ANNUAL TREASURY MANAGEMENT REVIEW 2019-20

Governance & Audit Committee	**22 July 2020**
Report Author	**Tim Willis, Deputy Chief Executive and Section 151 Officer**
Portfolio Holder	**Cllr Rob Yates, Cabinet Member for Finance, Administration and Community Wealth Building**
Status	**For Decision**
Classification:	**Unrestricted**
Key Decision	**No**
Ward:	**Thanet Wide**

Executive Summary:

This report summarises treasury management activity and prudential/ treasury indicators for 2019-20. However, the council's 2019-20 accounts have not yet been audited and hence the figures in this report are subject to change.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's borrowing, investments 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."*

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 2019-20 year-end position for treasury activities.

Key reporting items for the committee to consider include:

- 2019-20 capital expenditure on long term assets was £17.5m (2018-19: £15.4m), against a budget of £36.3m.
- The council's gross debt, also called the borrowing position, at 31 March 2020 was £25.0m (31 March 2019: £30.5m).
- The council's underlying need to borrow to finance its capital expenditure, also called the Capital Financing Requirement (CFR), was £50.0m at 31 march 2020 (31 March 2019: £47.3m).
- Therefore it can be reported the council has complied with the requirement to hold less gross debt than its CFR.
- The maximum debt held by the council during 2019-20 was £30.5m, which was well within the statutory authorised limit of £103.0m

- At the 31 March 2020 the councils investment balance was £33.9m (31 March 2019: £41.7m).

Recommendation(s):

That the Governance & Audit Committee:

1. Notes the actual 2019-20 prudential and treasury indicators in this report;
2. Approves this Annual Treasury Management report for 2019-20;
3. Recommends this report to Cabinet and council.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications are highlighted in this report.
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Deputy Chief Executive and this report is helping to carry out that function.
Corporate	Failure to undertake this process will impact on the council's compliance with the Treasury Management Code of Practice.
Equalities Act 2010 & Public Sector Equality Duty	There are no equity and equalities implications arising directly from this report, but the council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these. It is important to be aware of the council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by council.

CORPORATE PRIORITIES (tick those relevant)✓	
Growth	✓
Environment	✓
Communities	✓

1. Introduction and Background

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's borrowing, investments 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."*

1.2. The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3. The second main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer-term cash flow planning, to ensure that the council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any existing debt may also be restructured to meet council risk or cost objectives.

2. Reporting Requirements

2.1. This council is required by regulations issued under the Local Government Finance 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 Chartered Institute of Public Finance & Accountancy (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. 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 (council 07-02-2019): https://democracy.thanet.gov.uk/documents/s62949/Annex%203%20TMSS.pdf
- a mid-year treasury update report (council 05-12-2019): https://democracy.thanet.gov.uk/documents/s66375/Mid%20Year%20Report%20Council%202019-20.pdf
- an annual review following the end of the year describing the activity compared to the strategy (this report).

2.3. 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 2019-20 year-end position for treasury activities and highlights compliance with the council's policies previously approved by members.

2.4. This council 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 Governance and Audit Committee before they were reported to the full council. Member training on treasury management issues was last undertaken on 31-10-2019 in order to support members' scrutiny role, and further training will be arranged as required. The council's external treasury management advisor is Link Asset Services (Link).

2.5. The council's 2019-20 accounts have not yet been audited and hence the figures in this report are subject to change

3. The Council's Capital Expenditure and Financing

3.1. 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 table below shows the actual capital expenditure for the General Fund (GF) and the Housing Revenue Account (HRA) and how this was financed.

	2018-19 Actual £'000	2019-20 Budget £'000	2019-20 Provisional Actual £'000
Capital expenditure - GF	9,945	16,216	6,887
Capital expenditure - HRA	5,435	20,112	10,586
Capital expenditure - Total	**15,380**	**36,328**	**17,473**
Financed by:			
Capital receipts	3,182	8,974	2,964
Capital grants	3,517	8,377	5,954
Revenue and reserves	4,639	9,683	3,760
Borrowing	4,042	9,294	4,795
Total	**15,380**	**36,328**	**17,473**

3.2. Full details of capital expenditure and explanations of variances from budget will be reported within the Financial and Performance Monitoring Year-End Report to Cabinet in September.

4. The Council's Overall Borrowing Need

4.1. The council's underlying need to borrow to fund its capital expenditure is termed the Capital Financing Requirement (CFR). The CFR can be thought of as the outstanding debt that still needs to be repaid in relation to the capital assets (buildings, vehicles etc) that the council has purchased on inverted in. It can also be helpful to compare it to the outstanding balance that is still payable on a loan or a mortgage, in this case we are considering how much of the council's debt still needs to be paid for.

4.2. **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the council should ensure that its gross external borrowing (borrowing undertaken with financial institutions or external organisations) does not, except in the short term, exceed the total of the CFR in the preceding year (2018-19) plus the estimates of any additional capital financing requirement for the current (2019-20) and next two financial years.

4.3. This essentially means that the council is only borrowing to fund capital expenditure and is not borrowing to support revenue expenditure. Under statutory requirements councils are not allowed to borrow to fund their revenue budget activities.

4.4. By assessing this indicator over four years it allows the council some flexibility to borrow in advance of its immediate capital needs in 2019-20. The table below highlights the Council's gross borrowing position against the CFR and shows that the council has complied with this prudential indicator, as the council's gross debt of **£25.0m** is less than the **£50.0m** CFR at 31 March 2020.

	31 March 2019 Actual £'000	31 March 2020 Budget £'000	31 March 2020 Provisional Actual £'000
CFR GF	26,497	28,179	25,836
CFR HRA	20,786	26,356	24,200
Total CFR	**47,283**	**54,535**	**50,036**
Gross borrowing position	(30,456)	(42,451)	(25,025)
Underfunding of CFR	16,827	12,084	25,011

4.5. **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the council does not have the power to borrow above this level.

4.6. **The operational boundary** – the operational boundary is the expected borrowing position of the council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

4.7. The table below demonstrates that during 2019-20 the Council's maximum gross debt position was **£30.456m** and therefore it has maintained gross borrowing within its authorised limit and operational boundary.

	2019-20 £000
Authorised limit	103,000
Maximum gross borrowing position during the year	30,456
Operational boundary	93,000
Average gross borrowing position	27,219

4.8. **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2019-20 %
Financing costs as a proportion of net revenue stream - GF	7.4%
Financing costs as a proportion of net revenue stream -HRA	4.3%

5. Treasury Position as at 31 March 2020

5.1. Table 1 presents the council's treasury (excluding finance leases) at the beginning and the end of 2019-20 position.

Table 1 - Overall Treasury Position as at 31 March 2020

	31 March 2019 Principal £'000	Rate/ Return %	Average Life Years	31 March 2020 Principal £'000	Rate/ Return %	Average Life Years
Gross Debt Position						
GF debt	10,416	3.22%	13.8	9,125	3.28%	14.8
HRA debt	20,040	4.03%	7.3	15,900	4.08%	8.3
Total debt (all fixed rate)	**30,456**	**3.75%**	**9.5**	**25,025**	**3.80%**	**10.7**
CFR compared to Gross Debt						
GF CFR	26,497			25,836		
HRA CFR	20,786			24,200		
Total CFR	**47,283**			**50,036**		
Under-borrowing	**16,827**			**25,011**		
Net Debt / Investment						
Total debt	30,456	3.75%	9.5	25,025	3.80%	10.7
Total investments	(41,673)	0.69%		(33,904)	0.79%	
Net debt / (investment)	**(11,217)**			**(8,879)**		

5.2. Table 1 shows that, as previously stated, gross debt was £25.025m and the CFR was £50.036m at the end of 2019-20. This means the Council is in an under borrowed position of £25.011m, as external gross debt is less than the CFR.

5.3. Table 1 also shows that the council's investments totalled £33.904m at the 2019-20 year end and therefore was in a net investment position, as investments held exceeded gross debt by £8.879m.

5.4. All of the debt is from the Public Works Loan Board (PWLB), which is a facility is operated by the UK Debt Management Office on behalf of HM Treasury and provides loans to local authorities, apart from the following two GF loans (as at 31 March 2020):

- Market: £4.500m principal at 4.19% with an average life of 0.5 years.
- Salix: £22k principal at 0.00% with an average life of 1.0 year.

5.5. The maturity structure of the debt portfolio, or the timeline of when the council's debt is repayable, was as follows:

	31 March 2019 actual £000	2019-20 upper limits £000	31 March 2020 provisional actual £000
Under 1 year	9,932	12,512	5,131
1 year to under 2 years	631	12,512	4,179
2 years to under 5 years	4,772	12,512	3,080
5 years to under 10 years	2,835	12,512	2,356
10 years to under 20 years	8,366	12,512	7,359
20 years to under 30 years	1,000	12,512	1,920
30 years to under 40 years	1,920	12,512	0
40 years to under 50 years	1,000	12,512	1,000
50 years and above	0	12,512	0
Total debt	**30,456**		**25,025**

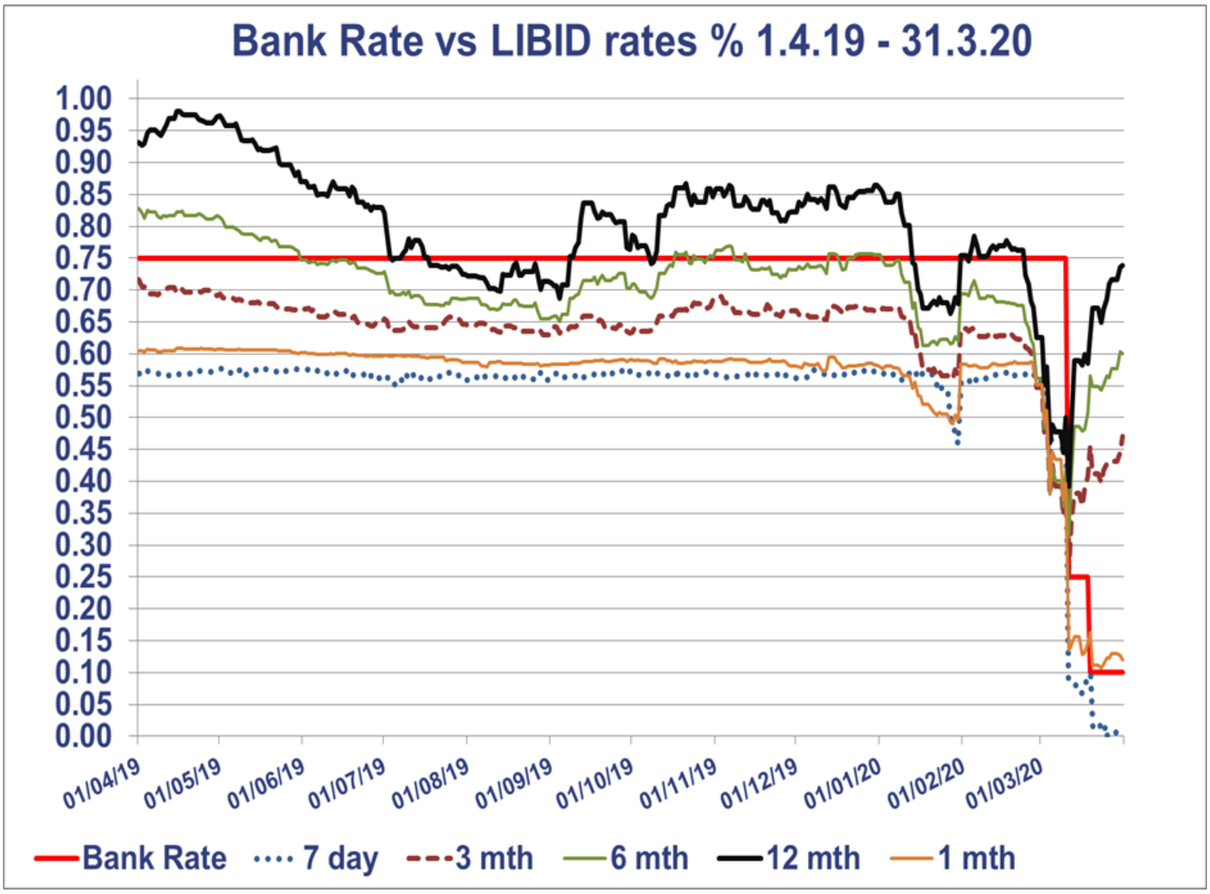
5.6. The following table shows the value of the type of investments the council was holding at year-end. All investments at the 2018-19 year-end were for under one year. Investments at the 2019-20 year-end for longer than 365 days were £0.6m.

	31 March 2019 actual £000	31 March 2019 actual %	31 March 2020 actual £000	31 March 2020 actual %
Banks - Instant Access	3	0.01	3	0.01
Banks - Notice Accounts	4,453	10.68	4,453	13.13
Banks - Fixed Term Deposits	13,414	32.19	13,483	39.77
Money Market Funds	23,803	57.12	15,965	47.09
Total Treasury Investments	**41,673**	**100.00**	**33,904**	**100.00**

6. The Strategy for 2019-20

6.1. Investment strategy and control of interest rate risk

6.1.1. The following chart tracks the Bank of England base rate of interest and the London Interbank Bid Rates (LIBID) during 2019-20.



6.1.2. 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 be 1.00% during 2019-20 and would increase steadily but slowly over the next few financial years to reach 2.00% by quarter 1 2022.

6.1.3. 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.

6.1.4. While 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.

6.1.5. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

6.2. **Borrowing strategy and control of interest rate risk**

6.2.1. During 2019-20, the council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

6.2.2. 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.

6.2.3. 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.

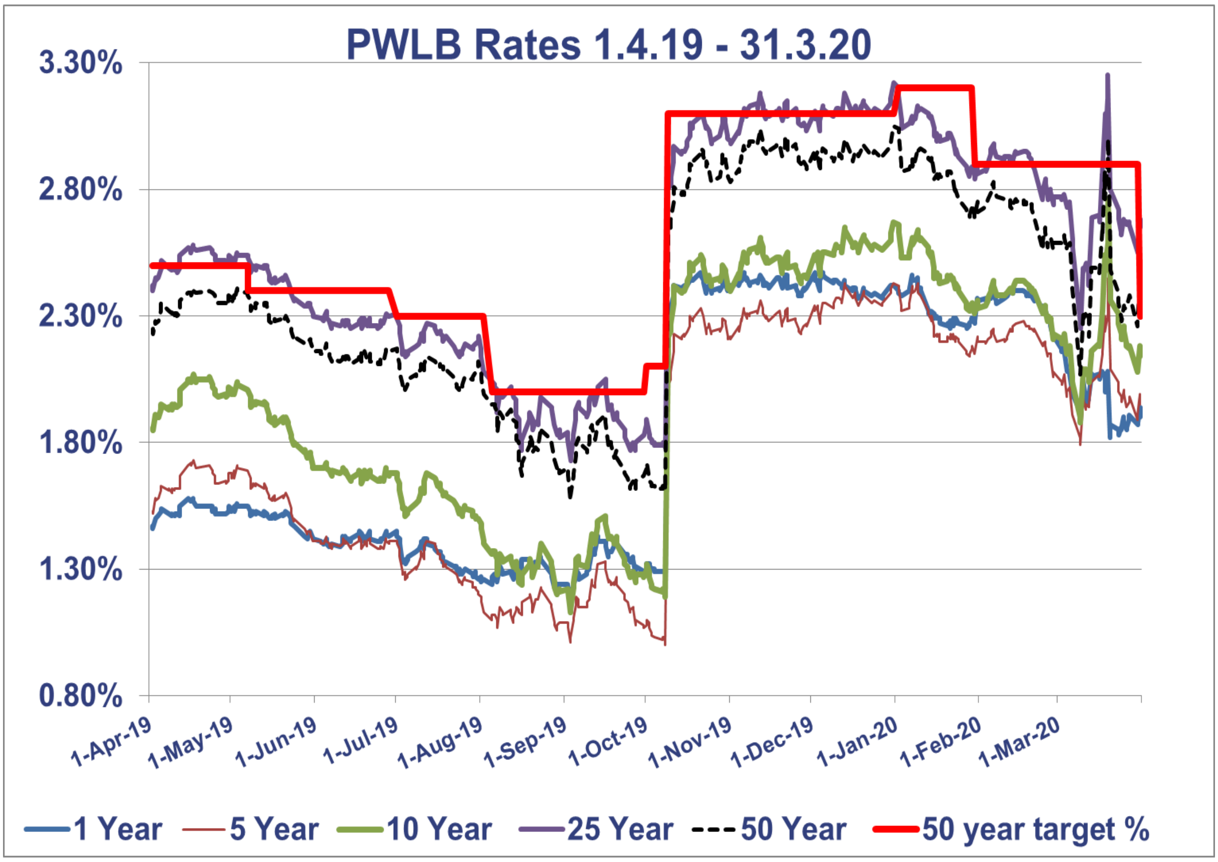
6.2.4. Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been 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 would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected (e.g. perhaps arising from an acceleration in the start date and 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 would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

6.2.5. Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019-20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View	31.3.20							
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50



6.2.6. PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through HM 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. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

6.2.7. 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%.

6.2.8. However, HM Treasury has 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 possibly further amending these margins; this ends on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.

6.2.9. 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)

6.2.10. There may 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 will be caused during the coronavirus shut down period. Inflation may also be very low during this period and could even turn negative in some major western economies during 2020-21.

6.3. **Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2019-20 (approved by the council on 07-02-19) was revised during 2019-20 in the mid-year treasury update report (approved by the council on 05-12-19).

7. Borrowing Outturn for 2019-20

7.1. **Borrowing** – Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

7.2. **Borrowing in advance of need -** 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.

7.3. **Rescheduling** – No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7.4. **Repayments** – The council repaid £5.431m of maturing debt using investment balances, as below:

Lender	Principal £'000	Interest Rate	Repayment Date
PWLB	960	3.84%	01-04-19
Salix	4	0.00%	01-04-19
PWLB	43	3.08%	23-04-19
PWLB	50	2.48%	27-05-19
PWLB	146	1.97%	27-05-19
PWLB	72	1.28%	20-06-19
PWLB	3,841	3.57%	01-10-19
Salix	4	0.00%	01-10-19
PWLB	43	3.08%	23-10-19
PWLB	50	2.48%	27-11-19
PWLB	146	1.97%	27-11-19
PWLB	72	1.28%	20-12-19
Total	**5,431**		

7.5. **Summary of debt transactions** – The average interest rate on the debt portfolio increased from 3.75% to 3.80% during the year. This was due to the repayment of maturing debt as shown above.

8. Investment Outturn for 2019-20

8.1. **Investment Policy** – the council's investment policy is governed by the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the council on 7 February 2019. 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.).

8.2. The investment activity during the year conformed to the approved strategy, apart from exceeding the £0.5m bank overdraft benchmark for one day only. This was a technical breach and the council had no liquidity difficulties during the year. In addition, with effect from 18 March 2020 the council rolled a maturing 6 month fixed term deposit of £4.115m into another 6 month fixed term deposit with the same bank. Although the maximum duration as per the council's investment policy (set out in the Treasury Management Strategy Report) was 370 days, the suggested maximum duration with this bank from the council's treasury adviser, Link Asset Services, has subsequently sometimes been reduced from 6 months to 100 days.

8.3. Following the year-end, from 1 April 2020 to 15 April 2020 inclusive, the council maintained balances with its own banker which exceeded the £7m investment limit stipulated in the council's investment policy; the highest daily deposit account balance being £26.764m. However, these balances were for operational/transactional purposes (to help deal with the coronavirus pandemic) rather than for investment. The council received an exceptional amount of coronavirus related grant funding (£40m) from the Government on 1 April 2020 and (given the very short notice) was unable to fully absorb this within its various money market funds (MMFs), given MMF facility limits and MMFs available at that time.

8.4. **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	31 March 2019 £000	31 March 2020 Provisional £000
GF Balance	2,011	2,011
Earmarked Reserves	13,998	12,763
HRA Balance	9,308	8,645
Capital Receipts Reserve	9,437	8,544
Major Repairs Reserve	12,765	15,469
Capital Grants Unapplied	43	43
Total Usable Reserves	**47,562**	**47,475**

8.5. **Investments held by the council**

- The council maintained an average balance of £46.352m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.79%.
- The comparable performance indicator is the average 7-day London Interbank Bid Rate (LIBID) rate, which was 0.54%.

- This compares with an original budget assumption of £49m investment balances earning an average rate of 0.75%.
- Total investment income was £368k compared to a budget of £370k.

8.6. **Investments held by fund managers** – the council does not use external fund managers on a discretionary basis for any part of its investment portfolio.

9. Investment risk benchmarking

9.1. The following investment benchmarks were set in the council's 2019-20 annual treasury strategy:

9.1.1. **Security** - The council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio (excluding unrated investments).

9.1.2. **Liquidity** – in respect of this area the council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be 0.5 years, with a maximum of 5 years.

9.1.3. **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

9.1.4. The council kept to the above benchmarks during 2019-20 apart from exceeding the bank overdraft benchmark as referred to in section 7.2 above.

10. International Financial Reporting Standard 16 (IFRS 16)

10.1. The implementation of IFRS16 (bringing almost all lease liabilities on to the balance sheet together with the corresponding 'right of use' assets) has been delayed for one year from 2020-21 to 2021-22 accounts closedown, due to Covid-19

11. Options

11.1. The recommended option (to ensure regulatory compliance as set out in section 1 of this report) is that the Governance & Audit Committee:

- Notes the actual 2019-20 prudential and treasury indicators in this report.
- Approves this Annual Treasury Management report for 2019-20.
- Recommends this report to Cabinet and council.

11.2. Alternatively, the Governance & Audit Committee may decide not to do this and provide reason(s) why.

12. Next Steps

12.1. This report is to go to Cabinet and council for approval. Cabinet and council meetings are on 17 September 2020 and 15 October 2020 respectively.

13. Disclaimer

13.1. This report is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

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Annex List

Annex 1	Report Guidance
Annex 2	Abbreviations and Definitions

Corporate Consultation Undertaken

Finance	Chris Blundell, Head of Financial and Procurement Services
Legal	Tim Howes, Director of Corporate Governance & Monitoring Officer