



**AGENDA ITEM:  
SUMMARY**

<b>Report for:</b>	<b>CABINET</b>
<b>Date of meeting:</b>	<b>23<sup>rd</sup> November 2021</b>
<b>PART:</b>	<b>1</b>
If Part II, reason:	

<b>Title of report:</b>	<b>TREASURY MANAGEMENT OUTTURN AND PERFORMANCE INDICATORS 2020/21</b>
<b>Contact:</b>	<p>Clr Graeme Elliot, Portfolio Holder for Finance and Resources          Nigel Howcutt, Chief Finance Officer          Author: Fiona Jump, Group Manager (Financial Services)</p>
<b>Purpose of report:</b>	To report upon the outturn performance for treasury management in 2020/21.
<b>Recommendations</b>	<p>i) That Cabinet recommends to Council acceptance of the report on Treasury Management performance in 2020/21 and the Prudential Indicators for 2020/21.</p> <p>ii) On the recommendation of the Council's S151 officer, that the roles specified at 6.2 to this report be approved as authorised signatories for the Council's bank accounts, in line with Financial Regulations.</p>
<b>Corporate objectives:</b>	Optimising investment income for General Fund and Housing Revenue budgets whilst managing investment risk is fundamental to achieving the corporate objective of ensuring efficient and modern service delivery.
<b>Financial Implications:</b>	In accordance with the CIPFA Treasury Management in the Public Services Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector.
<b>Risk Implications:</b>	Good corporate governance encompasses risk management and making sure that the Council makes decisions with the full knowledge of the associated risks and opportunities.

Community Impact Assessment:	A Community Impact Assessment has not been identified as being required for this report.
Health And Safety Implications:	None
Monitoring Officer / S151 Officer Comments:	<p><b>Monitoring Officer-</b></p> <p>Compliance with the Local Government Act 2003 and CIPFA's Code of Practice on Treasury Management in Public Service is mandatory.</p> <p><b>Deputy Section 151 officer-</b></p> <p>This is a Deputy S151 Officer report.</p>
Consultees:	Link Asset Services
Background papers:	Cabinet 11 February 2020 – Treasury Management Strategy (Appendix K to Budget 2020/21 Report)
Glossary of acronyms and any other abbreviations used in this report	<p>CIPFA-The Chartered Institute of Public Finance and Accountancy</p> <p>MPC- Bank of England Monetary Policy Committee</p> <p>CFR- Capital Financing Requirement</p>

## **1. Regulatory Background**

- 1.1 The 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 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management in the Public Services (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 During 2020/21 the minimum reporting requirements were that Full Council should receive the following reports:
  - an annual Treasury Management Strategy Statement in advance of the year;
  - a mid-year Treasury Management update report;
  - an annual review following the end of the year describing the activity compared to the strategy (this report).
- 1.3 This report provides the outturn position for the Council's treasury activities and highlights compliance with policies previously approved by Members.

## **2. The Economy and Interest Rates**

- 2.1 Investment returns, which were low during 2019/20, decreased further during 2020. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end at 1.25%. At the point this forecast was made, the now realised implications of the Covid-19 pandemic were not known. In March 2020, the Bank of England's Monetary Policy Committee (MPC) reduced the Bank Rate (the Bank of England's base interest rate) firstly to 0.25% and then to 0.10%. This was to counter the negative financial impact of the national lockdown on the United Kingdom's economy.
- 2.2 The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with large amounts of cheaply available credit, so that banks could help businesses to survive the lockdown. The Government also supplied significant levels of funding to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, pushing down interest rates. The consequent effect of this was that investment earnings rates fell during the year.

## **3. Treasury Position as at 31 March 2021**

### **Borrowing**

- 3.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The Council's CFR was £348.9m at the end of the year (as shown below in 3.4). This includes the borrowing from the Public Works Loan Board following the introduction of HRA Self- Financing and the borrowing taken up in 2015/16 for General

Fund capital expenditure requirements. HRA self- financing involved the transfer of national housing debt from central government to local authorities with HRA responsibilities. No rescheduling of debt was undertaken during the year. Details of loans held by the Council as at 31 March 2021 can be found at Appendix A to this report.

### General Fund

- 3.2 The General Fund CFR (its need to borrow) was £12.9m at 31 March 2021. The General Fund has borrowed in advance of need £4.8m. This borrowing has utilised the lower interest rates that have been available in recent years and will be used to fund the ongoing capital programme expenditure.

### Housing Revenue Account

- 3.3 The HRA's CFR and external borrowing is £335.9m at 31 March 2021. During 2021 £4.6m of external borrowing was repaid in year.
- 3.4 During 2020/21, the Council's treasury position was as follows:

	31 March 2020 Principal	Rate/Return	Average Life	31 March 2021 Principal	Rate/Return	Average Life
<u>GENERAL FUND (GF)</u>	£m	%	Years	£m	%	Years
Total external debt	17.9	3.13%	21	17.6	3.15%	20
Total internal debt	0			0		
Other (finance leases)	0.2			0.2		
Capital Financing Requirement	13.2			12.9		
Over / (under) borrowing	4.9			4.8		

	31 March 2020 Principal	Rate/Return	Average Life	31 March 2021 Principal	Rate/Return	Average Life
<u>HOUSING REVENUE ACCOUNT (HRA)</u>	£m	%	Years	£m	%	Years
Total external debt	340.5	3.37%	17	335.9	3.39%	16
Capital Financing Requirement	340.5			335.9		
Over / (under) borrowing	0			0		

	31 March 2020 Principal	Rate/Return	Average Life	31 March 2021 Principal	Rate/Return	Average Life
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<b><u>HRA and GF COMBINED</u></b>	<b>£m</b>	<b>%</b>	<b>Years</b>	<b>£m</b>	<b>%</b>	<b>Years</b>
<b>Capital Financing Requirement</b>	<b>353.7</b>			<b>348.9</b>		
<b>Total external debt*</b>	<b>358.6</b>			<b>353.7</b>		
<b>Total investments</b>	<b>69.1</b>	<b>0.81</b>	<b>0.51</b>	<b>112.5</b>	<b>0.25</b>	<b>0.29</b>
<b>Net external debt</b>	<b>289.5</b>			<b>241.2</b>		

\*including finance lease obligations

- 3.5 The table at 3.4 shows an increase in balances available for investment as at 31 March 2021 compared to as at 31 March 2020 that is, at a specific point in time. On average, cash balances available for investment during 2020/21 were comparable with average balances in the previous year. The Government provided significant levels of grant payments to the Council during 2020/21, which helped mitigate any material reduction in cash balances arising from the economic impact of the Coronavirus pandemic.

#### **4. Investment Outturn**

- 4.1 The Council's 2020/21 investment policy, contained in its Treasury Management Strategy approved by Council in February 2020, sets out the approach for choosing investment counterparties. It is based on a system of credit ratings provided by the three main credit rating agencies, and supplemented by additional market data (such as rating outlooks and bank share prices) provided by Link Asset Services, the Council's treasury management advisors.
- 4.2 The Council maintained an average balance of £88.9m of internally managed funds throughout 2020/21, earning an average rate of return of 0.25% compared with the previous year of 0.81%. The reduction in return between years is attributable to the reduction in interest rates described at 2.1 above.
- 4.3 The weighted average maturity for investments held by the Council at 31 March 2021 was 81 days. This compares to a weighted average maturity at 31 March 2020 of 72 days.
- 4.4 Investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

#### **5. Prudential and Treasury Indicators**

- 5.1 During 2020/21, the Council complied with its legislative and regulatory requirements set out in the Treasury Management Strategy. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2019/20 Actual	2020/21 Original Budget Estimate	2020/21 Actual
	£'000	£'000	£'000
Capital expenditure			
• General Fund	18,954	11,346	9,373
• HRA	37,722	29,698	17,027
• <b>Total</b>	<b>56,676</b>	<b>41,044</b>	<b>26,400</b>
Capital Financing Requirement:			
• General Fund	13,181	18,306	12,945
• HRA	340,518	337,980	335,928
• <b>Total</b>	<b>353,699</b>	<b>356,286</b>	<b>348,873</b>
External debt*	<b>358,441</b>	<b>353,502</b>	<b>353,502</b>
Investments- balance at year end			
• Longer than 1 year	0	0	0
• Under 1 year	69,113	72,875	112,467
• <b>Total</b>	<b>69,113</b>	<b>72,875</b>	<b>112,467</b>

\*excluding finance lease obligations

- 5.2 In order to ensure that borrowing levels are prudent over the medium term, Local Authority external borrowing can only be for capital purposes, i.e. it cannot be used to support revenue expenditure. Gross borrowing should not, therefore, except in the short term, exceed its CFR i.e. the Council's need to borrow. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The advance borrowing shown above by external debt exceeding the CFR is due to the General Fund borrowing in advance of need in the short-term to take advantage of historically low interest rates, and the impact of slippage in the capital programme in prior years.
- 5.3 The **Authorised Limit** - the authorised limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. During 2020/21 the Council has maintained gross borrowing within its authorised limit.
- 5.4 The **Operational Boundary** – the operational boundary reflects the current borrowing position with an allowance for additional borrowing for cash flow purposes during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2020/21
Authorised limit	£410.000m
Operational boundary	£359.629m

- 5.5 **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.

Ratio of financing costs to net revenue stream	31-Mar-20 Actual	2020/21 Original Limits	31-Mar-21 Actual
Non - HRA	0.58%	1.38%	1.10%
HRA	20.08%	19.60%	20.78%

- 5.6 The increase on HRA ratio since the original estimate reflects lower interest rates than assumed in the original estimate, and therefore lower interest received. The reduction in GF ratio since the original estimate reflects both lower financing costs and revenue than that assumed in the original estimate.

- 5.7 The following table shows the **net debt position** for the Council. There has been no material change in debt year on year but the net debt has decreased by £48m due to an increase in investments held as at 31 March 2021. Cash balances were higher at this date than at 31 March 2020 due to in-year capital receipts and additional grant funding received from the Government during 2020/21.

	31 March 2020 Principal	Rate/ Return	Average Life	31-Mar- 21 Principal	Rate/ Return	Average Life
Fixed rate funding:	£m	%	Years	£m	%	Years
PWLB and Finance Leases	358.6	3.36%		353.7	3.38%	
<b>Total external debt</b>	<b>358.6</b>	<b>3.36%</b>	<b>17</b>	<b>353.7</b>	<b>3.38%</b>	<b>16</b>
<b>CFR</b>	<b>353.7</b>			<b>348.9</b>		
<b>Over/ (under) borrowing</b>	<b>4.9</b>			<b>4.8</b>		
<b>Total investments</b>	<b>69.1</b>	<b>0.81</b>	<b>0.51</b>	<b>112.5</b>	<b>0.25</b>	<b>0.29</b>
<b>Net debt</b>	<b>289.5</b>			<b>241.2</b>		

5.8 The following table shows the **maturity structure of the debt portfolio**:

	<b>31-Mar-20 actual</b>	<b>31-Mar-21 actual</b>
Under 12 months	£5.1m	£3.9m
12 months and within 24 months	£3.8m	£1.7m
24 months and within 5 years	£8.0m	£11.1m
5 years and within 10 years	£31.0m	£35.7m
10 years and above	£310.7m	£301.2m

5.9 The following table shows the **maturity structure of the investment portfolio**:

	<b>2019/20 Actual £</b>	<b>2020/21 Actual £</b>
Investments		
Longer than 1 year	-	-
Under 1 year	69.1m	112.5m
<b>Total</b>	<b>69.1m</b>	<b>112.5m</b>

## 6. Council bank accounts- authorised signatories

6.1 In line with the Council's Financial Regulations, Cabinet approval is required for officers to be assigned as authorised signatories on the Council's bank accounts. Authorised bank account signatories are able to approve the release of payments directly from the Council's bank accounts via online banking, as well as authorise cheques associated with these accounts. Each signatory has a single authorisation limit of up to £40k; any payments over £40k require the authorisation of two bank accounts signatories. Prior to receiving bank signatory approval, any payment to be made from the Council's bank account must be properly authorised by the relevant Officers or Members, as per the Council's authorisation hierarchy. Controls exist to mitigate the risk of any bank signatory initiating or authorising payments that have not had appropriate, independent approval.

6.2 Cabinet is asked to approve the following posts within the Council's organisational structure as bank account signatories:

- Chief Executive
- Chief Finance Officer
- Group Manager, Financial Services
- Group Manager, Revenues and Benefits
- Team Leader, Financial Planning and Analysis
- Team Leader, Financial and Regulatory Accounting.