Council Report
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Capital and Investment outturn report 2019-20

Executive Summary

This annual outturn report includes capital expenditure, non-treasury investments and treasury management performance for 2019-20.

Capital programme
In total, expenditure on the General Fund capital programme was £48.1 million. This was less than the budget by £38.7 million. Details of the revised estimate and actual expenditure in the year for each scheme are given in **Appendix 3**.

The budget for Minimum Revenue Provision (MRP) was £1.02 million and the outturn was £926,639. This was due to slippage in the capital programme in 2018-19.

Non-treasury investments
The Council's investment property portfolio stood at £153 million at the end of the year. Our rental income was £8.4 million, and our income return 6% against the benchmark of 4.7%.

Treasury management
The Council's cash balances have built up over a number of years, and reflect our strong balance sheet, with considerable revenue and capital reserves. Officers carry out the treasury function within the parameters set by the Council each year in the Capital and Investment Strategy. As at 31 March 2020, the Council held £107.6 million in investments, £44 million of short-term borrowing and £192 million of long term borrowing so net debt of £129 million.

We borrowed short-term from other local authorities for cash flow purposes and ensure there is no cost of carry on this. We did not take out any additional long-term borrowing during the year. The Council had £236.7 million borrowing at 31 March 2020, of which £44 million was short-term borrowing for cash purposes.

This report (section 8) confirms that the Council complied with its prudential indicators, treasury management policy statement and treasury management practices (TMPs) for

2019-20. The policy statement is included and approved annually as part of the Capital and Investment Strategy, and the TMPs are approved under delegated authority.

The treasury management performance over the last year, compared to estimate, is summarised in the table below. The report highlights the factors affecting this performance throughout the report, and in **Appendix 1**.

	Estimate %	**Actual %**	**Estimate (£000)**	**Actual (£000)**
General fund Capital Financing Requirement (CFR)			365,845	124,357
Housing Revenue Account CFR			197,024	197,024
Total CFR			**562,869**	**321,381**
Return on investments	2.3	1.56	1,742	2,172
Interest paid on external debt			5,755	5,767
Total net interest paid			**4,013**	**3,595**

There was slippage in the capital programme which resulted in a lower CFR than estimated (more information in **Appendix 1**, section 3).

Interest paid on debt was lower than budget, due to less long-term borrowing taken out on the general fund because of slippage in the capital programme.

The yield returned on investments was lower than estimated, but the interest received was higher due to more cash being available to invest in the year – a direct result of the capital programme slippage. Officers have been reporting higher interest receivable and payable and a lower charge for MRP during the year as part of the budget monitoring when reported to councillors during the year.

Detailed information on the return on investments, and interest paid on external debt can be found in section 7 of this report.

This report was considered by the Corporate Governance and Standards Committee at its meeting on 30 July 2020. The Committee commended the report to the Executive. The Executive considered the report at its meeting on 22 September 2020 and commended the recommendation to the Council below for adoption.

Recommendation to Council

(1) That the treasury management annual report for 2019-20 be noted.

(2) That the actual prudential indicators reported for 2019-20, as detailed in **Appendix 1** to this report, be approved.

<u>Reason for Recommendation:</u>
To comply with the Council's treasury management policy statement, the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on treasury management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

Is the report (or part of it) exempt from publication? No

1. Purpose of Report

1.1 The Local Government Act 2003 states that the Council has a legal obligation to have regard to both the CIPFA code of practice on treasury management and the Ministry of Housing, Communities, and Local Government (MHCLG) investment guidance.

1.2 The CIPFA treasury management code of practice, and the MHCLG investment guidance requires public sector authorities to produce an annual capital strategy (incorporating capital expenditure, non-treasury investments and treasury management activity.

1.3 This report covers the outturn of the elements of the strategy and the requirement to report on the prudential and treasury indicators for the year. The position of the Council's investment property portfolio is also presented along with progress on the capital programme.

1.4 The Council borrows and invests substantial sums of money and is, therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risks. The Council holds a substantial amount of investment property and has a large capital programme, all of which have risk.

1.5 Treasury management is a highly complex, technical and regulated aspect of local government finance. We have included a glossary of technical terms (**Appendix 10**), to aid the reading of this report.

2. Strategic Priorities

2.1 Treasury management and capital expenditure are key functions in enabling the Council to achieve financial excellence and value for money. It underpins the achievement of all the Corporate Plan 2018-2023 themes.

2.2 This report details the activities of the treasury management function and the effects of the decisions taken in the year in relation to the best use of its resources. It also presents the outturn position for the year of the capital programme, and the performance on non-treasury investments.

3. Background

3.1 Treasury management is defined by CIPFA as:

"the management of the council's investments, borrowing and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

3.2 The Council has overall responsibility for treasury management. Treasury management contains a number of risks. The effective identification and management of those risks are integral to the council's treasury management objectives, as is ensuring that borrowing activity is prudent, affordable and sustainable.

3.3 The Council has a statutory requirement, under the Local Government Act 2003, to adopt the CIPFA Prudential Code and produce prudential indicators.

3.4 The objectives of the prudential code are to ensure, within a clear framework, that capital investment plans are affordable, prudent and sustainable, and the treasury management decisions are taken in accordance with good professional practice.

3.5 The Council has a large capital programme and a large investment property portfolio on its balance sheet. These, together with treasury management, are the management of the Council's cash and assets.

3.6 The Council operates its treasury management function in compliance with this Code and the statutory requirements.

3.7 This annual report, and the appendices attached to it, set out:

- a summary of the economic factors affecting the approved strategy and counterparty updated (sections 4 and 5 with details in **Appendix 5**)
- a summary of the approved strategy for 2019-20 (section 6)
- a summary of the treasury management activity for 2019-20 (section 7 with detail in **Appendix 1**)
- compliance with the treasury and prudential indicators (section 8 with detail in **Appendix 1**)
- non-treasury investments (section 9)
- capital programme (section 10)
- risks and performance (section 11)
- Minimum Revenue Provision (MRP) (section 12)
- details of external service providers (section 13)
- details of training (section 14)

4. Economic Environment

4.1 This section includes the key points of the economic environment for 2019-20, to show the treasury management activity in context. **Appendix 5** contains more detail.

- Brexit negotiations ongoing and uncertain
- December's election created more certainty and provided confidence to the global markets
- UK CPI inflation fell to below the BoE 2% target

- Low unemployed and record employment statistics
- Below trend GDP growth at 1.1%
- Coronavirus changed everything! Caused global sentiment plummeting and falls to the financial markets not seen since the global financial crisis.
- Lockdowns enforced, interest rate cuts across the world and stimulus packages introduced
- BoE base rate reduced from 0.75% to 0.25% and then to 0.10% in a matter of weeks
- Trade wars between US and China but phase 1 of trade agreement was signed in January
- FTSE fell over 30% at its worse point with stock markets in other countries following the same trend
- Bank stress tests on the main seven UK banking groups – all passed on both common equity tier 1 (CET1) ratio and a leverage ratio basis. CET1 aggregate levels remained twice the level before the 2008 financial crisis.
- CDS spreads rose sharply in March due to the potential impact of coronavirus on banks' balance sheets giving cause for concern.
- UK and Non-UK counterparty list recommended duration limits was reduced to 35 days in Mid-March

4.2 The key points relevant to investment property are:

- Industrial sector remained resilient
- Office supply declining in Guildford, there has been a departure of key corporate occupiers, which has not helped the office market
- There has been a shift in the demand for High Street retail premises, leading to declining rents and increased vacancy levels.
- Retail was the weakest category going into lockdown and is anticipated to be the worst affected.

5. Regulatory Changes

5.1 A new accounting standard – IFRS16 – accounting for leases was due to be implemented on 1 April 2020. This means that the Council needs to account for its leases differently, as operating leases are no longer an applicable category for lessees. This will impact on the Council's CFR and asset base as all these assets will need to be included on the Council's balance sheet. The Government decided to delay the implementation until 1 April 2021.

6. Approved strategy and budgets for 2019-20 – a summary

6.1 The Council approved the Capital and Investment strategy for 2019-20 in February 2019.

6.2 The strategy showed an underlying need to borrow in 2019-20 for the General Fund (GF) capital programme of £86.7 million.

6.3 The strategy set out how we would manage our cash. It allowed for internally managed investments for managing cash flow and externally managed and longer-term investments for our core cash (cash not required in the short or medium term). See **Appendix 9** for background.

6.4 It highlighted the need to continue to diversify our investment portfolio to reduce credit risk. The approved strategy set the minimum long-term credit rating of A- (or equivalent) for investments in counterparties to be determined as 'high credit' using the lowest denominator principal for the three main credit rating agencies.

6.5 Investment property risks were examined in the strategy.

7. Treasury management activity in 2019-20

7.1 The treasury position at 31 March 2020, compared to the previous year is:

		31 March 2019 (£'000)	Average Rate	31 March 2020 (£'000)	Average Rate
Fixed Rate Debt	PWLB	147,895	3.22%	147,665	3.22%
	Market	0	0.00%	0	0.00%
Variable Rate Debt	PWLB	45,000	0.92%	45,000	0.96%
	Market	0	0.00%	0	0.00%
Long-term	LAs	0	0.00%	0	0.00%
Temporary borrowing	LAs	20,000	0.66%	44,000	0.83%
Total Debt		**212,895**	**2.45%**	**236,665**	**2.43%**
Fixed Investments		(54,650)	1.09%	(66,600)	1.40%
Variable Investments		(30,729)	0.90%	(28,023)	0.82%
Externally managed		(11,945)	3.26%	(12,988)	4.17%
Total Investments		**(97,325)**	**1.42%**	**(107,611)**	**1.56%**
Net Debt / (Investments)		**115,570**		**129,054**	

7.2 PWLB is the Public Works Loans Board and is a statutory body operating as an executive of HM Treasury. Its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies.

7.3 The above table shows investments have increased by £10.3 million and loans by £23.8 million. Therefore, net debt has increased by £13.48 million. Short-term borrowing has increased, because we were unsure of the COVID-19 implications so tool out some borrowing at the end of the financial year. We have purchased £2.5 million of external fund investments following the sale in 2018-19, but the values in the table above reflect the reduction in values at the end of the financial year due to the market conditions.

7.4 We budgeted a return of 2.3% for the year and achieved 1.56%.

7.5 The Council's budgeted investment income was £1.741 million, and actual interest was £2.12 million (£377,000 higher). We had been projecting higher interest receipts throughout the financial year. This is because we had more cash available to invest than we had budgeted, and we hold some longer higher yielding secure investments.

7.6 Our budgeted debt interest payable was £5.75 million. £5.16 million relates to the HRA. The outturn was £5.76 million (£5.16 million for the HRA).

7.7 All our external funds are distributing funds, and they achieved an overall weighted average return of 4.17%, split as:

Fund	Balance at 31 March £000	Average return	Type of fund
M&G	1,126,577	2.54%	Equity focussed
Schroders	567,847	7.31%	Equity focussed with at least 80% on FTSE all share companies
Funding Circle	533,798	6.35%	Investments in SMEs up to a max of £2,000
UBS	2,017,992	4.71%	Multi asset
RLAM	2,227,920	2.42%	Global bond fund
Fundamentun	1,960,000	0.00%	Supported housing
CCLA	6,514,007	4.41%	Property

7.8 Movements in pooled funds in the year:

- we invested £2.5 million in a new fund - Royal London Asset Management (RLAM) having sold some of our external fund investments in 2018-19
- we also invested £2 million in a REIT (real estate investment fund) with Fundamentum – they invest in supported housing and therefore meets social benefits as well as offering a good financial return for the council and further diversifying our investment portfolio

7.9 Our external fund portfolio is diverse, and we invest in a range of products and markets. The capital value of the funds can go up as well as down. Across all funds still held at the end of the year, there was a capital loss of £1.48 million due to the coronavirus. This position has been reversed by £206,000 at the end of June.

7.10 The Council also invested more in our subsidiaries and now holds £5.46 million of equity investment in Guildford Holdings Ltd and £8.18 million in North Downs Housing Ltd.

7.11 The Council agreed an interest rate of base rate plus 5% (currently 5.1%) on the investment in North Downs Housing Ltd. This is higher than the treasury investments held as it reflects the risk associated with holding such investments. We budgeted a return of £333,000 and earnt £317,000, which is due to the decrease in the Bank of England base rate in the year.

7.12 The equity investment in Guildford Holdings will be subject to a dividend if a profit is achieved.

Capital programme

7.13 The actual underlying need to borrow for the year, and the amount of internal borrowing actually taken, for the GF capital programme was £18.3 million, which is lower than budgeted of £86.7 million because of slippage in the capital programme, and also unbudgeted for capital receipts. We will continue to support service managers with the scheduling of schemes in the capital programme to ensure it is kept up to date when project timescales change.

7.14 The Council must charge a Minimum Revenue Provision (MRP) on its internal borrowing, which is setting aside cash from council tax to repay the internal borrowing. MRP charged to the revenue account for the year was £926,639, against an original budget of £1.019 million.

7.15 Our overall underlying need to borrow, as measured by the Capital Financing Requirement (CFR) was £321.380 million (£124.4 million relates to the GF).

Benchmarking and performance indicators

7.16 The Council is a member of the CIPFA treasury management benchmarking club.

7.17 Arlingclose also provide benchmarking data across their clients ("client universe"). It highlights the effect of changes in our investment portfolio and compares the basis of size of investment, length of investment and the amount of credit risk taken.

7.18 The benchmarking shows a snapshot of our average running yield on all investments, also split between internally managed and externally managed. The latest benchmarking data (at 31 March 2020), shows our average rate of investments for our total portfolio as being 1.61% against the client universe of 1.23%. The table shows that we have outperformed our internally managed investments of the client universe by quite some margin.

Benchmark	Guildford	Client Universe
Internally managed return	1.19%	0.64%
Externally managed (return only)	4.42%	3.73%
Total Portfolio	1.61%	1.23%
% of investments subject to bail in	23%	56%
No. of counterparties/funds	37	14

7.19 The difference in our return as part of the benchmarking (1.61%) and our own return (1.56%) is due to a different calculation in the way Arlingclose put the benchmarking return together.

7.20 The table above shows how far the Council has come to mitigate bail in risk – closing the year at 23% of investments subject to bail in. This percentage will change during the course of the year depending on the level of cash we have and what we are invested in.

7.21 One of our key areas in our treasury strategy has been to increase diversification in the portfolio. The number of counterparties and funds we are investing in are far higher than the client universe and shows that we have achieved our aim. Again, this level of diversification will change at different points in the year.

8. Non-treasury investments

8.1 **Appendix 2** sets out the Council investment property fund portfolio report for 2019-20. The key points are summarised below.

8.2 The current portfolio is:

Sector	No. of assets	Sub-category	No. of assets
Office	6		
Industrial	125		
Retail	9	Shops Shopping centres Supermarkets	6 2 1
Leisure	6	Restaurants Nightclubs	5 1
Other Commercial	10	Educational Theatre Barn Petrol station Sui Generis Car Park Water treatment works	3 1 2 1 1 1 1
TOTAL	**156**		

8.3 Fund statistics are:

Fund Performance (total return) *

	Industrial	Office	All Retail	Alternatives	All
Rental income					
2015/16	2,679,571	1,831,900	1,750,254	885,636	7,147,361
2016/17	3,057,302	1,858,638	1,447,672	1,062,137	7,425,749
2017/18	3,493,405	3,186,048	1,426,317	1,080,786	9,186,556
2018/19	3,619,808	3,038,548	1,459,048	1,129,361	9,246,765
2019/20	3,369,452	2,135,460	1,459,548	1,139,397	8,103,857
Capital value					
	Industrial	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	39,077,755	19,227,500	34,270,000	11,233,500	103,808,755
2016/17	42,922,450	25,915,000	25,908,500	15,963,500	110,709,450
2017/18	51,509,000	49,574,000	26,065,000	17,471,500	144,619,500
2018/19	66,970,000	49,159,000	26,097,000	18,843,000	161,069,000
2019/20	72,295,790	35,609,000	26,097,000	18,143,000	152,144,790
Income return					

	Industrial	Office	All Retail	Alternatives	All
2015/16	8.0%	7.5%	5.6%	7.5%	6.8%
2016/17	7.1%	7.2%	5.6%	6.7%	6.7%
2017/18	8.0%	7.4%	5.2%	5.8%	6.6%
2018/19	6.8%	6.6%	5.9%	5.8%	6.3%
2019/20	6.9%	5.3%	5.9%	5.9%	6.0%
Benchmark return					
	Industrial	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	6.1%	4.7%	5.4%	4.7%	5.2%
2016/17	5.4%	4.1%	5.0%	5.5%	4.8%
2017/18	4.9%	4.1%	5.1%	5.3%	4.8%
2018/19	4.4%	4.0%	5.1%	5.0%	4.6%
2019/20	4.4%	4.0%	5.4%	5.1%	4.7%

* Excludes Finance leases

8.4 The performance shows that our portfolio has performed better than our benchmark.

9. General Fund Capital programme

9.1 **Appendix 3** sets out the actual expenditure on capital schemes, compared to the updated estimates, together with reasons for variances. Overall, we spent £38.7 million (45%) less on capital schemes than we originally estimated and £65.7 million (58%) less than the revised estimate, the schemes with more than £1 million variance to budget relate to Guildford Park Car Park, Midleton Industrial estate, Strategic property purchases, crematorium, and Ash road bridge although there are significant variations on other approved schemes under £1 million, as detailed in the appendix.

9.2 The table below summarises our capital expenditure and variances in the year:

	Original estimate (£m)	Revised estimate (£m)	Actual (£m)	Variance to revised (£m)
GF approved programme	61.4	61.9	45.7	(16.2)
GF provisional programme	17.6	2.1	0.0	(2.1)
GF Schemes financed from reserves	6.8	3.9	2.3	(1.6)
Total	**85.8**	**67.9**	**48.0**	**(19.9)**

9.3 We significantly re profiled schemes during the year, and under spent by £19.9 million on the revised estimate.

10. Compliance with treasury and prudential indicators

10.1 The CIPFA prudential code and treasury management code of practices require local authorities to set treasury and prudential indicators.

10.2 The objectives of the Prudential Code, and the indicators calculated in accordance with it, provide a framework for local authority capital finance that will ensure

- capital expenditure plans are affordable
- all external borrowing and other long-term liabilities are within prudent and sustainable limits
- treasury management decisions are taken in accordance with professional good practice and
- in taking the above decisions, the council is accountable by providing a clear transparent framework

10.3 The prudential code requires the Council to set a number of prudential indicators for the following and two subsequent financial years, and to monitor against the approved indicators during the year. We can revise these indicators during the year but need full Council approval.

10.4 Officers can confirm that the Council has complied with its prudential indicators for 2019-20, (see **Appendix 1** for the outturn figures), its treasury management policy statement and its treasury management practices.

10.5 Section 6 outlines the approved treasury management strategy. We have adhered to the strategy by:

- financing of capital expenditure from government grants, usable capital resources, revenue contributions and cash flow balances rather than from external borrowing
- taking a prudent approach in relation to the investment activity in the year, with priority given to security and liquidity over yield
- maintaining adequate diversification between counterparties
- forecasting and managing cash flow to preserve the necessary degree of liquidity

11. Risk and performance

11.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

11.2 The Council has complied with all the relevant statutory and regulatory requirements, which limit the level of risk associated with its treasury management activities. In particular, its adoption and implementation of both the prudential code and treasury management code of practice means our capital expenditure is prudent, affordable and sustainable, and our treasury practices demonstrate a low risk approach.

11.3 Short-term interest rates and likely movements in these rates, along with our projected cash balances, determine our anticipated investment return. These returns can be volatile and whilst, loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

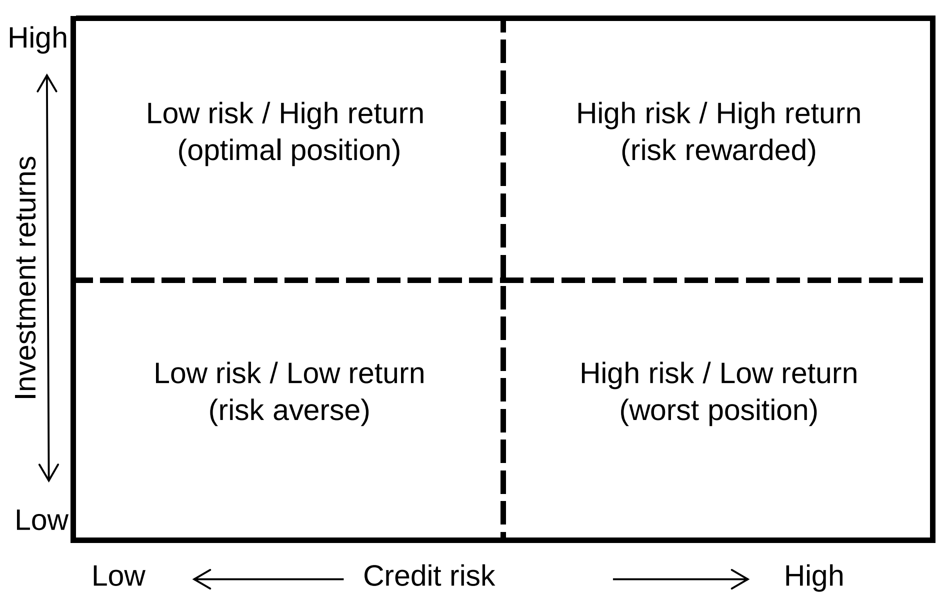
11.4 If the Council were to lose any of its investments, the GF will carry the loss, even if the cash lost is HRA cash. Therefore, to compensate the GF for this, we apply a credit risk adjustment to the rate of interest we apply on the HRA balances and reserves and SPA reserves. Therefore, a lower interest rate is applied than the weighted average investment return for the year.

11.5 The Council invests in externally managed funds. These are more volatile than cash investments, but can come with a higher return. Officers continually review our funds to ensure they still have a place in the portfolio. We view most of our funds over a three to five-year time horizon to take account of their potential volatility – they are not designed to be short-term investments, despite being able to get the money from them quickly.

Credit developments and credit risk management during the year

11.6 Security of our investments is our key objective when making treasury decisions. We therefore manage credit risk through the limits and parameters we set in our annual treasury management strategy. One quantifiable measure of credit quality we use is to allocate a score to long-term credit ratings. **Appendix 8** explains the scoring in more detail.

11.7 This is a graphical representation used in the Arlingclose benchmarking.



11.8 Typically, we should aim to be in the top left corner of the chart where we get a higher return for lower risk. In the actual benchmarking, for average rate versus credit risk (value weighted) we were above the average of all clients and were in the top left box towards the middle vertical line. For time weighted we are well within the top left box (see **Appendix 6** for the two charts).

11.9 We set our definition of high credit quality as a minimum long-term credit rating of A-, which attracts a score of 7. The lower the score, the higher the credit quality of the investment portfolio.

11.10 The table below shows that at each quarter date, the weighted average score of our investment portfolio, on a value weighted and a time weighted basis is well within our definition of high credit quality, ending the year at 3.95 (AA-) and 2.04 (AA-).

Date	Value Weighted Avg Credit Risk Score	Value Weighted Avg Credit Rating	Time Weighted Avg Credit Risk Score	Time Weighted Avg Credit Rating	Average Life (days)
31-03-19	3.18	AA	2.24	AA+	318
30-06-19	4.02	AA-	3.01	AA	328
30-09-19	4.18	AA-	4.06	AA-	305
31-12-19	4.24	AA-	4.40	AA-	323
31-03-20	3.95	AA-	2.04	AA+	261

11.11 We have maintained security throughout the year within the portfolio. We also have a lower risk score on both elements than the Arlingclose client universe (4.03/AA- and 3.94/AA-). We do, however, have a much longer duration (ours is 261 days compared to the universe of 20 days) and this is due to us having a large portion of investments of covered bonds in the portfolio, which can be sold on the secondary market if required. The longer duration is with AAA rated covered bonds so this has enhanced the security of the portfolio.

12. Minimum Revenue Provision (MRP)

12.1 The Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2003 (SI No 414) place a duty on local authorities to make a prudent provision for debt redemption. Making an MRP reduces the Capital Financing Requirement (CFR) and leaves cash available to replenish reserves used for internal borrowing or making external debt repayments. There are three options for applying MRP available to us:

- asset life method
- depreciation method
- any other prudent method

12.2 Any other prudent method means we can decide on the most appropriate method depending on the capital expenditure.

12.3 The latest MRP policy was approved by Council in February 2019, and stated that:

- the Council will use the asset life method as its main method, but will use annuity for investment property
- in relation to expenditure on development, we may use the annuity method starting in the year after the asset becomes operational
- where we acquire assets ahead of a development scheme, we will charge MRP based on the income flow of the asset or as service benefit is obtained, and will not charge MRP during construction, refurbishment or redevelopment
- We will apply a life of 50 years for the purchase of land and schemes which are on land (for example transport schemes)
- Where loans are made to other bodies for their capital expenditure, no MRP will be charged, where the other body is making principal repayments of that loan as well as interest. However, the capital receipts generated by the loan principal repayments on those loans will be put aside to reduce the CFR
- For investments in shares classed as capital expenditure, we will apply a life related to the underlying asset in which the share capital has been invested

12.4 The unfinanced capital expenditure in 2019-20 of £18.34 million related mainly to strategic property purchases, internal estate road and loan/equity to North Downs Housing.

13. External service providers

13.1 The Council reappointed Arlingclose as our treasury management advisors in March 2015. The contract is for a period of 7 years. The Council is clear what services it expects and what services Arlingclose will provide under the contract.

13.2 The Council is clear that overall responsibility for treasury management remains with the Council.

14. Training

14.1 CIPFA's revised treasury management code of practice suggest that best practice is achieved by all councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, receiving appropriate training relevant to their needs and that they should fully understand their roles and responsibilities.

14.2 The MHCLG's revised investment guidance also recommends that a process is in place for reviewing and addressing the needs of the Council's treasury management staff for training in investment management.

14.3 Following the revised CIPFA code of practice and the stated requirement that a specified body be responsible for the implementation and regular monitoring of the treasury management policies, we use the Corporate Governance and Standards Committee to scrutinise the treasury management activity of the Council.

14.4 Training on treasury management will be given to new councillors and in particular the group leaders and members of the Corporate Governance and Standards Committee.

14.5 Corporate Governance and Standards Committee reviews the annual report in June each year.

14.6 Officer training is undertaken on a regular basis, by attending workshops held by Arlingclose, and seminars or conferences held by other bodies, such as CIPFA. On the job training and knowledge sharing are undertaken when required. Those involved in treasury management are either a fully qualified accountant, or AAT qualified. The Lead Specialist for Finance, and Deputy s151 officer holds the 'Certificate in International Treasury Management for Public Finance' qualification, which is a joint qualification between the ACT (Association of Corporate Treasurers) and CIPFA.

14.7 Certain officers of the Council are deemed professional by the financial industry and therefore demonstrates the level of skill and expertise in the treasury function to ensure the Council retains professional status under the MiFID II regulations.

15. Consultations

15.1 Officers have consulted with the Lead Councillor for Resources about the contents of this report.

16. Executive Advisory Board comment

16.1 Treasury management reports are under the remit of Corporate Governance and Standards Committee and are not required to be presented to an EAB.

17. Equality and Diversity Implications

17.1 There are no equality and diversity implications

18. Financial Implications

18.1 The detailed financial implications are summarised above and in **Appendix 1**.

19. Legal Implications

19.1 A variety of professional codes, statutes and guidance regulate the Council's treasury management activities. These are:

- the Local Government Act 2003 ("the Act") provides the powers to borrow and invest. It also imposes controls and limits on these activities

- the Act permits the Secretary of State to set limits on either the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken.
- statutory instrument 3146 (2003 (“The SI”), as amended, develops the controls and powers within the Act
- the SI requires the council to undertake any borrowing with regard to the prudential code. The prudential code requires indicators to be set – some of which are limits – for a minimum of three forthcoming years
- the SI also requires the council to operate the treasury management function with regard to the CIPFA treasury management code of practice
- under the terms of the Act, the Government issued “investment guidance” to structure and regulate the council’s investment activities. The emphasis of the guidance is on the security and liquidity of investments.

20. Human Resource Implications

20.1 There are no human resource implications arising from this report other than the training discussed in section 15, which is already in place.

21. Summary of Options

21.1 We could have invested in lower credit quality investments, but this would have increased our risk exposure.

21.2 We could have borrowed longer-term for our capital programme, but would have suffered a cost of carry due to the slippage in the programme.

22. Conclusion

22.1 The Council has complied with the objectives of the CIPFA treasury management code of practice by maintaining the security and liquidity of its investment portfolio.

22.2 We maintained the security of our investment portfolio, and did not borrow long-term in advance of need.

22.3 We have also complied with the requirements of the prudential code by setting, monitoring and staying within the prudential indicators set, except the variable limit on net investments due to higher investment balances than when the indicator was set.

23. Background Papers

- CIPFA Treasury Management in the Public Services – Code of Practice and Cross Sectoral Guidance Notes (2018 edition)
- CIPFA Treasury Management in the Public Services – Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2018 edition)

- CIPFA the Prudential Code for Capital Finance in Local Authorities (2018 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities – Guidance Notes for Practitioners (2018 edition)
- Treasury management annual strategy report 2018-19

24. Appendices

Appendix 1: Treasury management activity, treasury and prudential indicators 2019-20
Appendix 2: Investment property fund portfolio report 2019-20
Appendix 3: capital programme
Appendix 4: schedule of investments at 31 March 2020
Appendix 5: economic background – a commentary from Arlingclose
Appendix 6: benchmarking graphs
Appendix 7: credit score analysis
Appendix 8: credit rating equivalents and definitions
Appendix 9: background to externally managed funds
Appendix 10: glossary