



PART A:	MATTERS DEALT WITH UNDER DELEGATED POWERS
REPORT TO:	POLICY AND RESOURCES COMMITTEE
DATE:	29 JULY 2021
REPORT OF THE:	CHIEF FINANCE OFFICER (s151) – ANTON HODGE
TITLE OF REPORT:	TREASURY MANAGEMENT ANNUAL REPORT 2020-21
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 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 (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.0 RECOMMENDATIONS

- 2.1 The Committee is recommended to:
- (i) Note the annual treasury management report for 2020-21; and
 - (ii) Approve the actual 2020-21 prudential and treasury indicators in this report.

3.0 REASON FOR RECOMMENDATIONS

- 3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

4.0 SIGNIFICANT RISKS

- 4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.
- 5.2 The Council uses the services of Link Asset Services – Treasury Solutions (Link) to provide treasury management information and advice.

REPORT

6.0 REPORT DETAILS

- 6.1 During 2020-21 the minimum reporting requirements were that the full Council should receive the following reports:
- An annual treasury strategy in advance of the year (Council 20 February 2020)
 - A mid year (minimum) treasury update report (Audit, Overview & Scrutiny Committee 19 November 2020)
 - An annual review following the end of the year describing the activity compared to the strategy (this report).
- 6.2 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.
- 6.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council.
- 6.4 This report summarises:
- Capital activity during the year;
 - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
 - Reporting of the required prudential and treasury indicators;
 - Summary of interest rate movement in the year;
 - Detailed borrowing activity;
 - Detailed investment activity.

The Council's Capital Expenditure and Financing 2020-21.

- 6.5 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.
- 6.6 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2020-21 Actual (£)	2019/20 Actual (£)
Total Capital Expenditure	1,014,618	1,145,556
Resourced by:		
Capital receipts	70,527	56,855
Capital grants and contributions	523,036	590,524
Reserves	236,891	313,076
S106 Commuted Sums	164,164	185,101
External Borrowing	-	-
Total	1,014,618	1,145,556

The Economy and Interest rates

6.7 The Council's treasury advisors Link Asset Services – Treasury Solutions (Link) summarised the key points associated with economic activity in 2020-21 as follows:

- the first national lockdown due to the Coronavirus pandemic in late March 2020 caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09;
- The shorter, second lockdown in November and third lockdown in January 2021, saw businesses and individuals proving more resilient, resulting in less damage to the economy than was caused in the first lockdown;
- the fast programme of vaccination in both the UK and US is expected to lead to a return to something approaching normal life during the second half of 2021, and has been instrumental in speeding economic recovery and the reopening of the economy. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022;
- the final Brexit 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 new administrative procedures were implemented. This appears to have eased, although remains acute in some areas.

6.8 Deposit rates continued into the start of 2020-21 at previously depressed levels following the cut to base rate in March 2020 to 0.10%.

Overall Treasury Position as at 31 March 2021

6.10 The Council's opening and closing treasury position for the financial year was as follows (excluding finance leases):

	31 March 2021	31 March 2020
Total Debt	£1,513m	£1.553m
CFR	£2.069m	£1.702m
Over/(Under) borrowing	-£0.566m	-£0.149m
Total Investments	£28,901m	£26.208m
Net Debt	-£28,335m	-£26.059m

The Strategy for 2020-21

- 6.11 The Treasury Management Strategy for 2020-21 was approved by members at full Council on 20 February 2020.
- 6.12 The expectation for interest rates incorporated within the Annual Treasury Management Strategy for 2020-21 was based on officers' views at that time, prepared with assistance from the Council's Treasury Management Advisor (Link Asset Services) and supported by a selection of City forecasts.
- 6.13 The interest rates for the UK were expected to be as follows:

Bank Base Rate was expected to rise from 0.75% to 1.00%. It was not expected that Bank Rate would increase again in 2020-21. **The 20-21 Strategy and interest Rate forecasts were prepared prior to the full impact on the UK and its economy from the COVID-19 Pandemic.**

PWLB Borrowing rates were forecast to rise gradually throughout the next three years in all periods. Variable and short term rates were expected to be the cheaper form of borrowing over the period.

- 6.14 Based on the above, the Strategy adopted by the Council for 2020-21 was as follows:

a) Long Term Debt to Finance Capital Expenditure (borrowing strategy 2020-21)

2020-21 was expected to remain as a year of low bank interest rates, with low returns expected from the Council's investments. This situation extends the current opportunity for the Council to utilise an internal borrowing strategy. Borrowing in advance of need within the constraints of the Prudential Code and approved Prudential Indicators would only be considered in exceptional circumstances.

Consideration would be given to financing capital expenditure by taking borrowing from PWLB/money markets, but the key treasury strategy was to maintain an under borrowed position to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

In considering this option however, day to day cash flow constraints and the loss of longer term interest stability would also be taken into account together with the possibility of having to replace the internal borrowing with external borrowing in a subsequent year at higher interest rates.

b) Investment of Surplus cash (investment strategy 2020-21)

The Council's investment priorities are firstly the security of capital and secondly the liquidity of its investments. The highest return would then be sought provided that proper levels of security and liquidity are achieved. The investment risk appetite of the Council is low in order to give priority to the security of investments.

The Borrowing Requirement and Debt

- 6.13 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) (excluding borrowing by finance leases).

	31 March 2020 Actual	31 March 2021 Budget	31 March 2021 Actual
Total CFR	£1.589m	£1.553m	£1.553m

Borrowing Rates in 2020-21

- 6.14 The movement in relevant UK market interest rates for the year was as follows:

a) For Bank Rate

Period	%
1 April 2021 – 31 March 2021	0.10

b) For PWLB rates (Inclusive of the 0.20% discount rate)

Item	Range during Year %	Start of Year %	End of Year %	Average in Year %
Fixed Interest Maturity				
1 Year	0.85 – 2.14	2.09	0.99	1.63
5 Years	0.92 – 2.19	2.12	1.38	1.70
10 Years	1.20 – 2.48	2.30	1.91	2.01
25 Years	1.73 – 3.06	2.80	2.39	2.53
50 Years	1.52 – 2.91	2.54	2.19	2.34

Borrowing Outturn for 2020-21

- 6.15 No new borrowing was undertaken during the year and scheduled repayments were made. At the end of the financial year the debt portfolio was as follows:

Lender	Principal	Type	Interest Rate	Borrowing term at inception	Remaining Term length
PWLB	£1.00m	Maturity	3.69%	50 years	43 years
PWLB	£0.51m	EIP	2.99%	19 years	12 years

Investment Rates in 2020-21

- 6.16 Deposit rates continued into the start of 2020-21 at previously depressed levels following the cuts to the base rate in March 2020.

Item	Range during Year	Start of Year	End of Year	Average during Year
	%	%	%	%
7 day LIBID	-0.10 – 0.00	0.00	-0.08	-0.07
1 month	-0.11 – 0.14	0.10	-0.07	-0.05
3 month	-0.10 – 0.56	0.45	-0.04	0.01
6 month	-0.10 – 0.62	0.59	-0.01	0.07
1 year	-0.05 – 0.77	0.71	0.04	0.17

Investment Outturn for 2020-21

- 6.17 The Council's investment policy is governed by MHCLG guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 20 February 2020. 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).
- 6.18 The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- 6.19 The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the internally managed funds against the 7day LIBID un-compounded rate bench mark:

	Average Total Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary & On-Call Investments	£7.436m	0.00%	n/a	n/a
Fixed Term Deposits	£26.785m	0.65%	n/a	-0.07%

- 6.19 **The interest received by the Council from investments in 2020-21 totalled £177k; this compares to an original budgeted estimate of £205k.**
- 6.20 The Council's investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities and security of investments. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the

Treasury Management Practices. At the beginning and the end of 2020-21 the Council's investments position was as follows:

	31 March 2021 (£)	31 March 2020 (£)
Internally Managed Investments	28,901,486	26,208,398

6.21 The maturity of the investment portfolio was as follows;

	31 March 2021 (£)	31 March 2020 (£)
On-call Investments	1,401,486	4,708,398
Fixed Term Deposits: Repayable within 1 month	3,000,000	1,000,000
Repayable 1 month to 3 months	9,500,000	2,900,000
Repayable 3 months to 6 months	10,000,000	13,600,000
Repayable 6 months to 12 months	5,000,000	4,000,000
Repayable 12 months to 24 months	0	0
Total	28,901,486	26,208,398

6.22 Investments were placed with the following institutions:

Type of Institution	31 March 2021 (£)	31 March 2020 (£)
UK Clearing Banks	8,901,486	9,208,398
Foreign Banks	-	-
Building Societies	-	-
Local Authorities	20,000,000	17,000,000
Total	28,901,486	26,208,398

Compliance with Treasury Limits

6.23 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (annex B).

7.0 IMPLICATIONS

7.1 The following implications have been identified:

- a) Financial
The results of the investment strategy effect the funding of the capital programme.
- b) Legal
There are no legal implications within this report
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder, Climate Change)
There are no additional implications within this report.

Anton Hodge Chief Finance Officer (s151)

Author: Anton Hodge, Chief Finance Officer (s151)
Telephone No: **01653 600666 ext: 392**
E-Mail Address: anton.hodge@ryedale.gov.uk

Background Papers: None