

Report to: **Audit Committee**
Date: **13 October 2020**
Title: **Annual Treasury Management Report
2019/20**
Portfolio Area: **Cllr C Edmonds – Performance & Resources**

Wards Affected: **ALL**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **N/A**

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Recommendations:

That the Audit Committee:

- 1. Approves the actual 2019/20 prudential and treasury indicators in this report; and**
- 2. Notes the Annual Treasury Management report for 2019/20.**

1. Executive summary

- 1.1 Income from investments this year was £129,947 which is £39,626 higher than the budget of £90,321 at an average return of 0.78%. The comparable performance indicator (Benchmark) is the average 1-month LIBID rate which was 0.56%. Therefore the Council achieved 0.22% return on investments over the benchmark for 19/20.

2. Background

- 2.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual 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).

- 2.2 Treasury management is defined as:

“The management of the local authority’s 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 ”

- 2.3 During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Minute CM 69)
- A mid-year (minimum) treasury update report (Minute AC 23)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

- 2.4 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore 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.

- 2.5 This 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 by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during 2019/20 in order to support Members’ scrutiny role.

3. The Economy and Interest Rates

- 3.1 **UK. Brexit.** 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; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.
- 3.2 **Economic growth** in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire 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 has been done to businesses over the lock down period, 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.
- 3.4 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 the lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs whilst the country was 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. 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. Provided the coronavirus outbreak is brought under control 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.

- 3.5 **Inflation** has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

4. Overall Treasury Position as at 31 March 2020

4.1 At the beginning and the end of 2019/20 the Council's treasury position was as follows:

| Treasury Portfolio | 31 March 2019 | | 31 March 2020 | |
|---|-----------------|-------|-----------------|-------|
| | £'000 | Rate% | £'000 | Rate% |
| Treasury Investments: | | | | |
| Short term – fixed | - | - | 3,000 | 0.90 |
| Money Market Funds | 9,300 | 0.64 | 10,200 | 0.39 |
| Property Funds | 491 | 4.26 | 474 | 4.41 |
| Total treasury investments | 9,791 | | 13,674 | |
| Treasury External Borrowing | | | | |
| PWLB | 27,580 | 2.65 | 29,534 | 2.54 |
| Total external borrowing (£28.944m of long term borrowing and £590k of short term borrowing) | 27,580 | | 29,534 | |
| Net treasury investments / (borrowing) | (17,789) | | (15,860) | |

4.2 The following is a list of the Council's investments at 31 March 2020.

Fixed Term Deposits

| Amount | Investment | Interest rate |
|------------|-----------------|---------------|
| £3,000,000 | Lloyds Bank Plc | 0.90% |

Money Market Funds

| Amount | Investment | Interest rate |
|--------------------|-------------------------------|---------------|
| £3,000,000 | Aberdeen Standard Investments | 0.47% |
| £3,000,000 | BlackRock | 0.38% |
| £1,200,000 | Deutsche | 0.31% |
| £3,000,000 | LGIM | 0.38% |
| £10,200,000 | Total | |

Property Funds

| Amount | Investment | Dividend Yield |
|----------|----------------------|----------------|
| £473,893 | CCLA – Property Fund | 4.41% |

- 4.3 At Council in February 2017, it was approved (Minute CM54 and HC50) that a sum of £500,000 be used to invest in CCLA's (CCLA Investment Management Limited) Local Authorities Property Fund, with the investment being placed in April 2017.
- 4.4 The investment was made with a view to a long term commitment. The bid market value as at 31 March 2020 for the Council's investment was £473,893.

5. The Strategy for 2019/20

Investment strategy and control of interest rate risk

- 5.1 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.
- 5.2 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.
- 5.3 Whilst the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
- 5.5 The Treasury Management Strategy Report for 2019/20 was approved by the Council on 26 March 2019 (Minute – CM69).
- 5.6 In December 2019, the Council revised its Commercial Investment Strategy and the Investment Strategy to enable the Council to invest (and to borrow to invest) in renewable energy. This was approved by Council on 17th December 2019 (Minute CM53).

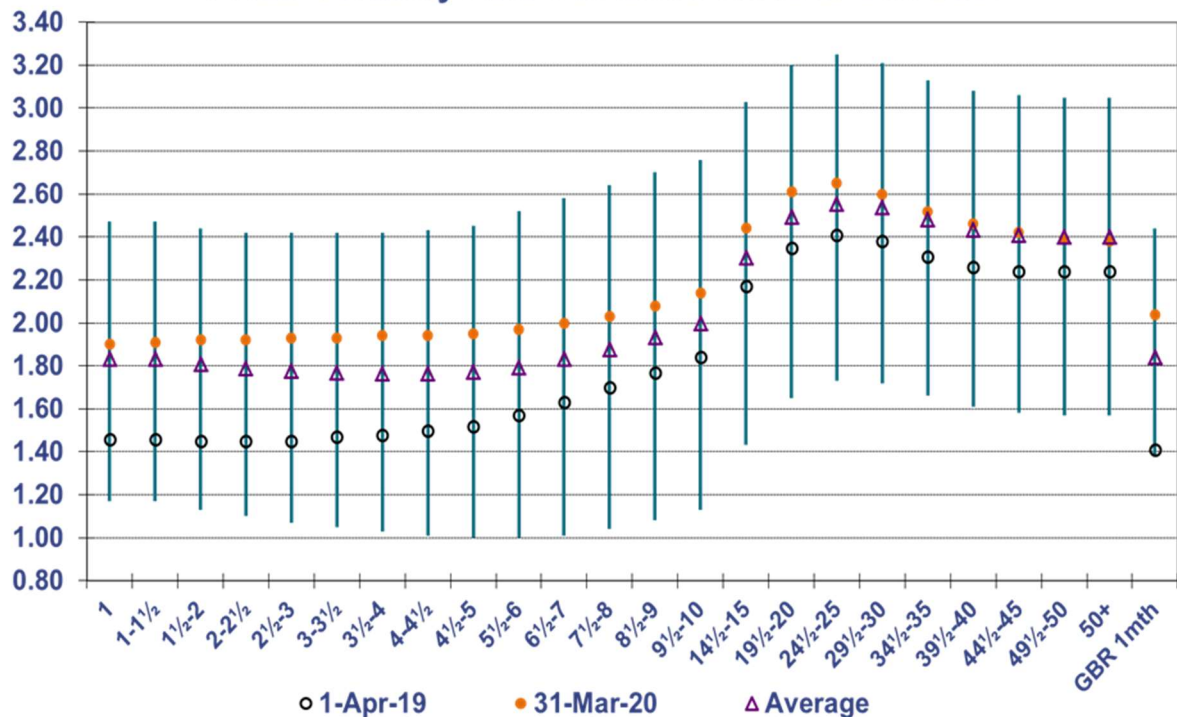
Borrowing strategy and control of interest rate risk

- 5.7 During 2019/20, the Council's capital borrowing need, (the Capital Financing Requirement), was fully funded with loan debt.
- 5.8 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- 5.9 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 5.10 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Strategic Finance (S.151 Officer) therefore monitored interest rates in financial markets and adopted a pragmatic approach to changing circumstances:
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*
 - *if it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- 5.11 Interest rate forecasts during 2019/20 are shown below.

| Link Asset Services Interest Rate View 31.1.20 | | | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
| Bank Rate View | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 | 1.25 | 1.25 | 1.25 |
| 3 Month LIBID | 0.70 | 0.70 | 0.80 | 0.80 | 0.90 | 1.00 | 1.00 | 1.10 | 1.20 | 1.30 | 1.30 | 1.30 | 1.30 |
| 6 Month LIBID | 0.80 | 0.80 | 0.90 | 1.00 | 1.00 | 1.10 | 1.20 | 1.30 | 1.40 | 1.50 | 1.50 | 1.50 | 1.50 |
| 12 Month LIBID | 0.90 | 0.90 | 1.00 | 1.10 | 1.20 | 1.30 | 1.40 | 1.50 | 1.60 | 1.70 | 1.70 | 1.70 | 1.70 |
| 5yr PWLB Rate | 2.30 | 2.30 | 2.40 | 2.40 | 2.50 | 2.60 | 2.70 | 2.80 | 2.50 | 2.60 | 2.70 | 2.80 | 3.10 |
| 10yr PWLB Rate | 2.50 | 2.50 | 2.60 | 2.60 | 2.70 | 2.80 | 2.90 | 3.00 | 2.70 | 2.80 | 2.90 | 3.00 | 3.30 |
| 25yr PWLB Rate | 3.00 | 3.00 | 3.10 | 3.20 | 3.30 | 3.40 | 3.50 | 3.60 | 3.30 | 3.40 | 3.50 | 3.60 | 3.90 |
| 50yr PWLB Rate | 2.90 | 2.90 | 3.00 | 3.10 | 3.20 | 3.30 | 3.40 | 3.50 | 3.20 | 3.30 | 3.40 | 3.50 | 3.80 |

5.12 Actual PWLB borrowing rates - the graph below shows, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.

PWLB Certainty Rate Variations 1.4.19 to 31.3.2020



| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|------------|------------|------------|------------|------------|------------|
| 01/04/2019 | 1.46% | 1.52% | 1.84% | 2.41% | 2.24% |
| 31/03/2020 | 1.90% | 1.95% | 2.14% | 2.65% | 2.39% |
| Low | 1.17% | 1.00% | 1.13% | 1.73% | 1.57% |
| Date | 03/09/2019 | 08/10/2019 | 03/09/2019 | 03/09/2019 | 03/09/2019 |
| High | 2.47% | 2.45% | 2.76% | 3.25% | 3.05% |
| Date | 21/10/2019 | 19/03/2020 | 19/03/2020 | 19/03/2020 | 31/12/2019 |
| Average | 1.83% | 1.77% | 2.00% | 2.56% | 2.40% |

- 5.13 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields.
- 5.14 Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.
- 5.15 However, HM Treasury imposed **two changes in the margins over gilt yields for PWLB rates** in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on the future lending terms for the Public Works Loan Board. The Council responded to this consultation.
- 5.16 Following the changes on 11 March 2020 in margins over gilt yields, the current situation is 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)

5.17 There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that was caused during the coronavirus shut down period. Inflation was very low during this period and could even turn negative in some major western economies during 2020-21.

6. Borrowing Outturn for 2019/20

6.1 Details of the loans outstanding at 31 March 2020 are shown below:

| Lender | Type | Maturity | Interest Rate % | Principal held at 31 March 2019 £'000 | Principal held at 31 March 2020 £'000 |
|--------------------------------|---------------------|-----------------|------------------------|--|--|
| PWLB - Maturity | Fixed Interest Rate | 45 Years | 4.55 | 2,100 | 2,100 |
| PWLB - Annuity | Fixed Interest Rate | 9 Years | 1.92 | 2,378 | 2,100 |
| PWLB - Annuity | Fixed Interest Rate | 22 Years | 1.95 | 1,500 | 1,445 |
| PWLB - Annuity | Fixed Interest Rate | 50 Years | 2.65 | 12,628 | 12,503 |
| PWLB - Annuity | Fixed Interest Rate | 50 Years | 2.60 | 3,582 | 3,546 |
| PWLB - 23 maturity loans | Fixed Interest Rate | 49 Years | 2.54* | 3,592 | 3,592 |
| PWLB - Annuity | Fixed Interest Rate | 50 Years | 2.31 | 1,800 | 1,780 |
| PWLB - Annuity | Fixed Interest Rate | 30 Years | 1.73 | - | 2,468 |
| Total | | | | 27,580 | 29,534 |

*Average interest rate

Repayments

- 6.2 During 2019/20 the Council repaid interest of £750,000 at an average rate of 2.53%.

Borrowing in advance of need

- 6.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.
- 6.4 In September 2019, when borrowing rates fell to a point where it was considered optimal to do so in order to finance capital expenditure which would be incurred within the time frame of the forward approved Capital Financing Requirement estimates, the Council borrowed £2.5 million at an interest rate of 1.73% for future forecast capital expenditure. In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, the current economic climate (Brexit considerations as detailed in 3.1) and that the Council could ensure the security of such funds placed on temporary investment.

Debt rescheduling

- 6.5 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Investment Outturn for 2019/20

- 7.1 **Investment Policy** – the Council’s investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 26 March 2019 (Minute – CM69). 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.).
- 7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 7.3 **Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

| Balance Sheet Resources £'000 | 31 March 2019 | 31 March 2020 |
|--------------------------------------|----------------------|----------------------|
| General Fund Balance | 1,286 | 1,219 |
| Earmarked Reserves | 4,316 | 4,984 |
| Usable Capital Receipts | 321 | 159 |
| Provisions | 649 | 804 |
| Other | 847 | 248 |
| Total | 7,419 | 7,414 |

8. Other Issues 2019/20

Financial Instruments – IFRS9 Election to treat Equity Instruments as Fair Value through Other Comprehensive Income

- 8.1 Upon transition to IFRS 9 – Financial Instruments on 1 April 2018, and in accordance with paragraphs 5.7.5 and 7.2.8 (b) of IFRS9, West Devon Borough Council makes an irrevocable election to present in other comprehensive income, changes in the fair values of its equity instruments (CCLA investment). These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds this investment as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.
- 8.2 This election means there is no impact on the revenue budget. Any gains or losses on the valuation of the CCLA investment will therefore be transferred to a Financial Instruments Revaluation Reserve until they are realised.

9. Outcomes/outputs

- 9.1 Income from investments this year was £129,947 which is £39,626 higher than the budget of £90,321.
- 9.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the 1-month London Interbank Bid Rate (LIBID). The average weighted LIBID rate at the end of March was 0.56% which is 0.22% lower than our average return of 0.78% as at 31 March 2020.

10. Options available and consideration of risk

- 10.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £3m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).
- 10.2 The Council's treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 10.3 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to Members' attention in treasury management update reports.

11. Proposed Way Forward

- 11.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

12. Compliance with Treasury Limits and Prudential Indicators

- 12.1 During 2019/20 the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2019/20 are detailed and shown in Appendix B.

13. Implications

| Implications | Relevant to proposals Y/N | Details and proposed measures to address |
|--|---------------------------|--|
| Legal/Governance | Y | Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003 |
| Financial Implications to include reference to value for money | Y | Income from Treasury Management activities amounted to £129,947 in 2019/20. Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning. |
| Risk | Y | <p>The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.</p> <p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Members.</p> |
| Supporting Corporate Strategy | | The income from treasury management supports all the Council's corporate strategy themes. |
| Climate Change - Carbon / Biodiversity Impact | | No direct carbon/biodiversity impact arising from the recommendations. |
| Comprehensive Impact Assessment Implications | | |
| Equality and Diversity | N | None directly arising from this report. |
| Safeguarding | N | None directly arising from this report. |
| Community Safety, Crime and Disorder | N | None directly arising from this report. |

| | | |
|------------------------------|---|---|
| Health, Safety and Wellbeing | N | None directly arising from this report. |
| Other implications | N | None directly arising from this report. |

Supporting Information

Appendices:

Appendix A – Lending list as at 27 March 2020

Appendix B - Prudential and Treasury Indicators 2019/20

Background Papers:

Annual treasury strategy in advance of the year (Council 26 March 2019 – CM69)

A mid-year treasury update report (Audit Committee 29 October 2019 – AC23)

APPENDIX A

| Counterparty as at 27th March 2020 | | Fitch Rating | | | | Moody's Ratings | | | S&P Ratings | | Suggested Duration | | | |
|---|--|--------------|------------|-----------|---------|-----------------|-------|-------|-------------|------------|--------------------|------------|------|--------------|
| | | Long Term | Short Term | Viability | Support | Long Term | Short | Short | Long Term | Short Term | | | | |
| United Kingdom | | | | | | | | | | | | | | |
| AAA Rated and Government Backed Securities | Collateralised LA Deposit* | | | | | | | | | | Y - 60 mths | | | |
| | Debt Management Office | | | | | | | | | | Y - 60 mths | | | |
| | Multilateral Development Banks | | | | | | | | | | Y - 60 mths | | | |
| | Supranationals | | | | | | | | | | Y - 60 mths | | | |
| | UK Gilts | | | | | | | | | | Y - 60 mths | | | |
| Banks | Abbey National Treasury Services PLC | SB | A | F1 | | 1 | NO | Aa3 | | P-1 | | R - 6 mths | | |
| | Bank of Scotland PLC (RFB) | SB | A+ | F1 | a | 5 | NO | Aa3 | | P-1 | SB | A+ | A-1 | O - 12 mths |
| | Barclays Bank PLC (NRFB) | SB | A+ | F1 | a | 5 | SB | A1 | | P-1 | SB | A | A-1 | R - 6 mths |
| | Barclays Bank UK PLC (RFB) | SB | A+ | F1 | a | 1 | NO | A1 | | P-1 | SB | A | A-1 | R - 6 mths |
| | Close Brothers Ltd | SB | A | F1 | a | 5 | NO | Aa3 | | P-1 | | | | R - 6 mths |
| | Goldman Sachs International Bank | SB | A | F1 | | 1 | SB | A1 | | P-1 | SB | A+ | A-1 | R - 6 mths |
| | Handelsbanken Plc | SB | AA | F1+ | | 1 | | | | | SB | AA- | A-1+ | O - 12 mths |
| | HSBC Bank PLC (NRFB) | SB | A+ | F1+ | a | 1 | NO | Aa3 | | P-1 | NO | AA- | A-1+ | O - 12 mths |
| | HSBC UK Bank Plc (RFB) | SB | A+ | F1+ | a | 1 | NO | Aa3 | | P-1 | NO | AA- | A-1+ | O - 12 mths |
| | Lloyds Bank Corporate Markets Plc (NRFB) | SB | A | F1 | | 1 | SB | A1 | | P-1 | SB | A | A-1 | R - 6 mths |
| | Lloyds Bank Plc (RFB) | SB | A+ | F1 | a | 5 | NO | Aa3 | | P-1 | SB | A+ | A-1 | O - 12 mths |
| | NatWest Markets Plc (NRFB) | SB | A | F1 | WD | 1 | PO | Baa2 | | P-2 | SB | A- | A-2 | G - 100 days |
| | Santander UK PLC | SB | A+ | F1 | a | 2 | NO | Aa3 | | P-1 | SB | A | A-1 | R - 6 mths |
| | Standard Chartered Bank | SB | A+ | F1 | a | 5 | SB | A1 | | P-1 | SB | A | A-1 | R - 6 mths |
| | Sumitomo Mitsui Banking Corporation | SB | A | F1 | | 1 | SB | A1 | | P-1 | PO | A | A-1 | R - 6 mths |
| Building Societies | Coventry Building Society | SB | A- | F1 | a- | 5 | NO | A2 | | P-1 | | | | R - 6 mths |
| | Leeds Building Society | SB | A- | F1 | a- | 5 | NO | A3 | | P-2 | | | | G - 100 days |
| | Nationwide Building Society | SB | A | F1 | a | 5 | NO | Aa3 | | P-1 | PO | A | A-1 | R - 6 mths |
| | Skipton Building Society | SB | A- | F1 | a- | 5 | SB | Baa1 | | P-2 | | | | G - 100 days |
| | Yorkshire Building Society | SB | A- | F1 | a- | 5 | NO | A3 | | P-2 | | | | G - 100 days |
| Nationalised and Part Nationalised Banks | National Westminster Bank PLC (RFB) | SB | A+ | F1 | a | 5 | PO | A1 | | P-1 | SB | A | A-1 | B - 12 mths |
| | Royal Bank of Scotland Group Plc (RFB) | SB | A+ | F1 | a | 5 | PO | A1 | | P-1 | SB | A | A-1 | B - 12 mths |

| Key | |
|----------------------|----------------------|
| Watches and Outlooks | Duration |
| SB Stable Outlook | Yellow - Y 60 Months |
| NO Negative Outlook | Blue - B 12 Months |
| NW Negative Watch | Orange - O 12 Months |
| PO Positive Outlook | Red - R 6 Months |
| PW Positive Watch | Green - G 100 Days |
| EO Evolving Outlook | |
| EW Evolving Watch | |

APPENDIX B

PRUDENTIAL AND TREASURY INDICATORS 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The tables below show the actual capital expenditure and how this was financed.

| Capital Expenditure | 2018/19 Actual £000 | 2019/20 Estimate £000 | 2019/20 Actual £000 |
|----------------------------|------------------------------------|--------------------------------------|------------------------------------|
| General Fund services | 2,204 | 2,076 | 1,401 |
| Community Housing | - | 4,700 | - |
| Capital investments* | 21,379 | 16,000 | 4 |
| TOTAL | 23,583 | 22,776 | 1,405 |

*Capital investments relate to areas such as capital expenditure on investment properties. In 2019/20 there was a small amount of capital expenditure (£4k) spent on one existing investment property. The estimate for 2019/20 included possible headroom for expenditure on further investment properties within the Council's Investment Property portfolio. Similarly, community housing schemes will be on a later timescale.

| Capital Expenditure and Financing | 2018/19 Actual £000 | 2019/20 Estimate £000 | 2019/20 Actual £000 |
|--|--------------------------------|----------------------------------|--------------------------------|
| Capital Expenditure | 23,583 | 22,776 | 1,405 |
| Financed by: | | | |
| External sources | (429) | (938) | (1,056) |
| Own resources | (330) | (546) | (349) |
| Unfinanced capital expenditure | 22,824 | 21,292 | 0 |

NB. Please note that the estimate for 2019/20 represents the approved capital programme for that year. However, actual capital spend includes not only expenditure on projects within that capital programme, but also expenditure on schemes carried forward from previous capital programmes.

The Capital expenditure estimate for 2019/20 reflects the recommendations within the Commercial Investment Strategy. Note: The Council has purchased four investment properties to date.

The Council's Borrowing Need (the Capital Financing Requirement)

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

| CFR | 2018/19 Actual £000 | 2019/20 Estimate £000 | 2019/20 Actual £000 |
|---|--------------------------------|----------------------------------|--------------------------------|
| Opening balance | 4,240 | 26,432 | 26,570 |
| Add unfinanced capital expenditure (as above) | 22,824 | 21,292 | 0 |
| Less MRP/VRP | (494) | (560) | (598) |
| Closing balance | 26,570 | 47,164 | 25,972 |

The estimate for 2019/20 included possible headroom for expenditure on further investment properties within the Council's Investment Property portfolio. Similarly, community housing schemes will be on a later timescale than that estimated for 2019/20.

The Council's Gross Debt and the Capital Financing Requirement

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is slightly higher than the CFR by £3.56m in 2019/20. This is only a short term position as this will finance future capital expenditure which will be incurred within the time frame of the forward approved Capital Financing Requirement estimates.

| | 2018/19 Actual £000 | 2019/20 Estimate £000 | 2019/20 Actual £000 |
|-------------------------------|------------------------------------|--------------------------------------|------------------------------------|
| Debt | 27,580 | 46,850 | 29,534 |
| Capital Financing Requirement | 26,570 | 47,164 | 25,972 |
| Over/(under) funding of CFR | 1,010 | (314) | 3,562 |

The estimate for 2019/20 included possible headroom for expenditure on further investment properties within the Council's Investment Property portfolio. Similarly, community housing schemes will be on a later timescale than that estimated for 2019/20.

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

The financing costs were increased in the 2019/20 estimate to reflect the proposals within the Commercial Investment Strategy, and therefore increased this indicator. These proposals will now take place in 2020/21 and 2021/22.

| | 2018/19 Actual | 2019/20 Estimate | 2019/20 Actual |
|----------------------------------|---------------------------|-----------------------------|---------------------------|
| Financing costs (£) | 1,004,143 | 1,756,601 | 1,217,195 |
| Proportion of net revenue stream | 13.7% | 24.8% | 17.2% |

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

| Operational Boundary | 2018/19 | 2019/20 |
|-----------------------------|----------------|----------------|
| | £ | £ |
| Borrowing | 47,500,000 | 47,500,000 |
| Other long term liabilities | - | - |
| Total | 47,500,000 | 47,500,000 |

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

| Authorised limit | 2018/19 | 2019/20 |
|-----------------------------|----------------|----------------|
| | £ | £ |
| Borrowing | 50,000,000 | 50,000,000 |
| Other long term liabilities | - | - |
| Total | 50,000,000 | 50,000,000 |

West Devon Borough Council's current level of borrowing as at 31 March 2020 was £29.53 million.

The maturity analysis of fixed rate borrowing is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

| Refinancing rate risk indicator | Approved minimum limits | Approved maximum limits | Actual 31 March 2019 | | Actual 31 March 2020 | |
|---------------------------------|-------------------------|-------------------------|----------------------|--------------|----------------------|--------------|
| | % | % | £million | % | £million | % |
| Less than 1 year | 0% | 10% | 0.514 | 1.9 | 0.590 | 2.0 |
| Between 1 and 2 years | 0% | 10% | 0.508 | 1.8 | 0.603 | 2.0 |
| Between 2 and 5 years | 0% | 40% | 1.675 | 6.1 | 1.971 | 6.7 |
| Between 5 and 10 years | 0% | 75% | 2.519 | 9.1 | 2.714 | 9.2 |
| More than 10 years | 0% | 100% | 22.365 | 81.1 | 23.656 | 80.1 |
| Total | | | 27.581 | 100.0 | 29.534 | 100.0 |