Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

17 SEPTEMBER 2021

REPORT OF FINANCE AND CORPORATE RESOURCES PORTFOLIO HOLDER

A.7 TREASURY MANAGEMENT PERFORMANCE 2020/21
(Report prepared by Richard Barrett and Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To report on the Council's treasury management activities and Prudential Indicators for 2020/21.

EXECUTIVE SUMMARY

- Borrowing and investments have been undertaken in accordance with the 2020/21 Annual Treasury Strategy that was approved by the Leader on 24 April 2020.

- ***Summary of the Council's Borrowing Position:***

Amount Outstanding at the end of March 2021	Average Interest Rate Paid in 2020/21	Total Interest paid in 2020/21
£0.151m (General Fund)	7.354%	£0.013m
£38.441m (HRA)	3.472%	£1.362m

No external borrowing was undertaken in 2020/21 for either the General Fund (GF) or Housing Revenue Account (HRA).

- ***Summary of the Council's Investment Position:***

Value of Investments held at the end of March 2021	Average Interest rate on Investments 2020/21	Interest Earned on Investments 2020/21
£76.959m	0.287%	£0.300m

The amount of interest earned from investments decreased during the year due to the bank base rate remaining at 0.10% all year. Compared to historic interest figures, the 2020/21 return remained low because of the continuing unprecedented low interest rates. Estimated income was reduced during the year from the original estimate of **£0.386 million** to **£0.290 million,** with the outturn figure being **£0.300 million** as set out in the table above.

- The Council continues to hold one property within its Commercial Investment Portfolio, which had a balance sheet value at 1 April 2020 of **£2.155 million**. This 'book value' was reduced by the Council's appointed valuers to **£1.985 million** at the end of 2020/21. However this is an 'accounting' valuation and not a direct value that could be achieved on the market if it was sold. In-line with the budget, rental income of **£0.179 million** was earned on the property in 2020/21. (this figure was lower than in previous years due to the schedule of payments moving from a quarterly to monthly with no effect on the overall annualised position)

- During 2020/21 there were no Treasury Management Practice limits that were exceeded.
- Treasury performance figures for the year are set out in **Appendix A** with Prudential Indicators attached as **Appendix B.**
- The COVID 19 pandemic will continue to have an impact in 2021/22 with no expectations of a rise in interest rates given that the economy will need to continue to recover and stabilise over the short to medium term.

RECOMMENDATION(S)

That Cabinet notes the Treasury Management performance position for 2020/21 and approves the Prudential and Treasury Indicators for 2020/21.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Good and effective Treasury Management supports the Council in delivery against its corporate goals and objectives.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Key treasury management performance data is set out in **Appendix A**.

Risk

Risk is inherent in all treasury management activities. Such risks are considered within the Capital and Treasury Strategy with management actions necessary to mitigate the risks set out in the Council's Treasury Management Practices.

LEGAL

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).

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance which this Council has adopted.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications in respect of the above areas.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Services. The main reporting elements to comply with this code include:

- An Annual Capital and Treasury Strategy approved by Cabinet after consultation with the relevant overview and scrutiny committee for recommending to the Full Council.
- Regular monitoring reports that form part of the Council's Corporate Financial Performance Monitoring arrangements during the year. (For 2020/21, no issues were brought to the attention of members as part of this reporting process.)
- An annual treasury performance or outturn report for the preceding year that is presented to Cabinet.

This report sets out the necessary information in response to the third bullet point above and provides a summary of the treasury activities undertaken in 2020/21 **(Appendix A)** and final Prudential and Treasury Indicators at the end of 2020/21 **(Appendix B),** with revised figures for 2021/22 where relevant.

During 2020/21, the Council complied with its legislative and regulatory requirements and associated treasury management activity remained in accordance with the Treasury Strategy and Treasury Management Practices with further details in respect of specific borrowing and investment considerations set out in the next section of the report.

BORROWING AND INVESTMENTS 2020/21

Borrowing

The Base Rate set by the Bank of England remained at 0.10% through all of 2020/21. The latest forecast from the Council's treasury advisors indicates that this historically low rate of 0.10% is unlikely to change until after March 2023. Public Works Loan Board (PWLB) rates remain at low levels historically. During 2020/21 further requirements were introduced for PWLB borrowing, such that if an authority is planning any purchase of commercial property during a financial year or the following three years it will not be able to borrow any money from the PWLB for any purpose. This change was introduced to deter authorities from borrowing to purchase commercial property investments. Currently a further review is being made of the Treasury Management Code and the Prudential Code by CIPFA with the aim of also tightening further the requirements around commercial property investments. The Council's current investment property was not financed by loan.

No external borrowing was undertaken during the year. In respect of the General Fund, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent, as investment returns are low and counterparty risk remains relatively high. As set out in the Treasury

Strategy, the current internal borrowing position is running close to the £5m agreed. However given the continuing low return on investments and no significant increases in PWLB interest rates in the immediate future, it is felt prudent to maintain this position in the short term although this will be kept under review in consultation with the Council's external advisors and set against the background of potential increases in borrowing rates in the future.

No new borrowing or restructuring of existing debt was undertaken for GF or HRA purposes in 2020/21. Principal on HRA debt continues to be repaid each year in line with the 30 year business plan.

Debt rescheduling opportunities are limited in the current economic climate with no debt rescheduling taking place in 2020/21.

No temporary borrowing from the markets was required during the year.

One of the key prudential indicators relates to the Council's Authorised Borrowing Limit. It is therefore worth highlighting that borrowing has been maintained within the Council's Authorised limit as set out below:

Key Indicator	**Limit 2020/21**	**Amount Borrowed (Internal and External)**
Authorised Limit – borrowing	£76.156m	£43.672m

Looking ahead to 2021/22 it is likely that additional borrowing will be required to support the redevelopment of the Honeycroft Site in Lawford, which was set out in the Cabinet report agreed by the Leader in July. Depending upon the final development design and density, build costs are estimated to be in the region of £4 million. Although subject to a further report once the associated tender exercise is undertaken £280,000 has been set aside in the HRA budget for 2021/22 that will be available to support the cost of borrowing for this scheme. The final borrowing decision will be made by Full Council following a recommendation by Cabinet. It is also worth highlighting that it is anticipated that borrowing / capital investment costs can be reduced by seeking grant funding from Homes England through the Affordable Homes Programme 2021 - 2026. The Council is eligible to bid through the continuous market engagement strand of the programme and officers will be commencing discussions with Homes England to establish the level of grant subsidy that might be achievable

Investments

The year saw the continuation of the challenging investment environment of low investment returns with relatively high level of counterparty risk continuing. The tight monetary conditions remain and short-term deposit rates remain at extremely low levels. Additional liquidity in the market as a result of government grants to local authorities in response to COVID 19 and reduced investment activity in the wider economy due to COVID 19 resulted in banks not looking for any additional funding, which has driven rates down even further and has made it increasingly difficult to find suitable counterparties.

The Council manages its investments in-house and invests in accordance with the approved strategy. The Council invests for periods of time dependent on the Council's cash flows, the view as to future interest rate movements and the interest rates offered by counterparties whilst balancing various risks such as interest rate risk and counterparty risk.

As a result of the shortage of counterparties, plus the additional requirement for liquidity due to additional uncertainty over cash flows due to COVID 19, during 2020/21 the Council opened two Money Market Funds, one with Aviva and one with Federated Hermes. Both funds are AAA rated and are permitted investments as set out in Treasury Management Practices. At 31 March 2021 £7.800 million was held in total in Money Market Funds

The Council's investments continued across the following investment types:

- Deposits at fixed rates and for fixed terms with other local authorities and the Government's Debt Management Office (DMO)
- Deposits at fixed rates and for fixed terms with UK-based banks and building societies meeting the counterparty risk criteria
- Treasury bills, which are tradeable but if held to maturity are at fixed rates, although none were purchased during 2020/21 as the rates were much lower than could be achieved elsewhere
- Certificates of deposit, which are tradeable but if held to maturity are at fixed rates
- Use of deposit accounts with UK banks and the two new Money Market Funds for liquidity

Further details on how the investment types changed over the year is set out below.

With poor investment returns available along with limited 'low' risk counterparties, a significant proportion of the Council's investments were still made with other local authorities. The significant amount of money received on 1 April 2020 for Business rates grants from BEIS of £80.270 million meant that the only counterparty meeting the requirements of the Council's Treasury Management Practices (TMPs) where this money could be placed was the Bank of England's Debt Management Facility (DMO). This practice continued throughout the year, even in periods when the DMO was paying negative interest rates, meaning that the Council received back less money than was placed with the DMO. Total negative interest paid by the Council was limited to £382.10 across the whole year. The potential returns on Treasury Bills were so low that none were bought during the year, neither were any Certificates of deposit with banks, although there were some fixed deposits with Building Societies. Both government and local authority investments fit well with the Council's low appetite for risk with the security and liquidity of the investment the prime concern.

The total invested in local authorities at 31 March 2021 was **£58.000 million** out of a total investment of **£76.959 million**, with a further **£7.600 million** invested short term with the Debt Management Office and **£7.800 million** invested in two Money Market Funds. Other investments were held with UK banks with no amounts held with Building Societies, non-UK institutions or in Treasury Bills.

Given the money received from the Government to support business rate grants etc. and the short term and repeating nature of placing money with the DMO highlighted above, 2020/21 was an unusual year with aggregated investments reaching over **£5.000 billion** for the year as set out in **Appendix A**.

The Council receives regular credit rating updates during the year following which the appropriate action is taken as soon as practical where the credit rating falls below the minimum ratings which form part of the Council's Treasury Management Practices.

The UK holds an AA rating with one rating agency, AA- with a second and Aa3 with the third, with the lower grades not having a specific adverse impact on the Council's treasury activities at the present time.

In accordance with the Council's Commercial Property Investment Policy, an annual update on the portfolio is set out below.

In August 2017 the Council purchased an investment property in the District. The purchase was financed partly from capital receipts and partly from revenue resources, so there was no increase in indebtedness arising from the purchase. The purchase price, including stamp duty, was **£3.244 million**. At 31 March 2018 the property had been revalued to **£3.100 million** (the purchase price less stamp duty tax). In each subsequent year the Council's appointed valuer has revalued the property for the purposes of the Council's Statement of Accounts and the fair value was reduced as set out in the table below;

Date	Comment	Value £ million	Impairment £ million
August 2017	Purchase	3.244	0.000
March 2018	Revalued – exclude stamp duty	3.100	0.144
March 2019	Revalued	2.300	0.800
March 2020	Revalued	2.155	0.145
March 2021	Revalued	1.985	0.170

An impairment of **£0.170 million** was therefore recognised in the Council's 2020/21 statement of accounts, which is charged to revenue within the Comprehensive Income and Expenditure Statement and then reversed out through the Movement in Reserves Statement so that it does not fall as a direct cost that needs to be financed. It is worth highlighting that the above adjustments reflect the necessary end of year accounting adjustments and therefore do not necessarily reflect the value of the property on the open market. This remains as the only property in the portfolio.

In terms of the performance of the property, during the year the rental income was **£0.179 million**. (this is lower than in previous years as the payment of rent has moved from a quarterly basis to a monthly basis but this has had no impact on the overall annualised amount). The annualised amount represents an annual rate of return of 6.5% compared to the purchase price including stamp duty. The property is therefore performing satisfactorily against the financial target with the budgeted investment income achieved for the year.

The current leasehold occupier of the property ceased trading from the property in November 2018. Discussions remain open with the current leasehold occupier to continue to explore options going forward, which could include them subletting the property for the unexpired period of the lease (approximately 5 years). It is worth highlighting that the Council's Commercial Property Investment Policy is underpinned by robust risk management actions which will respond to any changes to the situation.

Given the above, there are no current risks to the Council's long-term forecast or significant changes to the risk of holding commercial property, but this will be reviewed on an on-going basis with any changes required to be made to the forecast set out as part of the financial strategy process over the reminder of the year.

Compliance with Treasury and Prudential Limits

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy. The outturn for the Prudential Indicators is shown in **Appendix B.**

BACKGROUND PAPERS FOR THE DECISION
None

APPENDICES
Appendix A Treasury Performance figures 2020/21 **Appendix B** Prudential and Treasury Indicators 2020/21