Report of:	Meeting	Date
Councillor Michael Vincent, Resources Portfolio Holder and Clare James, Corporate Director Resources and S151 Officer	Council	8 July 2021

Treasury management activity 2020/21

1. Purpose of report

1.1 To report on the overall position and activities in respect of Treasury Management for the financial year 2020/21.

2. Outcomes

2.1 An informed Council who have an understanding of Treasury Management activity, in line with the approved Treasury Management Policy and Strategy Statements and Treasury Management Practices.

3. Recommendation

3.1 That the Annual report on Treasury Management Activity for the 2020/21 financial year be approved.

4. Background

4.1 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 Chartered Institute of Public Finance and Accounting (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

4.2 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 (reviewed by Cabinet 25/03/2020 and recommended to Council. However, owing to delays caused by Covid-19, Council did not approve the strategy until its meeting held on 17/09/2020).

- A mid-year (minimum) treasury update report (Council 12/11/2020).
- An annual review following the end of the year describing the activity compared to the strategy (this report).

4.3 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 outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members. In January 2020 all members were offered Treasury Management Training from Link Asset Services; this included members of the Overview and Scrutiny Committee. Further training was given on 18 January 2021 to the Overview and Scrutiny Committee.

5. Key issues and proposals

5.1 The Council's Capital Expenditure and Financing

5.1.1 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.

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

Description	2019/20 Actual (£000)	2020/21 Budget (£000)	2020/21 Actual (£000)
Capital expenditure	5,979	11,765	6,789
Financed in year	5,979	11,765	6,789
Unfinanced capital expenditure	0	0	0

All capital expenditure undertaken during 2020/21 has been fully financed in the year.

5.2 Overall Treasury Position as at 31 March 2021

5.2.1 The council's treasury position, at the beginning and end of the 2020/21 financial year, was as follows:

	31/03/20 Principal (£000)	**Rate/ Return (%)**	**Avg Life (Yrs)**	**31/03/21 Principal (£000)**	**Rate/ Return (%)**	**Avg Life (Yrs)**
Total Debt	1,559	4.43	27	1,563	4.43	26
Total Investments	(24,771)	0.87	0	(33,124)	0.16	0
Net debt / (investment)	**(23,212)**	**-**	**-**	**(31,561)**	**-**	**-**
Total Debt	1,559	4.43	27	1,563	4.43	26
Capital Financing Requirement (CFR)	11,261	-	-	11,166	-	-
Over / (under) borrowing	**(9,702)**	**-**	**-**	**(9,603)**	**-**	**-**

5.3 The Treasury Management Strategy for 2020/21

5.3.1 Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero. The expectation for interest rates included in the treasury management strategy for 2020/21 was that the Bank Rate would continue at 0.75% before rising to 1.25% by the end of 2022/23. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020, which caused the Monetary Policy Committee to cut the Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy, the Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance 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, with the consequent effect that investment earnings rates plummeted.

5.3.2 Whilst 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.

5.4 The Borrowing Requirement and Debt

5.4.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment. The table below compares the estimated CFR to the debt which exists at 31 March. This gives an indication of the borrowing required. It also shows the estimated resources available for investment. An option is to use these balances to finance the expenditure rather than investing, often referred to as internal borrowing, so the table gives an indication of the minimum borrowing requirement through this method.

	31/03/20 Actual (£000)	**31/03/21 Budget (£000)**	**31/03/21 Actual (£000)**
CFR	11,261	11,165	11,165
Less external borrowing	1,552	1,552	1,552
Borrowing requirement	**9,709**	**9,613**	**9,613**
Reserves and Balances	26,803	27,594	27,594*
Borrowing / (investment) need	**(17,094)**	**(17,981)**	**(17,981)**

*Please note the outturn position is still an estimate prior to the sign off of the accounts expected in September 2021.

5.5 Borrowing Rates and Borrowing Outturn in 2020/21

5.5.1 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. The main influences on gilt yields are Bank Rate, inflation expectations and movement in US treasury yields. We have seen over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. 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.

5.5.2 HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9 October 2019, adding an additional 1% margin over gilts to all PWLB rates. That increase was then, at least partially, reversed for some forms of borrowing on 11 March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25 November 2020, the Chancellor announced the conclusion to the review over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

5.5.3 There is likely to be only a gentle rise in PWLB rates over the next three years as the Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is substantially above its target of 2%; this sets a high bar for the Bank Rate to start rising.

5.5.4 No new borrowing was undertaken during the 2020/21 year. Capital schemes budgeted for in 2020/21 were funded by grants and contributions, capital receipts and the Capital Investment Reserve. No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable. There were no short-term borrowing transactions (i.e. less than 365 days) during 2020/21.

The council has external borrowing with the Public Works Loan Board. The maturity structure of the debt is as follows:

	31/03/20 Actual (£000)	**31/03/21 Actual (£000)**
Under 12 months	-	-
12 months and over and within 20 years	552	552
20 years and over and within 30 years	-	-
30 years and over and within 50 years	1,000	1,000

5.5.5 Interest payments in respect of long-term borrowing for the 2020/21 financial year totalled £68,830, which was in line with the full year budget of £68,830. The actual interest payments, including miscellaneous payments for the year to 31 March is £69,326 compared to the full year budget of £68,850.

5.5.6 The council incurs charges at 4% over the current base rate for net overdrawn balances with no annual arrangement fee. The council's net bank account position was not overdrawn during the financial year 2020/21.

5.6 Investments

5.6.1 **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 17 September 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, (Standard and Poor's (S&P), Moody's and Fitch Ratings), supplemented by additional market data, (such as ratings outlooks, credit default swaps, bank share prices etc.).

5.6.2 The investment activity during the year conformed to the approved strategy, and the council had no liquidity difficulties.

5.6.3 Investments held by the council – internally managed funds earned an average of 0.16%. The comparable performance indicator is the average 7 day LIBID (London Interbank Bid Rate) which was -0.07%. The equated investments are analysed in the table below:

	Equated Investment Principal (£)	Interest Due (£)	Rate of Return (%)	Benchmark Return (%)
Santander 35 day Notice	3,698,631	14,331	0.57%	-0.07%
Bank of Scotland 95 day Notice	328,767	3,616	1.10%	-0.07%
Handelsbanken 35 day Notice	1,413,699	6,131	0.01%	-0.07%
Qatar 1 month	2,260,275	4,969	0.60%	-0.07%
Qatar 3 months	2,194,521	4,989	0.95%	-0.07%
Handelsbanken IA	3,797,261	3,481	0.35%	-0.07%
Bank of Scotland Call Account	1,227,151	366	0.05%	-0.07%
Bank of Scotland Call Account (new)	55,069	5	0.55%	-0.07%
NatWest Liquidity	3,068,652	2,365	0.30%	-0.07%
LGIM	5,550,138	6,292	0.36%	-0.07%
Insight	3,009,590	2,486	0.22%	-0.07%

Deutsche	3,792,152	4,025	0.29%	-0.07%
Prime Rate	6,016,440	6,710	0.37%	-0.07%
Total	**36,412,346**	**59,768**	**0.16%**	-0.07%

5.6.4 Interest receivable from investments for the 2020/21 financial year totals £59,768 compared to the full year budget of £70,000. Interest overall including miscellaneous items, received in the year totalled £63,730 compared to a budgeted figure of £74,000.

5.6.5 There have been no occasions of funds over £100,000 remaining in the council's overnight general account since February 2018 when the NatWest roll up facility and control account was activated.

5.7 Other Issues / Updates

5.7.1 Following the consultation undertaken by MHCLG on IFRS9, the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. To date Wyre Council have not been required to make any adjustments/disclosures in relation to this.

5.7.2 During 2020/21 the council received grant funding from the Government in relation to the Covid-19 outbreak which led to an increase in balances held by the council. To ensure that the council was still in compliance with approved counterparty limits, the Corporate Director Resources approved, through delegated authority, subsequently ratified by full Council, amendments to the limits. At no point during 2020/21 was the council in breach of these limits.

5.7.3 The implementation of IFRS16, bringing currently off balance sheet leased assets onto the balance sheet, has been delayed until 2022/23.

Financial and legal implications	
Finance	Considered in detail in the report above.
Legal	The approval of the recommendation will ensure that the statutory requirements have been complied with.

Other risks/implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
ICT	x
data protection	x

Processing Personal Data

In addition to considering data protection along with the other risks/ implications, the report author will need to decide if a 'privacy impact assessment (PIA)' is also required. If the decision(s) recommended in this report will result in the collection and processing of personal data for the first time (i.e. purchase of a new system, a new working arrangement with a third party) a PIA will need to have been completed and signed off by Data Protection Officer before the decision is taken in compliance with the Data Protection Act 2018.

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List of background papers:		
name of document	date	where available for inspection
None		

List of appendices

Appendix 1 – Prudential and Treasury Indicators.

dem/cou/cr/21/0807jm1

Appendix 1

1. Prudential Indicators	2019/20 Actual (£000)	2020/21 Estimate (£000)	2020/21 Actual (£000)
Capital Expenditure	5,979	11,764	6,789
Ratio of financing costs to net revenue stream	-0.39%	0.50%	0.50%
Gross Borrowing requirement General Fund	1,559	1,559	1,563
Gross debt	1,559	1,559	1,563
CFR	11,261	11,165	11,165
Annual change in CFR	-96	-96	-96
2. Treasury Management Indicators	**2019/20 Actual (£'000)**	**2020/21 Estimate (£'000)**	**2020/21 Actual (£'000)**
Authorised Limit for external debt borrowing	20,000	20,000	20,000
Other long term liabilities	0	0	0
Total	**20,000**	**20,000**	**20,000**
Operational Boundary for external debt borrowing	13,452	13,452	13,452
Other long term liabilities	7	7	11
Total	**13,459**	**13,459**	**13,463**
Actual external debt	1,559	1,559	1,563

Maturity structure of fixed rate borrowing during 2020/21	upper limit	lower limit
Under 12 month	100%	0%
12 months and within 24 months	45%	0%
24 months and within 5 year	75%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

These gross limits are set to avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time.