

Report of Chief Officer Financial Services

Report to Executive Board

Date: 24th June 2020

Subject: TREASURY MANAGEMENT OUTTURN REPORT 2019/20

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Has consultation been carried out?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1 Main Issues

- 1.1 This report sets out for Members' approval the Treasury Management Outturn Report for 2019/20.
- 1.2 This report shows that net external debt at 31st March 2020 was £2,162m, £47m lower than the February 2020 forecast. This movement is due to higher than anticipated revenue balances of £51m and an increase in assumed treasury borrowing of £4m for the capital programme. The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at £5.6bn as at 31st March 2019. The value of assets as at 31st March 2020 are pending the completion of the Council's draft balance sheet and statement of accounts which are not finalised at this time.
- 1.3 The level of debt has remained within the authorised limit and operational boundary as approved by the Council in February 2020.
- 1.4 The average rate of interest paid on the Council's external debt was 3.30% for 2019/20 compared to 3.28% for 2018/19.

2 Best Council Plan Implications

- 2.1 Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Best Council Plan.

3 Resource Implications

- 3.1 This treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the general fund and HRA.
- 3.2 The strategy for 2019/20 has delivered a saving of £2.8m against the revised budget which includes an additional £1m from reserves to fund the cost of switching short term borrowing to long term borrowing in the year. These savings are principally due to funding at lower rates than anticipated and from increased income for external investments.

Recommendations

1. Executive Board are asked to note the Treasury Management outturn position for 2019/20 and that treasury activity has remained within the Treasury Management Strategy and policy framework.

1 Purpose of this report

1.1 This report provides members with a final update on Treasury Management Strategy and operations in 2019/20.

2 Background information

2.1 The operation of the treasury management function is governed by provisions set out under part 1 of the Local Government Act 2003, whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities 2017 in particular:

- The amended 2017 Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of prudential indicators.
- Any in year revision of these limits must be agreed by Council.
- Policy statements are prepared for approval by the Council at least twice a year.

2.2 These codes have been updated and re-issued late in 2017/18 together with the Ministry of Housing, Communities and Local Government (MHCLG) guidance in relation to Investments and Minimum Revenue Provision (MRP). The CIPFA codes and MHCLG guidance have been formally adopted.

3 Main Issues

3.1 Review of Strategy 2019/20

3.1.1 Table 1, below shows that net borrowing in 2019/20 was £2,162m, £47m lower than the February 2020 forecast. This movement is due to higher than anticipated revenue balances of £51m and an increase in assumed treasury borrowing of £4m for the capital programme. The actual movement in the capital programme is explained the revenue outturn report elsewhere on the agenda. The increase in revenue balances is mainly attributable to the receipts of £43m of Government grant relating to the first tranche of the Covid-19 grant and S31 grant.

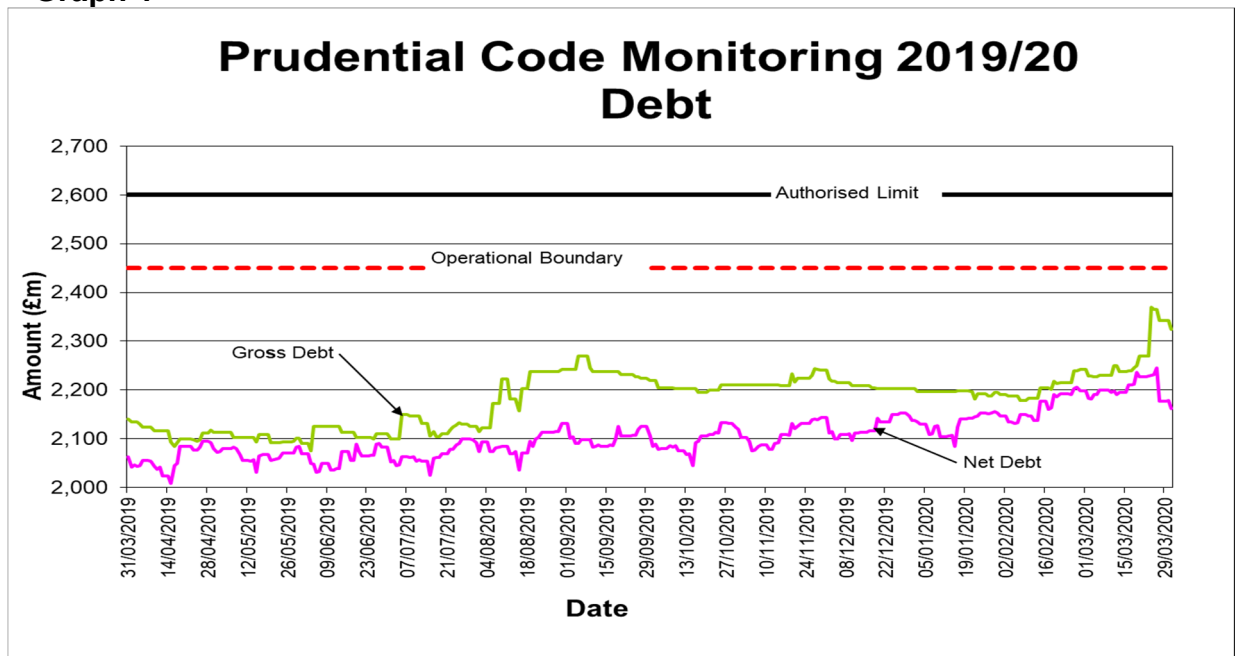
TABLE 1

	2019/20 Nov 19 Report	2019/20 Feb 20 Report	2019/20 This Report
ANALYSIS OF BORROWING 2017/18	£m	£m	£m
Net Borrowing at 1 April	2,063	2,063	2,063
New Borrowing for the Capital Programme – GF	162	132	132
New Borrowing for the Capital Programme – HRA	6	6	10
Debt redemption costs charged to Revenue (Incl HRA)	(20)	(18)	(18)
Reduced/(Increased) level of Revenue Balances	26	26	(25)
Net Borrowing at 31 March	2,237	2,209	2,162
Capital Financing Requirement*			2,492
Other long term liabilities capital financing requirement			565
Net Borrowing 31st March comprised as follows			
Long term Fixed	2,078	2,098	2,234
Variable (less than 1 Year)	20	0	0
New Borrowing	169	141	90
Short term Borrowing	0	0	0
Total External Borrowing	2,267	2,239	2,324
Less Investments	30	30	162
Net External Borrowing	2,237	2,209	2,162
% borrowing funded by short term and variable rate loans	8%	6%	4%
Limit for variable rate Borrowing	40%	40%	40%

* The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

- 3.1.2 The level of debt and liabilities should be viewed in the context of the Council’s assets which are valued at approximately £5.6bn as at 31st March 2019. The value of assets as at 31st March 2020 are pending the completion of the Councils draft balance sheet and statement of accounts which are not finalised at this time. The Capital programme outturn position is reported in the June Financial Performance - Outturn Report to Executive Board elsewhere on the agenda.
- 3.1.3 Graph 1, below shows that the level of debt during 2019/20 remained within Authorised limits during the year. The Authorised Limit is the maximum permitted amount of borrowing the Council can have outstanding at any given time and has not been breached during 2019/20. The operational boundary is a key management tool and can be breached temporarily depending on cash flow. This limit acts as a warning mechanism to prevent the Authorised limit from being breached. Treasury management activity has resulted in no breach of its prudential indicators which are detailed in Appendix A. All of these other prudential indicators are within the normal tolerance levels of treasury management.

Graph 1



- 3.1.4 The 2019/20 borrowing strategy continued to fund the capital programme borrowing requirement from short dated loans and internal cash balances whilst looking for opportunities to lock into attractive longer dated funding. Whilst this approach continues to deliver lower costs of financing, the proportion of borrowing funding by short terms loans has been reduced to 4% (Table1) due to the longer term funding of £486.5m taken during 2019/20 as detailed in Table 2. This exposure to interest rate refinancing has decreased significantly from 2018/19 however it is expected to rise to approximately 24% in 2022/23 if only short term funding is utilised. Provision exists in 2021/22 and 2022/23 within the MTFs to enable the switching of all short term borrowing to Long term funding in which case the interest rate exposure would fall to 2%.
- 3.1.5 Since the economic update to Members in February, the uncertainty surrounding Brexit has continued and the impact of the Covid-19 outbreak provide the backdrop for the economic performance outlined below. The key movements are:

- Inflation as measured by the CPI index was between 1.5% and 2% for most of the year however it fell from 1.5% in March to 0.9% in April as economic activity declined. Likewise commodity prices have also fallen with oil reaching levels not seen since 2016 as supply exceeded demand. Brent crude traded between \$55 and \$70 for most of the year before falling below \$25 in March. Average earnings have also decreased during the year after reaching a peak of just over 4% in June 2019 the 3 months to March fell to 2.4% The fall in inflation and increase in average earnings together represent an increase in household disposable income which is supportive of the wider economy.
- Unemployment having remained at low levels posting a figure of just below 4% for most of the year and ending at 3.9%. As the impact of the Covid-19 begins to percolate through the economy this figure is however expected to rise
- After starting the year at 0.75% the Bank of England (BOE) Base rate was expected to rise gently over the next few years, however on 11th March the Monetary Policy Committee (MPC) introduced an emergency cut to 0.25% followed on 19th March with another emergency cut to 0.1% which is the lowest level since records began in 1694. Additionally in March the MPC increased the Quantitative Easing package from £475bn to £675bn in response to the Covid-19 crisis.
- In the US the economy grew 3.1% in Quarter 1 however this fell to around 2% for the remaining 3 quarters and this prompted the Federal Open Markets Committee (FOMC) to cut rates. 3 cuts of 0.25% were implemented in 2019 and in March US rates were reduced to 0% to 0.25% as the Covid19 impact was felt. The US is entering a serious recession and despite a \$2 trillion stimulus package and other measures unemployment is rising and has reached 14.7% from a level of below 4% in February and. Non-farm payroll figures fell by £20.5m in April 2020 alone.
- In Europe growth of 1.8% in 2018 fell to only 0.9% in Q4 2019. Inflation remains below the 2% target and the QE programme which ended in December 2018 it introduced a third round providing cheap 2 year funding to banks from September 2019. In response to Covid-19 in expanded this further in March 2019 although the fiscal response by national governments has been patchy.
- In China economic growth continues to weaken and is viewed against a backdrop of the trade issues with the US during 2019. China was amongst the first to begin a lock down in response to Covid-19 and although the restrictions are now slowly being lifted ongoing economic issues remain.
- GDP growth in Japan continues to struggle however inflation again remains below target despite continued and continuing monetary and fiscal stimulus.
- Current projections for interest rates are uncertain due the unprecedented impact of the Covid-19 outbreak and the position is being kept under review as the situation evolves.

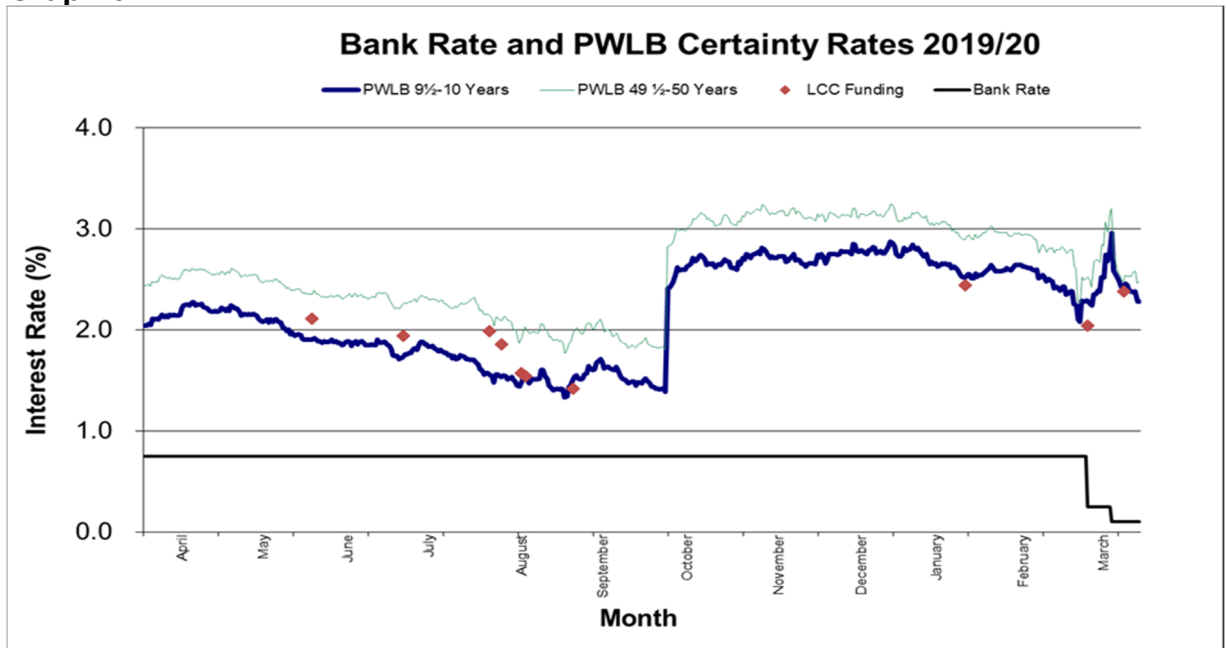
3.1.6 Graph 3 below shows the movement in PWLB interest rates over the year. Gilt yields have fallen over the year by around 1% in the 50 year and PWLB rates have mirrored this trend. Longer term PWLB rates (49½-50 year) have varied during the year but ended the year at higher levels than the start and achieved a low point which occurred in early September. Shorter term rates (9½-10 year) have also risen from the start of the year and again hit a low point in September. This apparent disconnect between underlying gilts and PWLB rates on offer is due to action taken by Her Majesty's Treasury (HMT) who changed the rates structures on 9th October without any warning

or consultation by increasing rates by 1% across all structures and can be clearly seen in Graph 3. This was partially reversed on 11th March when HRA borrowing was re-instated at the previous levels. WPLB rates can now be summarised as follows

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

The graph below also shows the long term funding activity undertaken as detailed in table 2 below.

Graph 3



3.1.7 Net debt savings of £2.8m have been generated against the revised budget. These savings are principally due to continuing to fund short term borrowing at low short term rates and from the use of internal resources to defray external borrowing.

Table 2 shows £486.5m of longer term funding was secured during the year the majority of this before the surprise increase in PWLB rates as rates fell during early 2019. The table also shows that no market loans options were exercised during the entire year, £26m PWLB loans reached maturity during the period. Approximately half of market loans outstanding are termed Lenders Option Borrowers Option (LOBO) and contain clauses which allows the lender, at pre-determined dates, to vary the interest rate on the loan. If one of these options is exercised and the new rate is not accepted, the borrower then has the option to repay the loan without penalty. The Council has £215m of loans with Barclays of which £110m are the subject of a class action initiated by a total of 7 Councils. These LOBOs contained clauses that referenced London Inter Bank Overnight Rate (LIBOR) at a time when Barclays were subsequently convicted and fined for fraudulently fixing LIBOR. An initial hearing date had been set on 6/7th April to consider a preliminary issue however this has now been pushed back to January 2021. This is an ongoing action and further details will be reported as appropriate.

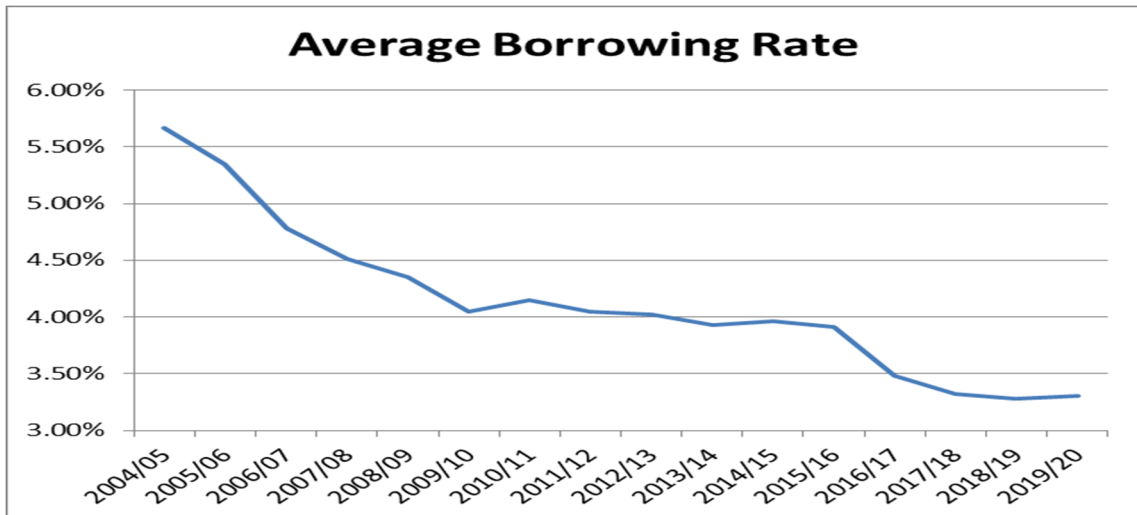
Table 2

Loan repayments and borrowing 2019/20							
Loan Repayments				New Borrowing			
Date	Amount	Original Rate	Discount Rate	Date	Amount	Term	Interest Rate
	(£m)	(%)			(£m)	(Years)	(%)
FWLB Loans				FWLB			
15/07/2019	26.4	3.83%	n/a	04/06/2019	30.0	30	2.08
				04/06/2019	20.0	20	2.16
				05/07/2019	25.0	25	1.87
				05/07/2019	25.0	25	2.01
				06/08/2019	50.0	50	1.99
				09/08/2019	50.0	50	1.86
				16/08/2019	25.0	25	1.30
				16/08/2019	25.0	25	1.84
				19/08/2019	25.0	25	1.31
				19/08/2019	25.0	25	1.76
				05/09/2019	25.0	25	1.24
				05/09/2019	25.0	25	1.60
				28/02/2020	16.5	16.5	2.44
				11/03/2020	10.0	10	2.00
				11/03/2020	10.0	10	2.07
				24/03/2020	25.0	25	2.22
				24/03/2020	25.0	25	2.67
				24/03/2020	25.0	25	2.06
				24/03/2020	25.0	25	2.57
Sub Total	26.4				486.5		
Non FWLB Loans				Non FWLB Loans			
Sub Total	0.000				0		
Total	26.4			Total	486.5		

3.2 Interest Rate Performance and Average Maturity Profile

3.2.1 The average rate of interest paid on the Council’s external debt was 3.30% (up from 3.28%) as shown in Graph 3. This increase is due to the level of longer term funding taken during the year at attractive rates but at levels higher than short term rates achievable.

Graph 3



3.2.2 Whilst the average borrowing rate remains low it is important to note the average maturity profile of the Council’s debt. The average length of all loans to final maturity including temporary loans is 35.1 years. The average length of all loans to the next option date including temporary loans is 31.8 years. This provides a large degree of funding certainty within the overall debt portfolio. Appendix B analyses debt as at 31st March 2020 by interest rate band and the year of maturity or first option date for LOBO loans. The final maturity of LOBO loans is shown as a memo item in the table at the bottom of Appendix B.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report is an update on strategy as presented to Executive Board in February 2020, as such no consultation has taken place. However, consultation with the Council's treasury advisors takes place regularly throughout the year.

4.1.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the February capital programme report.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 Equality, diversity, cohesion and integration requirements are addressed as part of individual capital scheme and programme approvals. The borrowing to deliver these capital schemes is executed through treasury strategy and as such there are no further equality, diversity, cohesion and integration issues.

4.3 Council Policies and Best Council Plan

4.3.1 Treasury management strategy secures funding for the council's capital programme that supports the authority's policies and priorities as set out in the Best Council Plan. These include our Best Council ambition to be an efficient and enterprising organisation.

Climate Emergency

4.3.2 The Council declared a Climate Emergency at full Council in March 2019. As the Treasury Management strategy secures funding for the Council's capital programme the impact of the Council's activity and implications for the climate emergency will be considered in each individual capital programme and scheme project report.

4.4 Resources, Procurement and Value for Money

4.4.1 This update on the treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the General Fund and HRA.

4.4.2 Net debt savings of £2.8m against the revised budget have been delivered.

4.5 Legal Implications, Access to Information and Call In

4.5.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury management Policy Statement are approved by Council. Monitoring reports are considered by Executive Board and are subject to call in. There are no further legal, access to information or call in issues.

4.6 Risk Management

4.6.1 This report sets out performance against the 2019/20 treasury strategy. The execution of strategy and associated risks are kept under regular review through:

- Monthly monitoring of debt costs and reporting forms part of the monthly update on the Council's Revenue position to Executive Board.

- Quarterly strategy meetings with the Chief Officer Financial Services and the Council's treasury advisors; and
- Regular market, economic and financial instrument updates and access to real time market information.

5 Conclusions

- 5.1 This Treasury Management Outturn Report for 2019/20 provides a final update on loans undertaken to fund the capital programme requirements for both General Fund and HRA. Treasury activity during the year was conducted within the approved borrowing limits for the year and resulted in overall savings to the revenue budget as detailed in 3.1.7.

6 Recommendations

- 6.1 Executive Board are asked to note the Treasury Management outturn position for 2019/20 and that treasury activity has remained within the treasury management strategy and policy framework.

7 Background documents ¹

None

¹ The background documents listed in this section are available for download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Leeds City Council - Prudential Indicators 2019/20

No.	PRUDENTIAL INDICATOR	Feb 19 Report	Feb 20 Report	Outturn (This Report)
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
Ratio of Financing Costs to Net Revenue Stream				
1a	General Fund (Borrowing Only)	11.96%	12.35%	12.23%
1b	General Fund (Borrowing and Other Long Term Liabilities)	20.98%	21.36%	21.24%
2a	HRA (Borrowing Only)	11.65%	11.63%	11.73%
2b	HRA (Borrowing and Other Long Term Liabilities)	18.64%	18.64%	18.82%
5	Gross external borrowing requirement (Gross Debt and CFR) The Net Borrowing Requirement should not exceed the capital financing requirement (Note 3)	2,341,000 OK	2,239,000 OK	2,323,718 OK
Estimate of total capital expenditure (including PFI)				
6	General Fund	£'000 337,700	£'000 290,386	£'000 270,428
7	HRA	122,510	97,680	101,764
	TOTAL	460,210	388,066	372,192
Capital Financing Requirement (as at 31 March)				
8	General Fund	£'000 2,259,057	£'000 2,242,013	£'000 2,241,809
9	HRA	827,744	810,753	814,565
	TOTAL	3,086,801	3,052,766	3,056,374

No.	PRUDENTIAL INDICATOR	Feb 19 Report	Feb 20 Report	Outturn (This Report)
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS				
10	Authorised limit for external debt - (Note 3)	£'000	£'000	£'000
	borrowing	2,600,000	2,600,000	2,600,000
	other long term liabilities	690,000	690,000	690,000
	TOTAL	3,290,000	3,290,000	3,290,000
11	Operational boundary - (Note 3)			
	borrowing	2,450,000	2,450,000	2,450,000
	other long term liabilities	670,000	670,000	670,000
	TOTAL	3,120,000	3,120,000	3,120,000
14	Upper limit for fixed interest rate exposure expressed as either:- Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%
15	Upper limit for variable rate exposure expressed as either:- Net principal re variable rate borrowing / investments OR:- Net interest re variable rate borrowing / investments	40%	40%	40%
17	Upper limit for total principal sums invested for over 364 days (per maturity date)	£'000 150,000	£'000 150,000	£'000 150,000
18	Net Debt as a Percentage of gross Debt	98.72%	98.66%	93.06%

16	Maturity structure of fixed rate borrowing 2019/20	Lower Limit	Upper Limit	Actual 31/03/20	
	under 12 months	0%	15%	0%	
	12 months and within 24 months	0%	20%	2%	
	24 months and within 5 years	0%	35%	11%	
	5 years and within 10 years	0%	40%	6%	
	10 years and within 20 years			7%	
	20 years and within 30 years			0%	
	30 years and within 40 years	25%	90%	35%	81%
	40 years and within 50 years			34%	
	More Than 50 Years			6%	
				100.0%	

Notes.

- The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the External Borrowing costs only and Borrowing and Other long term Liabilities (PFI and leasing)
- The Changes to the Prudential Code 2017 retired the Indicator 3 and 4 on the incremental impact of New Capital decision on HRA and GF as well as Indicator 13 the need to explicitly adopt the Code of Practice. In addition Indicator 9 the relating to the MHCLG imposed HRA borrowing debt ceiling has been recinded and is therefore no longer reported
- In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council should ensure that gross external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence and was changed from Net Borrowing to gross borrowing under the update to the Codes in 2017.
- Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.
- Indicators 14 and 15 are no longer explicit within the updated codes however these have been but have been retained pending further review
- Indicator 17 relates solely to Treasury Management investments made under Section 12 of the Local Government act 2003

Debt as at 31st March 2020

Appendix B

Table below shows a breakdown of the maturity structure of the authority giving totals

Year Ending 31st March	to 2%	2% to 2.99%	3% to 3.99%	4% to 4.99%	Greater Than 5%	Principal
Fixed Rate Loans - LOBO to First Option						
2021	-	-	13,812	55,000	-	68,812
2022	-	-	41,436	20,000	-	61,436
2023	-	20,000	27,624	35,000	-	82,624
2024	-	-	30,000	71,436	-	101,436
2025	-	25,000	20,000	-	-	45,000
2026	-	-	-	-	-	-
2027	5,675	-	28,812	-	-	34,487
2028	-	25,000	-	-	-	25,000
2029	-	15,000	20,000	-	-	35,000
2030	25,000	-	-	-	-	25,000
2031	25,000	-	-	-	-	25,000
2032	25,000	-	-	-	-	25,000
2033	-	16,500	-	-	-	16,500
2034	-	10,000	-	-	-	10,000
2035	25,000	-	5,000	-	-	30,000
2036	-	30,000	-	-	-	30,000
2037	-	25,000	-	-	-	25,000
2052	-	-	-	28,727	-	28,727
2053	-	-	-	145,396	-	145,396
2054	-	-	-	49,347	-	49,347
2055	-	-	5,000	75,782	-	80,782
2056	-	-	10,000	72,173	-	82,173
2057	-	-	-	115,436	-	115,436
2058	-	-	-	102,218	14,099	116,317
2059	-	25,000	-	-	-	25,000
2060	100,000	-	-	-	-	100,000
2061	25,000	-	-	17,624	-	42,624
2062	-	-	17,624	-	-	17,624
2063	-	50,000	-	-	-	50,000
2064	-	40,000	10,000	-	-	50,000
2065	-	70,000	-	-	-	70,000
2066	-	40,000	10,000	35,000	-	85,000
2067	-	55,000	30,000	5,000	-	90,000
2068	-	100,000	-	-	-	100,000
2069	-	115,000	-	-	-	115,000
2070	50,000	55,000	-	-	-	105,000
2077	-	-	20,000	-	-	20,000
2078	-	-	-	85,000	-	85,000
2079	-	-	-	20,000	-	20,000
Sub Total	280,675	716,500	289,307	933,137	14,099	2,233,718
Temporary Loans						
2020	90,000	-	-	-	-	90,000
Sub Total	90,000	-	-	-	-	90,000
CABP	370,675	716,500	289,307	933,137	14,099	2,323,718
Memo : LOBO Variable Rate Loans to Maturity						
2047	-	-	-	-	-	-
2055	-	-	-	15,000	-	15,000
2056	-	-	-	45,000	-	45,000
2066	-	-	10,000	10,000	-	20,000
2067	-	-	25,000	15,000	-	40,000
2077	-	-	40,000	15,000	-	55,000
2078	-	-	-	55,000	-	55,000
2079	-	-	-	-	-	-
Sub Total	-	-	75,000	155,000	-	230,000