Report Title:	**Treasury Outturn Report 2019/20**
Contains Confidential or Exempt Information?	No - Part I
Lead Member:	Councillor Hilton, Lead Member for Finance and Ascot
Meeting and Date:	Cabinet – 25th June 2020
Responsible Officer(s):	Adele Taylor, Director of Resources (s151 Officer)
Wards affected:	All

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. The purpose of this report is to:

   a) Update Members on the delivery of the Treasury Management Strategy approved by Council on 26th February 2019 and confirm the treasury outturn position as at 31st March 2020.

   b) This report forms part of the monitoring of the treasury management function as recommended in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice which requires that the Council receives a report on its treasury management activity at least twice a year;

   Specifically this report includes:

   a) a review of the Council's financial investment portfolio for 2019/20 as at 31st March 2020;

   b) a review of the Council's borrowing strategy in 2019/20;

   c) a review of compliance with the Council's Treasury and Prudential limits for 2019/20; and

   d) an economic update for the financial year.

2. The Council has complied with all elements of its Treasury Management Strategy Statement (TMSS) as agreed by Council.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Cabinet notes and approves the annual Treasury Outturn Report 2019/20.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management mid-year and annual reports.

2.2 The Authority's treasury management strategy for 2019/20 was approved at the Council meeting on 26th February 2019, and amended on 3rd December 2019. When borrowing and investing money the Authority is exposed to financial risks including the loss of invested funds and the revenue impact of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

3. KEY IMPLICATIONS

3.1 A successful treasury management approach will ensure the security of the Council's assets whilst meeting the liquidity requirements of the Council and ensuring an investment return that meets the target set in the table below. The Council exceeded its return on investment target in 19/20 by 0.03%.

Table 1: Investment return target

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
A return that exceeds benchmark (Bank of England base rate plus 0.25%)	<0%	>0%	>0.1%	>0.2%	31 March 2020

4. FINANCIAL DETAILS / VALUE FOR MONEY

Outturn Review of Treasury Management Activity

4.1.1 This report reviews the period from the 1st April 2019 to the 31st March 2020.

4.1.2 The Council receives payments in the form of government grants, council tax and business rates. These funds are invested in either fixed rate loans, cash deposits or money market funds with Council approved counterparties. The list of approved counterparties is known as the "Lending List". A copy of the Lending List following this approval is attached to this report as Appendix A.

4.1.3 Whilst total funds under management varied throughout the period, total funds under management at the 31st March 2020 were £51,726,000 (£22,048,000 at 31st March 2020).

4.1.4 Funds under management at the 31st March 2020 were higher than usual due to payments on behalf of the LEP being lower than anticipated and the receipt of emergency Covid-19 funding from central government.

4.1.5 The allocation of funds under management by counterparty type at 31st March 2020.

Lloyds Call Account	5,700,000
Money Market Funds	13,900,000
Debt Management Office	22,400,000
Loans to partners/subsidiaries	9,726,000
Total	51,726,000

4.1.6 The investment return benchmark is 0.25% above Bank of England base rate. The Bank of England base rate is currently 0.10%.

4.1.7 The return on the prepayment of Pension Fund contributions for 2019/20 will be £256,987. This amount is not included in the investment return reported above but it contributes towards budget targets.

4.1.8 The Council has not increased its level of long term external debt during the period. As at 31st March 2020 the Authority's total long term external borrowing was £57,049,400, with an average interest rate of 4.97% for the Public Works Loan Board (PWLB) loans and 4.19% for the Lender Option Borrower Option (LOBO) loans borrowed from Barclays and Dexia. Appendix B shows the Authority's external long term borrowing as at 31st March 2020. During the course 2019/20 a total of £2,733,000 will be paid on existing long term loans in the form of interest payments.

4.1.9 The balance of short term loans as at the 31st March 2020 was £134,000,000.

4.1.10 An economic assessment for 2019/20 by the Council's Treasury Management advisors, Arlingclose is attached as Appendix C.

4.2 Borrowing Requirement & Borrowing Strategy

4.2.1 The table below shows how the level of long and short term borrowing has changed during 2019/20.

Borrowing Type	Actual 31/03/2019	Actual 17/10/2019	Actual 31/03/2020
	£000	£000	£000
Long Term	57,049	57,049	57,049
Short Term – Local Authority	43,835	37,500	134,000
Short Term – LEP	48,501	58,467	33,521
Investments	(20,384)	(30,057)	(51,726)
Net Borrowing	**129,001**	**122,959**	**172,844**

4.2.2. The Council has increased its short-term borrowing from Local Authorities by £90m during the financial year to finance its capital investment and to replace internally borrowed LEP funding that has been paid out.

4.2.3. The Council's borrowing requirement has revenue implications for the Council. Accordingly, the Council engaged Treasury Management Advisors, Arlingclose to advise on its Borrowing and Treasury Management Strategy.

4.2.4. Current market conditions are as follows:-

(a) The Covid crisis has caused considerable uncertainty within the market, which has had an impact on the availability of long-term funding with institutions and organisations holding on to their cash.

(b) The PWLB borrowing rate remains at its increased rate of 1.8% above gilts again reducing the option of relatively affordable long term loans.

(c) Short term loans are at a significantly lower rate than long term loans currently, although the availability of LA loans is reduced due to LA's retaining cash due to the current market uncertainty.

4.2.5. In accordance with advice from Arlingclose the Council took out additional short-term borrowing and has kept under review the option to increase the proportion of long-term borrowing.

4.2.6. The reason more long-term borrowing was not taken was due to the uncertainty caused by Brexit and the associated movement in long-term interest rates which was not considered to be favourable.

4.2.7. The strategy to increase short-term borrowing has exposed the council to the risk that rates could rise. A 1% increase in interest rates for the current level of short-term loans could be in the region of £1m.

4.2.8. Officers will therefore keep under review options to increase the proportion of its borrowing that fixed long-term during 2020/21 including the options there are within the market.

4.3 Treasury Management Strategy

4.3.1 The Treasury Management Strategy sets out parameters that are designed to govern the level of council borrowing. These were updated by the Council on 3rd December 2019.

(i) **The operational boundary** – sets the maximum level of long term borrowing that the council will incur based on its estimated need to finance its capital investment. It is recognised that the council may borrow in excess of this amount for cash flow purposes i.e. while it waits to receive government grants or other significant income. The limit for 2019/20 is £190m

(ii) **The authorised limit** – is an absolute limit and sets the absolute maximum level of borrowing that the council can undertake and cannot be exceeded in the short term. The limit for 2019/20 is £212m

4.3.2 The Council has remained within these approved borrowing limits during 19/20.

4.3.3 The Council's upper limit for the proportion of its borrowing that is exposed to variable interest rates is 80%. The Council has remained within this limit during 19/20 with the actual proportion being 70% as at the 31st March 2020.

LEGAL IMPLICATIONS

4.4 In producing and reviewing this report the Council is meeting legal obligations to manage its funds properly.

5. RISK MANAGEMENT

Risks	Uncontrolled Risk	Controls	Controlled Risk
That a counterparty defaults on repayment of a loan resulting in a loss of capital for the Council	MEDIUM	Loans are only made to counterparties on the approved lending list. The credit ratings of counterparties on the lending list are monitored regularly	LOW
That funds are invested in fixed term deposits and are not available to meet the Council's commitment to pay suppliers and payroll.	MEDIUM	A cashflow forecast is maintained and referred to when investment decisions are made to ensure that funds are available to meet the Council's commitment to pay suppliers and payroll.	LOW

6. POTENTIAL IMPACTS

6.1 Equalities. None identified, it's a change in accounting policy.

6.2 Climate change/sustainability. None identified, it's a change in accounting policy.

6.3 Data Protection/GDPR. None identified, it's a change in accounting policy.

7. CONSULTATION

7.1 Not applicable

8. TIMETABLE FOR IMPLEMENTATION

8.1 This section is not applicable.

9. APPENDICES

This report is supported by three appendices:

- Appendix A – Approved Lending List
- Appendix B – External Long Term Borrowing at 31st March 2020
- Appendix C – 19/20 Economic Assessment

10. BACKGROUND DOCUMENTS

- Not applicable

11. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Hilton	Lead Member for Finance and Ascot	01/06/20	01/06/20
Duncan Sharkey	Managing Director	18/05/20	18/05/20
Russell O'Keefe	Director of Place	18/05/20	
Adele Taylor	Director of Resources	01/05/20	15/05/20
Elaine Browne	Head of Law	18/05/20	
Nikki Craig	Head of HR, Corporate Projects & ICT	18/05/20	18/05/20
Louisa Dean	Communications	18/05/20	
Kevin McDaniel	Director of Children's Services	18/05/20	
Hilary Hall	Director of Adults, Commissioning & Health	18/05/20	18/05/20
Karen Shepherd	Head of Governance	18/5/20	18/5/20
Aron Kleiman	External Auditors, Deloitte	17/06/20	

REPORT HISTORY

Decision type: Key decision	**Urgency item?** Yes – agreed with O&S Chairman	**To Follow item?** No
Report Author: Ryan Stone, Accountant		

APPENDIX C

Royal Borough of Windsor & Maidenhead Approved Counterparty List
(Approved by Cabinet on 03/12/2019)

Fitch Ratings	FITCH ShortTerm Rating	FITCH Long Term Rating	FITCH Outlook	Max. Sum To Be Lent £m
UK				
Government				
Debt Management Office	F1+	AA	Negative (watch)	**no limit**
Banks				
Abbey National Treasury	F1	A	Stable	**5**
Australia and New Zealand Bank	F1+	AA-	Stable	**5**
Barclays Bank	F1	A+	Stable	**5**
Clydesdale Bank	F2	A-	Negative (watch)	**5**
HSBC	F1+	A+	Negative (watch)	**5**
Lloyds Banking Group	F1	A+	Negative (watch)	**7.5**
National Australia Bank Ltd	F1+	AA-	Negative	**5**
Royal Bank of Canada	F1+	AA	Stable	**5**
Royal Bank of Scotland	F1	A	Negative (watch)	**5**
Santander UK	F1	A+	Negative (watch)	**5**
Standard Chartered	F1	A	Stable	**5**
Ulster Bank	F1	A-	Negative (watch)	**5**
Building Societies (max £3m per loan)				
All Building Socieites with total group assets greater than £6 billion and FITCH Long term rating of BBB or better				
Coventry	F1	A-	Stable	**5**
Nationwide	F1	A	Negative (watch)	**5**
Yorkshire	F1	A-	Stable	**5**
Leeds	F1	A-	Stable	**5**
Skipton	F1	A-	Stable	**5**
Local Authorities				
All UK Local Authorities, with the exception of those with reported financial irregularities.				**5**
Money Market Funds				
All money market funds with a Fitch AAA long term credit rating, including:				
Federated Short Term Sterling Prime Fund		AAA		**5**
Invesco Sterling Liquidity Fund		AAA		**5**
Aberdeen Sterling Liquidity Fund		AAA		**5**
Insight GBP Liquidity Fund		AAA		**5**
LGIM Sterling Liquidity Fund		AAA		**5**
Revolving Credit Facility				
AFC				**11.7**
Financial Services Companies				
Kames Capital				**1**
Legal & General				**1.5**
RBWM associated companies				
Flexible Home Improvement Loans Ltd				**0.5**
RBWM Property Company Ltd				**1.5**

SHORT TERM RATING
Expectation of timely repayment of financial commitments.
F1+ is most likely to repay on time, **F1** Highest Credit, **F2** Good, **F3** Fair, **B** Speculative, **C** High Default Risk

LONG TERM RATING
Expectation of credit risk. **AAA** is the least risky, ie little credit risk. **AA** Very High Credit, **A** High, **BBB** Good.
Below BBB indicates non-investment grade

Appendix C

External Long Term Borrowing at 31st March 2020

Fixed Term Borrowing			
	Duration/ Type	**Repayment Date**	**Loan Value £000s**
PWLB			
	25yrs/Maturity	25/09/21	785
	25yrs/Maturity	08/06/29	7,500
	26yrs/Maturity	25/09/29	2,500
	26yrs/Maturity	23/09/30	10,000
	25yrs/Maturity	08/12/30	5,000
	30yrs/Maturity	25/09/33	5,000
	45yrs/Maturity	08/12/50	5,000
	45yrs/Maturity	08/12/50	5,000
	60yrs/Maturity	25/03/55	1,600
	60yrs/Maturity	25/09/55	1,000
	60yrs/Maturity	25/03/56	400
	60yrs/Maturity	25/09/56	265
Total Fixed Term Borowing			**44,049**

ANALYSIS OF PWLB RESIDUAL MATURITY @ 31.3.20		
Maturing Within	**Amount £000s**	**Average Rate**
1 Year	0	0.000%
1 to 2 Years	785	8.000%
2 to 5 Years	0	0.000%
5 to 10 Years	0	0.000%
10 to 15 Years	30,000	4.790%
15 to 20 Years	0	4.800%
20 to 25 Years	0	0.000%
25 to 30 Years	0	0.000%
30 to 35 Years	10,000	4.200%
35 to 40 Years	3,265	8.184%
40 to 45 Years	0	0.000%
TOTAL	**44,049**	**4.966%**

LOBO Loans at 31st March 2020

Fixed Term Borrowing			
	Duration/ Type	**Repayment Date**	**Loan Value £000s**
LOBO			
Barclays	60yrs/15yrs fixed, 6mth LOBO	19-Jul-66	5,000
Dexia	35yrs/5yrs fixed, 5yr LOBO	26-Jan-43	8,000
Total Fixed Term Borowing			**13,000**

ANALYSIS OF LOBO RESIDUAL MATURITY @ 31.3.20		
Maturing Within	**Amount £000s**	**Average Rate**
5 to 30 Years	8,000	4.190%
30 to 55 Years	5,000	4.190%
TOTAL	**13,000**	**4.190%**

Appendix C – 2019/20 Economic Assessment from Arlingclose

The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial markets: Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. 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 falling from 0.75% in April 2019 to 0.26%

on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

Credit review: In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests 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 their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, 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 and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.