During 2019/20	2018/19 Actual	2019/20 Original Estimate		2019/20 Actual
		Upper Limit	Lower Limit	
	%	%	%	%
Under 12 months	2	15	0	3
12 months to 2 years	4	15	0	0
2 to 5 years	6	40	0	12
5 to 10 years	0	60	0	1
10 years and above	88	100	15	84