Appendix A

TREASURY MANAGEMENT OUTTURN REPORT 2019/20

1. Introduction

1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual review of treasury management activities and the actual performance against 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).

1.2 During 2019/20 the minimum reporting requirements were that Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Full Council 5/2/2019)
- a mid-year treasury update report (Full Council 8/10/2019)
- an annual report following the year describing the activity compared to the strategy (this report)

1.3 In addition quarterly treasury management update reports were received by Audit Committee.

1.4 The regulatory environment places responsibility 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.

1.5 The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports. This role was performed by the Audit Committee before these reports were presented to Full Council.

1.6 The Code also requires such information to allow the Audit Committee to monitor compliance with our approved Strategy and Policy Statement.

1.7 Member training on treasury management was undertaken during the year in order to support members' scrutiny role.

2 Economic Background for 2019/20 (Source: Link Asset Services)

2.1 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. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline.

2.2 Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 concerning 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. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

2.3 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. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government. 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%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lock down is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lock down is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

3. Main Activities of the Treasury Management Function during 2019/20

Overview

3.1 The Council continues to adopt a cautious approach, whereby investments continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. As a result of this the strategy for 2019/20 maintained an under borrowing position to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

3.2 The Council's investment policy and strategy enabled the authority to balance the overriding need for risk management and control with the desire to secure an acceptable return on its investments. Minimising risk is particularly pertinent and has been stated to be the prime objective by CIPFA in its Treasury Management Code of Practice.

3.3 The Council engages Link Asset Services as treasury consultants and part of their service is to advise on counterparties and credit ratings in formulating the approved investment list. Regular reviews of the list will ensure that it remains current, valid, and provides for a straightforward and workable limit structure.

Borrowing and Debt Management Activity during 2019/20

3.4 During March 2019, and in light of increased borrowing requirement in coming years, Council officers took advantage of favourable borrowing rates, to reduce the Councils underborrowing position by undertaking £32.800 million fixed term government borrowing through the Public Works Loans Board (PWLB). The Debt was taken at a rate of 2.08% (significantly lower than the Councils average borrowing rate) ensuring an affordable borrowing rate for a number of key council capital schemes. No other rescheduling or new borrowing took place during 2019/20.

3.5 As a result of the new borrowing the average interest rate paid by the Council in 2019/20 was 4.1636%, a reduction of 0.0878% from 2018/19.

3.6 The maturity profile of the Council’s debt is shown in Appendix A1.

4. Treasury Management Position Statement at 31st March 2020

4.1 It should be noted that the accounting practice to be followed by the Council (CIPFA Code of Practice) requires financial instruments in the Accounting Statement (debt and investments etc.) to be measured in a method compliant with International Financial Reporting Standards (IFRS). The figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the Accounting Statement by items such as accrued interest.

Investments

4.2 The value of all investments held by the Council are shown in the table below:

	31 March 2019 £m	**31 March 2020 £m**
Council Shareholdings		
Birmingham Airport Holdings Ltd:		
Ordinary Shares	17.762	10.381
Preference Shares	1.176	1.176
	18.938	11.557
Coventry & Solihull Waste Disposal Company Ltd	28.500	28.500
Blythe Valley Innovation Centre Ltd	0.203	0.203
Total Shareholdings	**47.641**	**40.260**
Treasury Management Investments		
Long Term Investments		
Fixed Term Investments (>365 Days):	0.000	0.000
	0.000	0.000
Short Term Investments		
Fixed Term Investments (<365 Days):	46.000	100.500
Money Market and Call Accounts	15.599	2.434
	61.599	102.934
Total Treasury Management Investments	**61.599**	**102.934**

4.3 The valuation for Birmingham Airport Holdings Ltd, undertaken in May 2020 resulted in a decrease in the value of the Council's shareholding from £18.938million to £11.557 million, which is reflected in the Council's Balance Sheet. This reduction in valuation is based on the uncertainty of the ongoing COVID-19 pandemic and the impacts of various airlines operating from the airport experiencing financial difficulty.

4.4 Performance of investments during 2019/20

4.5 The performance of investments (yield achieved) during 2019/20 is summarised below:

Investment return	0.881%
Average 2019/20 SONIA[1] rate	0.676%

[1] SONIA is the weighted average deposit rate for overnight trades of counterparties with very high creditworthiness. This was used as the benchmark rate of return for 2018/19.

4.5 **Investment Policy** - The Council's investment policy is governed by Ministry of Housing, Communities, and Local Government (MHCLG) Guidance, which has been adopted in the Annual Investment Strategy approved by Full Council. 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 the Council had no liquidity difficulties.

4.6 Investments held by the Council - The Council maintained an average balance of £95.335 million of internally managed funds and received an average return of 0.881%. The initial budget for 2019/20 assumed a return for in-house investments of 0.90%. However due to a weaker economic climate than originally forecast this target was reduced to 0.85% in September 2019. The additional return against the revised target represents approximately £29,000 additional income for the Council, this increase has been factored into the treasury management savings proposals for future years.

Borrowings

4.7 The Capital Financing Requirement (CFR) shows the Council's underlying need to borrow for a capital purpose, and this is a gauge for the Council's debt position. The CFR results from the 2019/20 unfinanced capital activity and prior years' net unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

4.8 Whilst under treasury management arrangements actual debt can be borrowed or repaid at any time within the confines of the annual treasury strategy, the Council is required to make an annual revenue charge to reduce the CFR – effectively a repayment of the non-housing (HRA) borrowing need, or a repayment of principal amount. There is no statutory requirement to reduce the HRA CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments.

4.9 This statutory charge is called the Minimum Revenue Provision (MRP). 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).

4.10 The Council's 2019/20 MRP Policy (as required by MHCLG Guidance) was approved as part of the Corporate Capital Strategy.

4.11 The Council's CFR for the year is shown below and represents a key prudential indicator. The CFR includes Private Finance Initiatives (PFI) and leasing schemes, which increase the Council's borrowing needs. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

	31 March 2019 £m	31 March 2020 £m
Opening Balance	**407.302**	**412.097**
+ Unfinanced capital expenditure	14.074	38.186
-/+ net adjustments for PFI & Finance Lease	(1.990)	(5.507)
- MRP/VRP/Other	(7.289)	(7.819)
Closing Balance	**412.097**	**436.957**

4.12 Borrowing activity is constrained by prudential indicators for net borrowing, the CFR, and the Authorised Limit.

4.13 The Council had actual borrowings of:

	31 March 2019 £m	31 March 2020 £m
Long Term Borrowing		
Public Works Loan Board (PWLB)	222.869	255.315
Other Long Term Loans	25.000	25.000
Dudley & Walsall (Former WMCC Debt)	6.532	5.673
Total Long Term Borrowings	**254.401**	**285.988**
Short Term Borrowing		
Public Works Loan Board (P.W.L.B.)	0.341	0.354
Dudley & Walsall (Former WMCC Debt)	0.761	0.846
Total Short Term Borrowing	**1.102**	**1.200**
Total Borrowing	**255.503**	**287.188**

4.14 The maturity profile of the Council's borrowing (excluding former WMCC debt) at 31 March 2020 is shown below*:

	£m	%
Under 12 months	15.355	5.5
12 months to 2 years	4.367	1.6
2 years to 5 years	1.183	0.4
5years to 10 years	6.284	2.2
10 years to 20 years	14.025	5.0
20 years to 30 years	29.366	10.5
30 years to 40 years	118.723	42.3
40 years to 50 years	91.366	32.5
50 years and above	0.000	0.0
Total	**280.669**	**100.0**

*This profile will differ from that on the Council's Accounting Statement due to the Prudential Code's requirement that Lender's Option, Borrower's Option (LOBO) loans are shown as maturing at their next call date in the above.

4.15 Interest payments/receipts during 2019/20 can be identified over the following categories.

	£m
Public Works Loan Board (PWLB)	9.261
Other Long Term Loans	1.138
Dudley & Walsall (Former WMCC Debt)	0.403
Other interest payments	0.147
Total Interest Payments	**10.949**
Less:	
Investment Receipts	(1.299)
Net interest payable	**9.650**

4.16 Total debt management costs incurred during 2019/20 amounted to £153,970 of which the Housing Revenue Account (HRA) paid £69,606.

5 Prudential Indicators and Compliance Issues

5.1 The Council is required by the Prudential Code to report the outturn prudential indicators after the year end. Appendix A2 provides a schedule of all the mandatory prudential indicators. Certain indicators provide either an overview or a limit on treasury activity, and these are shown below.

5.2 **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 plus the estimates of any additional capital financing requirement for the current and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2019/20 Original Indicator £m	**2019/20 Latest Indicator £m**	**2019/20 Outturn £m**
Capital Financing Requirement	413.032	416.472	436.957
Gross borrowing position	309.027	309.325	339.178
Under/(Over) Borrowing	**104.005**	**107.147**	**97.679**

5.3 Gross borrowing is made up of the sum of the Council's actual long and short term PWLB & market debt, plus its outstanding liabilities in respect of PFI and lease contracts.

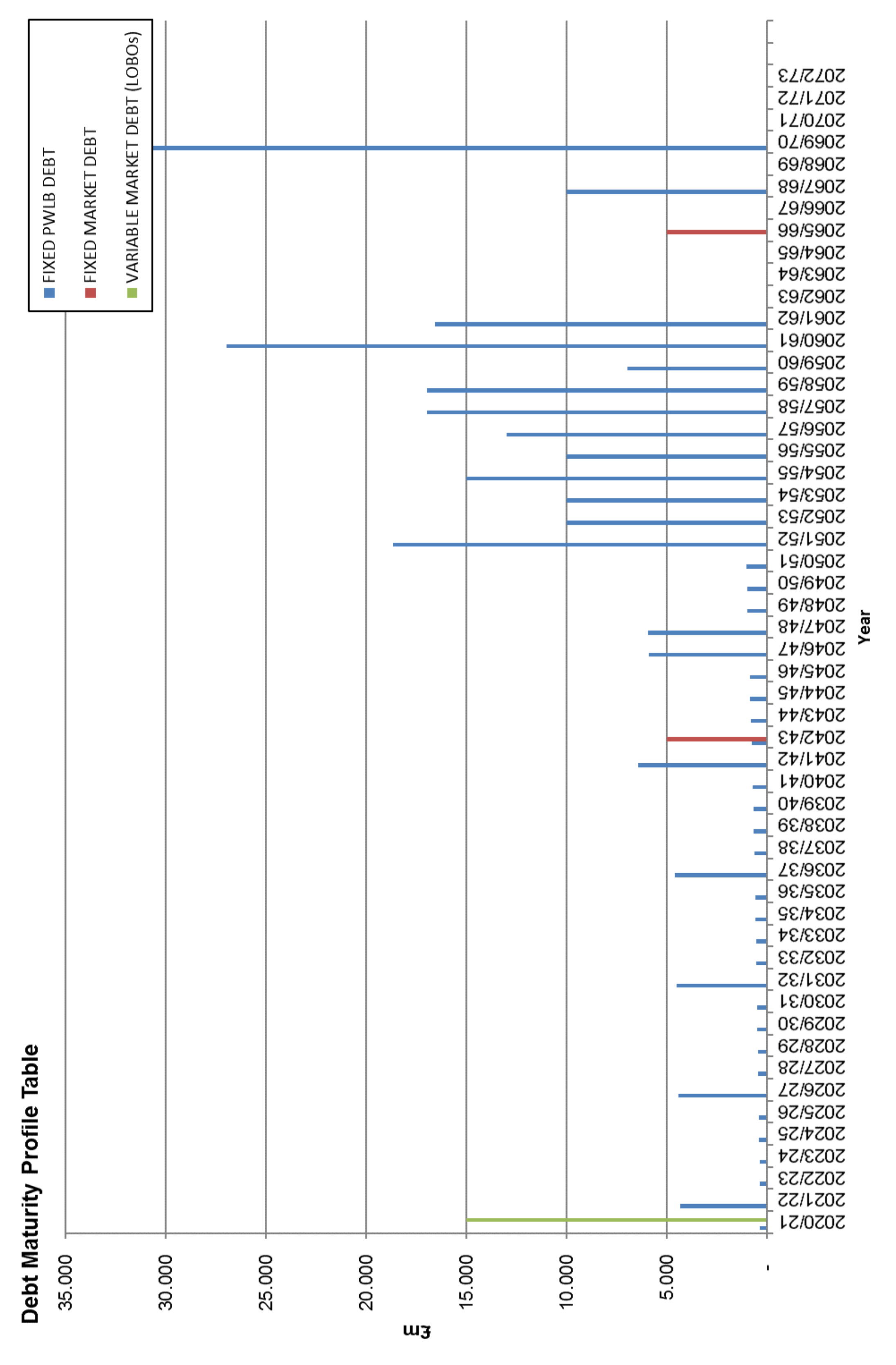
5.4 **The Authorised Limit** -The Authorised Limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have power to borrow above this level. The table demonstrates that during 2019/20 the Council has maintained gross borrowing within the Authorised Limit.

5.5 **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 are acceptable subject to the Authorised Limit not being breached.

	2019/20 Original Indicator £m	**2019/20 Latest Indicator £m**	**2019/20 Outturn £m**
Authorised Limit	413.032	416.472	339.178
Operational Boundary	350.000	350.000	339.178

Debt Maturity Profile as at 31st March 20

The graph below indicates the amount of Solihull's long term debt that matures in each year over time. The portfolio is structured so that debt will be spread across a wide time span in order to minimise the Council's refinancing risk. The CIPFA Prudential Code for Capital Finance in Local Authorities requires the Council's variable market debts to be shown at their next 'call' date (the time at which the lender next has the option to alter the interest rate), rather than the actual maturity date.



Appendix A2

Prudential Indicators and Limits for 2019/20

The CIPFA Prudential Code requires Local Authorities to set a number of Prudential Indicators and limits as part of its annual Treasury Management Strategy to ensure that borrowing remains affordable. The following tables show the outturn position against the Prudential Indicators that were set as part of the 2019/20 Corporate Capital and Treasury Management Strategy as agreed by Full Council. Prudential Indicators give an indication of the expected position at the end of the year. Ordinarily, limits set should not be breached, and any breaches will be reported to Members.

Treasury Management Prudential Indicators

	2019/20 Original Indicator £m	**2019/20 Latest Indicator £m**	**2019/20 Outturn £m**
Capital Financing Requirement (CFR)			
Housing	175.460	174.036	172.437
Non-Housing	176.414	180.980	206.011
Other Long-Term Liabilities	61.158	61.456	58.509
Total	**413.032**	**416.472**	**436.957**
Gross Debt			
Borrowing	247.869	247.869	280.669
Other Long Term Liabilities	61.158	61.456	58.509
Total Gross Debt	**309.027**	**309.325**	**339.178**
Capital Expenditure Plans			
Housing	16.066	17.822	11.677
Non-Housing	56.384	45.135	60.005
Total	**72.450**	**62.957**	**71.682**
Capital Receipts	(3.081)	(3.250)	(0.883)
Capital Grants	(37.203)	(24.643)	(14.925)
Contributions	(3.090)	(1.312)	(2.920)
Revenue	(14.201)	(18.998)	(14.768)
Net financing need for the year	**14.875**	**14.756**	**38.186**
Ratio of financing costs to net revenue stream			
Housing	17.78%	17.75%	18.91%
Non-Housing	11.74%	10.82%	10.43%
Incremental impact of capital investment decisions on Band D council tax (notional)	£14.63	£14.63	£26.84
Incremental impact of capital investment decisions on the housing rent levels (notional)	£16.28	£16.28	£0.00

In addition to the above, the Council is required as a prudential indicator to:

- Adopt the CIPFA Code of Practice
- Ensure that over the medium term borrowing will only be for a capital purpose (i.e. net external borrowing is less than CFR)

The Council is compliant with these indicators.

Treasury Management Limits

	2019/20 Latest Approved Limit £m	2019/20 Outturn £m	Breaches of Limit
Authorised Limit (against outturn CFR)	416.472	339.178	None
Operational Boundary (against outturn gross debt)	350.000	339.178	None
Upper limit on borrowing at fixed rates of interest	None	None	None
Upper limit on borrowing at variable rates of interest	30%	5.3%	None
Maturity structure of fixed rate borrowing against maximum position			
Under 12 months	20%	5.5%	None
12 months to 2 years	20%	1.6%	
2 years to 5 years	50%	0.4%	
5years to 10 years	50%	2.2%	
10 years to 20 years	60%	5.0%	
20 years to 30 years	60%	10.5%	
30 years to 40 years	80%	42.3%	
40 years to 50 years	80%	32.5%	
50 years and above	80%	0.0%	
Maximum principal funds invested for longer than 365 days	15.000	0.000	None
Housing Revenue Account Debt Limit (against HRA CFR)	190.000	172.437	None