Appendix 7: Treasury Management Outturn Report 2020/21

1. Introduction

1.1 In February 2011 this Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

1.2 The coronavirus pandemic dominated 2020/21, leading to almost the entire world being in some form of lockdown during the year. The start of the financial year saw The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

1.3 Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

1.4 A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

1.5 Ultra-low interest rates prevailed throughout the whole financial year, with yields generally falling between April and December 2020 with 1-month, 3-month and 12-month rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

2. Main Points

2.1 Investment and borrowing interest for 2020/21 have produced a net surplus of £55k against the revised budget.

2.2 Pooled Funds have returned stronger dividends than first expected, and starting against lower capital values returned just under 4% against the £7m invested in this area.

2.3 The capital values of the Pooled Funds realised gains of over £405k for 2020/21.

2.4 The Council had debt of £173.720m as at 31st March 2021 at an average rate of 2.20%

2.5 All treasury prudential indicators were within their limits for 2020/21.

3. Local Context

3.1 On 31st March 2021, the Authority had net borrowing of £156.932m arising from its revenue and capital income and expenditure, an increase on 2019/20 of £6.016m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

3.2 The Council's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31st March 2021 and the year-on-year change is shown in table 1 below.

Table 1: Treasury Management Summary

	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	31.3.21 Rate %
Long-term borrowing	115.951	(0.731)	115.220	3.22
Short-term borrowing	69.000	(10.500)	58.500	0.18
Total borrowing	**184.951**	**(11.231)**	**173.720**	**2.20**
Long-term investments	7.043	1.590	8.633	3.84
Short-term investments	15.600	(14.385)	1.215	2.40
Cash and cash equivalents	10.991	(4.051)	6.940	0.21
Icelandic	0.401	(0.401)	0	0
Total investments	**34.035**	**(17.247)**	**16.788**	**1.54**
Net borrowing	**150.916**	**(6.016)**	**156.932**	

3.3 Borrowing Activity as at 31st March 2021, the Authority held £173.720m of loans, a decrease of £11.231m on the previous year, as part of its strategy for using investment funds to help reduce the need to temporary borrow as short term investments were close to returning zero interest. The Council back in February 2020 was forecasting to borrow up to £23m in respect of asset purchases for the Housing Revenue Account (HRA). But this never materialised in 2020/21, as the cost of long term borrowing was too expensive, so internal borrowing was utilised instead. This has only delayed the timing of when it is best to lock into some long term debt. Arlingclose, the council’s treasury advisors are aware of the situation, and are monitoring this for us. The year-end borrowing balance position and the year-on-year change is shown in table 2 below.

Table 2: Borrowing Position

	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	31.3.21 Rate %

Public Works Loan Board Banks (LOBO) Banks (fixed-term) Local authorities (short-term)	100.051 7.000 8.900 69.000	(0.731) 0 0 (10.500)	99.320 7.000 8.900 58.500	3.09 4.24 3.82 0.18
Total borrowing	**184.951**	**(11.231)**	**173.720**	**2.20**

3.4 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.

4. Investment Activity

4.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21, the Authority's investment balance ranged between £8.6m and £57m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 3 below.

Table 3: Investment Position (Treasury Investments)

	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	Interest Rate %
Banks & Building Societies	5.401	(5.401)	0	-
Government (inc. Local Authorities)	10.000	(10.000)	0	-
MMF's/Call Accounts	10.990	(4.050)	6.940	0.02
Pooled Funds	7.000	0	7.000	3.95
Other Investments	0.643	2.205	2.848	2.60
Total Investments	**34.034**	**(17.246)**	**16.788**	**1.78**

4.2 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.3 £7m of the Authority's investments are held in externally managed strategic pooled (bond, equity, multi-asset and property) funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a total return of £276,175 (3.95%), and gained in capital value by £405,780, which is treated as an unrealised capital gain.

4.4 During the initial phase of the pandemic in March 2020, the sharp falls in corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings and was reflected in the 31st March 2020 fund valuations with every fund registering negative capital returns over a 12 month period. Since March 2020 there here has been improvement in market sentiment which is reflected in an increase in capital values of these short-dated, strategic bond, equity and multi-asset income funds in the Authority's portfolio. The recovery in UK equities has lagged those of US and European markets since March 2020. UK banks are no longer giants of the FTSE market and the oil majors are fading too compared with like Apple in the US which is valued more than all the FTSE 100.

Table 4: Current Pooled Funds

Fund Manager	**Investment**	**Capital Value as at 31st March 2020**	**Capital Value as at 31st March 2021**	**Dividends Received 2020/21**	**2020/21 Gain/(Loss)**	**Gain/(Loss) v Original Investment**
	£	**£**	**£**	**£**	**£**	**£**
CCLA Property Fund	3,000,000	2,774,677	2,754,951	89,977	(19,726)	(245,049)
Schroders Income Maximiser Fund	2,000,000	1,184,864	1,457,039	123,437	272,175	(542,961)
CCLA Diversified Income Fund	2,000,000	1,823,816	1,977,147	62,761	153,331	(22,853)
Total –current Funds	**7,000,000**	**5,783,357**	**6,189,137**	**276,175**	**405,780**	**(810,863)**

4.5 The nature of these funds is that values can fluctuate from one year to another. Their performance and suitability in meeting the Authority's investment objectives are monitored and discussed with Arlingclose on a regular basis. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

5. Financial Implications

5.1 The outturn for debt interest paid in 2020/21 was £3.891 million (2.25%) on an average debt portfolio of £172.634 million against a budgeted £3.942 million. A surplus of £51,467 was recorded for the financial year due to temporary borrowing costs falling dramatically in 2020 and 2021. The HRA reimbursed the General Fund £1.797m for the debt associated to the HRA for 2020/21.

5.2 The outturn for investment income received in 2020/21 was £343,084 which equates to a 1.78% return (19/20 – 2.17%) on an average investment portfolio of £19.245 million against a budgeted £387.3k on an average investment portfolio of £21.7 million at an average interest rate of 2.01%. The General Fund reimbursed the HRA £76k for revenue balances held within investment balances during 2020/21. A surplus of £3,604 was made for investment income.

5.3 Net loans and investments budget for 2020/21 which also includes leasing and third party loans repayments, was a budgeted cost of £1.614m but made an actual cost return of £1.559m, a surplus of £55,071. See table 5 below for a breakdown.

Table 5 – Borrowing and Investment Costs

Borrowing Costs	2020/21 Original £	2020/21 Revised £	2020/21 Actual £	Variance (Act v Rev) £
Temp Borrowing	345,000	214,600	171,598	(43,002)
LT Borrowing	3,657,000	3,727,500	3,719,035	(8,465)
HRA Share	(1,784,000)	(1,796,600)	(1,796,600)	0
Total GF Cost	**2,218,000**	**2,145,500**	**2,094,033**	**(51,467)**
Investment Income	2020/21 Original £	2020/21 Revised £	2020/21 Actual £	Variance (Act v Rev) £
Pooled Funds	320,000	258,900	276,175	(17,275)
Short term/call	116,500	50,200	29,317	20,883
Glos Airport	0	28,200	27,376	824
CBH Loan	0	11,800	11,852	(52)
3rd Party Loans	265,800	265,600	266,252	(652)
HRA Share	(126,600)	(83,600)	(76,268)	(7,332)
Total GF Income	**575,700**	**531,100**	**534,704**	**(3,604)**
NET COST (Saving)	**1,642,500**	**1,614,400**	**1,559,329**	**(55,071)**

6. Compliance Report

6.1 The Council can confirm that it has complied with its Prudential Indicators for 2020/21, which was set in March 2020 as part of the Council's Treasury Management Strategy and Capital Strategy. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2019/20. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

The Prudential Indicators include:

- Authorised and Operational Boundary for External Debt
- Average Credit rating
- Upper limits for fixed interest rate exposure and variable interest rate exposure
- Upper limit for total principal sums invested over 364 days.

Table 6: Debt Limits

	2020/21 Maximum £m	**31.3.21 Actual £m**	**2020/21 Operational**	**2020/21 Authorised Limit**	**Complied**

			Boundary £m	£m	
Borrowing	197.951	173.720	310	320	✓

6.2 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was never above the operational boundary during 2020/21.

7. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

7.1 Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

Table 7 Maturity structure of borrowing

	31.3.21 Actual	Actual Debt Due	Upper Limit	Lower Limit	Complied
Under 12 months	34.45%	£59.846m	50%	0%	✓
12 months and within 24 months	2.73%	£4.743m	50%	0%	✓
24 months and within 5 years	3.75%	£6.515m	100%	0%	✓
5 years and within 10 years	10.82%	£18.796m	100%	0%	✓
10 years and above	48.25%	£83.820m	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The actual maturity percentages for 31st March 2021 are calculated on the debt outstanding of £173.720m.

11.3 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 8 Principal invested over 364 days

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	7m	7m	7m
Limit on principal invested beyond year end	10m	10m	10m

Complied	✓	✓	✓