

19<sup>th</sup> January 2021

<b>Report of</b>	<b>Assistant Director Corporate &amp; Improvement</b>	<b>Author</b>	<b>Paul Cook</b> ☎ 505861 <b>Mark Jarvis</b> ☎ 282774
<b>Title</b>	<b>Treasury Management – Annual Review 2019/20</b>		
<b>Wards affected</b>	Not applicable		

## 1 Executive Summary

- 1.1 This report is part of the cycle of monitoring treasury management in the Council and follows the completion of the audit of the Council's Statement of Accounts. The Treasury Management Strategy (TMS) covers all the borrowing and investment activities of the Council.
- 1.2 Over the years, the borrowing strategy has sought to borrow internally given the low investment rates on offer however given the increase in the capital programme and reduction in available capital receipts, the Council has been required to borrow an additional £21.3m on a short-term basis to fund the capital programme. External borrowing increased to £162.4m compared to at £141.1 million in 2018/19.
- 1.3 The investment policy reflected the Council's low appetite for risk. The financial year continued the challenging low return investment environment of previous years. The Council's investments at the end of the year totalled £55.6 million.
- 1.4 The Council employ Link Asset Services to provide a consultancy service in respect of treasury management, to include advice on borrowing, investments, counterparty credit details and general capital accounting information. Their performance was considered satisfactory in 2019/20.

## 2 Action required

- 2.1 The Committee is asked to consider the TMS Annual Review 2019/20 following the 2019/20 audit of accounts.
- 2.2 To note the Council's increase in borrowing to fund the capital programme.
- 2.3 The Committee is asked to note the satisfactory performance of Link Asset Services.

## 3 Reason for scrutiny

- 3.1 The CIPFA Treasury Management Code of Practice requires the Council to produce three main reports each year, which are all required to be scrutinised and reviewed:
  - the Treasury Management Strategy Statement.
  - the Mid-Year Treasury Management Report.
  - the Annual Treasury Management Review (this report).

## 4 Treasury Management Review 2019/20

4.1 The Annual Treasury Management Review 2019/20 is attached as a separate document in appendix A.

## 4.2 Summary of TMS Prudential Indicators

### Investments

Indicator	2018/19	2019/20 Strategy	2019/20 Actual	Comments
	£m	£m	£m	
Creditworthiness	Link creditworthiness system			All investments within policy
Country Limits		AA-		All investments within policy
Non-UK not to exceed		£15m		All investments within policy
Return on in-house funds.	0.78%	0.50%	0.87%	Improved return

### Borrowing

Indicator	2018/19	2019/20 Strategy	2019/20 Actual	Comments
	£m	£m	£m	
Authorised Borrowing Limit	176,961	221,849	162,444	
Operational Boundary	161,961	206,849	162,444	
Maturity Structure				
< 1 year	3.9%	15%	21.8%	Over time the period to maturity of existing loans decreases and may cause variations. The strategy limits exceed 100% in total allowing some flexibility to choose loan maturities.
1 to 2	0.0%	15%	2.1%	
2 to 5	15.6%	15%	6.2%	
5 to 10	0.5%	15%	0.4%	
10 to 20	10.2%	30%	13.5%	
20 to 30	25.5%	30%	22.2%	
30 to 40	25.1%	40%	21.8%	
40 to 50	12.9%	40%	6.5%	
50+	6.3%	10%	5.5%	
Average borrowing rate	4.46%		4.43%	

## 5 Strategic Plan references

5.1 Prudent treasury management underpins the budget strategy required to deliver all Strategic Plan priorities.

## 6 Publicity considerations

6.1 Appendix A to the annual report is confidential.

## 7 Financial implications

- 7.1 Interest paid and earned on borrowing and investments is shown within the Central Loans and Investment Account (CLIA). Outturn figures for 2019/20 show a favourable variance of £163k. This takes into account additional borrowing costs, which is offset by investment income being higher than budgeted due to the level of cash balances available.
- 7.2 During 2019/20, increased remained steady at 0.5% and subsequently decreased on the 11<sup>th</sup> March 2020 and 19<sup>th</sup> March 2020 to 0.25% and 0.1% respectively to a record low of 0.10%

Month	Base Rate	Change
19-Mar-20	0.10%	↓ 0.15
11-Mar-20	0.25%	↓ 0.5
02-Aug-18	0.75%	↑ 0.25

- 7.3 Following the 2019/20 audit of the Council's accounts, the auditors highlighted two areas in relation to the loan investment into Colchester Commercial Holdings Limited that need to be reviewed. These are in relation to the interest rate of the loans provided to the company and the decision to provide MRP (Minimum Revenue Provision) on these loans.
- 7.4 There are two loans provided to Colchester Commercial Holdings Limited. The first for Colchester Amphora Homes Limited (CAHL), the other for Colchester Amphora Energy Limited (CAEL). Interest rates on both of these loans are being reviewed and benchmarked against similar companies during 2020/21 to ensure an appropriate rate is applied in all the circumstances.
- 7.5 The requirement to provide MRP is to ensure the Council provide sufficient funds to repay debt. With regards to the loans to CAHL and CAEL, no provision was made on the basis that there is a contractual arrangement is in place to repay the loans in 3 to 5 year based on the business plan of the companies. At the time of the audit, no repayment plan had been provided raising the recommendation in regard to the Council's MRP policy.

## 8 Risk management implications

- 8.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Policy Statement contains a section on treasury Risk Management (TMP1).
- 8.2 TMP1 covers the following areas of risk all of which are considered as part of our treasury management activities:
- Credit and counterparty risk
  - Liquidity risk
  - Interest rate risk
  - Exchange rate risk
  - Refinancing risk
  - Legal and regulatory risk
  - Fraud, error and corruption, and contingency management
  - Market risk

## 9 Other standard references

- 9.1 Having considered consultation, equality, diversity and human rights, community safety, and health and safety implications, there are none that are significant to the matters in this report.

## **Appendices**

Appendix A – Investment held as at 31<sup>st</sup> March 2020 [CONFIDENTIAL]

## **Background Papers**

Treasury Management Strategy 2019/20