AUDIT & ACCOUNTS COMMITTEE
28 JULY 2021

TREASURY MANAGEMENT OUTTURN REPORT 2020/21

1. Purpose of Report

1.1. The purpose of this report is to give Members the opportunity to review the annual Treasury Outturn report which will be presented to Council on 12 October 2021 (copy attached at **Appendix A**).

2. Introduction

2.1. In January 2010 the Council formally adopted the CIPFA Code of Practice on Treasury Management which requires that the Council receives regular reports on its treasury management activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

2.2. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit and Accounts Committee and for the execution and administration of treasury management decisions to the section 151 officer, who will act in accordance with the Council's policies and practices.

2.3. The Treasury Strategy and Prudential Indicators for 2020/21 were approved by Council on 9 March 2020 and the Outturn report is the last report for the financial year, required by the Code. It has been prepared on the basis of the draft final accounts which appear elsewhere on the agenda. If there are significant changes resulting from the audit of the accounts they will be reported at the next meeting of this Committee.

3. Summary of Treasury Balances as at 31 March 2021

3.1. Below is a summary of the Councils borrowing position as at 31 March 2021, further information at section 3.

Balance on 01/04/2020 £m		Balance on 31/03/2021 £m
92.427	Total Borrowings	95.212
0.224	Total Other Long Term Liabilities	0.224
92.651	**TOTAL EXTERNAL DEBT**	**95.436**

3.2. Below is a summary of the Councils investment position as at 31 March 2021, further information at section 4.

Balance on 01/04/2020 £m		Balance on 31/03/2021 £m
30.959	Total Short term Investments	39.770
7.500	Total Long term Investments	7.500
38.459	**TOTAL INVESTMENTS**	**47.270**

3.3. The report in section 5 details that there were no breaches of the approved prudential indicators during 2020/21.

4. RECOMMENDATION

That the Treasury Outturn position for 2020/21 be considered.

Background Papers

Nil

For further information please contact Andrew Snape on extn. 5532

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APPENDIX A

ANNUAL TREASURY REPORT 2020/21

1. Background

1.1 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 2020/21. 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).

1.2 Treasury management is defined as: 'The management of the local authority's 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.'

1.3 Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management strategy.

2 Economic Background

2.1 **UK. Coronavirus.** The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.

2.2 Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

2.3 The **Monetary Policy Committee** cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

2.4 **Average inflation targeting.** This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and ***achieving the 2% target sustainably***". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

2.5 **Government support.** The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

2.6 **BREXIT.** The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

2.7 **World growth.** World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Local Context

3.1 During 2020/21, 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.

3.2 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.

3.3 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.

3.4 The Council's Capital Financing Requirement (CFR) at 31 March 2021 was £138m, while usable reserves and working capital which are the underlying resources available for investment were £62.85m.

3.5 The Council has an increasing CFR over the next 2 years of £35m, due to the borrowing requirement of £48.3m (GF £24.7m / HRA £23.6m) for financing the capital programme over the forecast period, if reserve levels permit internal borrowing will be considered. The CFR reduces when Minimum Revenue Provision (MRP) are made and the repayment of debt, over the forecast period there are two loans due for repayment with a combined total value of £6.3m.

3 Borrowing Strategy

3.1 Borrowing Activity in 2020/21

	Balance 1/4/20 £m	**New Borrowing £m**	**Debt Maturing £m**	**Balance 31/3/21 £m**
CFR	132.900			138.162
Short Term Borrowing	8.597	1.697	2.386	10.211
Long Term Borrowing	83.830	7.500	4.026	85.000
Total Borrowing	**92.427**	**9.197**	**6.412**	**95.212**
Other Long Term Liabilities	0.224	0	0	0.224
Total External Debt	**92.651**	**9.197**	**6.412**	**95.436**
Increase/(Decrease) in Borrowing £000				(2.785)

3.2 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

3.3 The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark, which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the Council's borrowing need based on realistic projections, it was decided to take a combination of medium-term borrowing maturity loan during the year, details of which are below.

Long-dated Loans borrowed	Amount £m	Rate %	Term
PWLB	3.000	1.46	17 Years 11 Months
PWLB	4.500	1.55	24 Years 11 Months

3.4 **LOBOs**: The Council holds £3.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of the £3.5m of LOBOS had options during the year, none of which were exercised by the lender.

3.5 **Debt Rescheduling**: The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

4 <u>Investment Activity</u>

4.1 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 9 March 2020. The 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.). During 2020/21 the Council's investment balances have ranged between £45.9 and £75.1 million.

	Balance 1/4/20 £m	New Investments £m	Investments Redeemed £m	Balance 31/3/21 £m
Short Term Investments	30.959	204.943	196.132	39.770
Long Term Investments	7.500	0	0	7.500
Total Investments	**38.459**	**204.943**	**196.132**	**47.270**
Increase/(Decrease) in Investments £000				8.811

4.2 Security of capital remained the Council's main objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2020/21.

4.3 Counterparty credit quality is assessed and monitored by Link, the Council's treasury advisors, with reference to credit ratings; credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. Link provide recommendations for suitable counterparties and maximum investment periods.

5 Compliance with Prudential Indicators

5.1 The Council can confirm that it has complied with its Prudential Indicators for 2020/21, which were set on 9 March 2020 as part of the Council's Treasury Management Strategy Statement.

5.2 **Interest Rate Exposure:** These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates for both borrowing and investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Approved Limit for 2020/21 %	**Maximum during 2020/21 £m**
Fixed Rate		
Borrowing	100%	99.6%
Investments	75%	35.96%
Compliance with Limit		*Yes*
Variable Rate		
Borrowing	20%	0.40%
Investments	100%	64.04%
Compliance with Limit		*Yes*

5.3 **Maturity Structure of Fixed Rate Borrowing.** This indicator is to limit large concentrations of fixed rate debt and control the Council's exposure to refinancing risk.

	Upper Limit %	**Fixed Rate Borrowing 31/03/21 £m**	**Fixed Rate Borrowing 31/3/21 %**	**Compliance?**
Under 12 months	15%	9.800	10%	Yes
12 months to 2 years	15%	6.500	7%	Yes
2 years to 5 years	30%	13.500	14%	Yes
5 years to 10 years	100%	19.177	20%	Yes
10 years and above	100%	45.853	48%	Yes

5.4 **Principal Sums Invested for over 364 Days.** All investments were made on a short-term basis and there were no investments for more than 364 days.

5.5 **Authorised Limit and Operational Boundary for External Debt.** The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The s151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2020/21; borrowing at its peak was £98.8m.

	Approved Operational Boundary 2020/21 £m	Authorised Limit 2020/21 £m	Actual External Debt 31/03/21 £m
Borrowing	161.491	168.491	95.212
Other Long Term Liabilities	0.400	0.600	0.244
Total	**161.891**	**169.091**	**95.456**

5.6 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary of the treasury management activity during 2020/21. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

5.7 The Council also confirms that during 2020/21 it complied with its Treasury Management Policy Statement and Treasury Management Practices.