



**Policy, Finance and  
Development  
Committee**

**Tuesday, 14  
September 2021**

**Matter for  
Information**

**Report Title: Treasury Management Annual Report 2020/21**  
**Report Author(s): Comie Campbell (Head of Finance/Acting Section 151 Officer)**

<b>Purpose of Report:</b>	This report details the performance and activities of the authority's treasury management function for the financial year 2020/21.
<b>Report Summary:</b>	Treasury management is defined in the Code of Practice as " the management of the organisation's 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".
<b>Recommendation(s):</b>	<b>That the content of the report and appendices be noted.</b>
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<b>Corporate Objectives:</b>	Providing Excellent Services (CO3)
<b>Vision and Values:</b>	"A Stronger Borough Together" (Vision) Accountability (V1) Innovation (V4)
<b>Report Implications:-</b>	
Legal:	There are no implications arising from this report.
Financial:	The implications are as set out in this report.
Corporate Risk Management:	Decreasing Financial Resources / Increasing Financial Pressures (CR1) Reputation Damage (CR4) Regulatory Governance (CR6)
Equalities & Equalities Assessment (EA):	There are no implications arising from this report. EA not applicable
Human Rights:	There are no implications arising from this report.
Health and Safety:	There are no implications arising from this report.

<b>Statutory Officers' Comments:-</b>	
Head of Paid Service:	Unable to comment due to Annual Leave
Chief Finance Officer:	The report is satisfactory.
Monitoring Officer:	The report is satisfactory.
<b>Consultees:</b>	None.
<b>Background Papers:</b>	<ul style="list-style-type: none"> <li>• Treasury Policy 2020/21</li> <li>• Treasury Strategy 2020/21</li> <li>• Investment Strategy 2020/21</li> </ul>
<b>Appendices:</b>	<ol style="list-style-type: none"> <li>1. List of Investments (1 April 2020 to 31 March 2021)</li> <li>2. Schedule of PWLB Loans (2020/21)</li> <li>3. Investment Strategy (2018/19 to 2020/21)</li> </ol>

## 1. **Introduction**

- 1.1 Two reports are produced annually on treasury management. The Treasury Management Strategy and Statement is approved by Council prior to the commencement of the financial year, and subsequently, the Treasury Management Annual Report provides Members with a summary of actual activity during the year 2020/21. The report is required to comply with both the "Code of Practice on Treasury Management in Local Government" and the Council's own Treasury Management Policy Statement.
- 1.2 The Code requires the Section 151 Officer to ensure that the treasury management function operates in accordance with treasury management practices adopted by Council. There are no issues of non-compliance with these practices that need to be brought to Member's attention.
- 1.3 Under the Prudential Code for Capital Finance, the Council is required to prepare a number of prudential indicators against which treasury management performance is to be measured.
- 1.4 The details of all borrowing and investment transactions for 2020/21, together with the performance of the treasury management function against prudential indicators are given below.

### 1.5 **Borrowing**

- 1.5.1 **Long Term** - The Authority is able to borrow on a long term basis from the Public Works Loans Board (PWLB). At the beginning of the year the value of the outstanding loans was £21.333m, comprising £16.101m relating to the HRA, and £5.232m relating to the general fund. £81K of principle was repaid in year, with £1.006m of long-term borrowing reclassified to short term borrowing, as the time to maturity fell under 365 days, and no additional long-term borrowing was undertaken, leaving the balance at £20.246m.
- 1.5.2 **Short Term** (Less than 365 days in duration) - There was £13.5m of short-term borrowing undertaken during 2020/21 (2019/20 £10.5m), in lieu of long-term borrowing. £1.006m of long term borrowing was reclassified to short-term, as the time until maturity fell under 365 days, and £1.006m of previously reclassified long-term borrowing was repaid.

### 1.5.3 Cost of Borrowing

Interest on the outstanding loans was paid as follows:

<b>Loan £000's</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Interest £000's</b>
500	29/03/2052	4.10	21
4,650	30/06/2055	2.66	125
17,108	Various	2.98*	519
10,500	28/08/2020	0.99	42
11,000	26/02/2021	0.25	25
11,000	31/08/2021	0.30	3
2,500	31/08/2021	0.10	1

\* **Average Interest rate for loans**

### 1.6 Investments

During 2020/21, the Council was in a position where it often had temporary cash surpluses to invest. When considering investments the Council must consider the following factors;

- Security – the Authority has a counterparty list, based on credit ratings, within its Investment Strategy that is approved prior to the commencement of the financial year. The current list and basis of approval is attached at Appendix C;
- Liquidity – because of the fluctuation of cash flows, there is always a need to have a mix of investments that are realisable when required;
- Yield – probably the least important consideration as often higher yields mean greater risks.

Given the current economic climate, and the attendant volatility and uncertainty in the financial markets, security has to be the most important factor of the three listed above.

For 2020/21 surplus cash was invested in the following ways.

**Special Interest Bearing Account** – This account is held with National Westminster Bank plc. It can be used for deposits up to £5 million and pays interest at 0.01%.

**Money Market Deposits** – Used for larger amounts, up to £1.5 million. The list of institutions approved for investment was agreed at Committee on 20 February 2020 and is included again for reference in **Appendix C**. The investments fall into two categories;

- Money on Call – These investments run for a minimum of 7 days after which they can be recalled at any time. Interest rates are variable and can fluctuate during the life of the investment;
- Fixed Deposits – Investments which mature at a pre-arranged date. The interest rate is fixed for the life of the investment.

The total interest received for the year to 31 March 2021 on temporary investments amounted to £14,290 (2019/20 £13,687). A summary of the total amount invested in 2020/21 is given at **Appendix A**.

## 1.7 Prudential Indicators

The Local Government Act 2003 requires Councils to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators which provide the basis for management and monitoring of borrowing and investments. These indicators were agreed by Council on 20 February 2020.

**The Capital Financing Requirement (CFR)** – This represents the Council’s underlying need to borrow for capital purposes, based on the cumulative value of capital expenditure not fully paid for. The CFR will change year on year in accordance with the value of capital spending.

The key control over treasury activities is to ensure that over the medium term, net borrowing will only be for capital purposes. The Authority must ensure that net external borrowing does not, except for short periods, exceed the total of the CFR. A comparison of the estimate against the actuals is shown in the table below.

	2020/21 Original Estimate £000's	2020/21 Revised Estimate £000's	2020/21 Actuals £000's
Gross Borrowing	34,257	33,240	34,752
Investments	0	0	0
<b>Net Borrowing 31<sup>st</sup> March</b>	<b>34,257</b>	<b>33,240</b>	<b>34,752</b>
<b>Total CFR 31<sup>st</sup> March</b>	<b>37,523</b>	<b>37,510</b>	<b>37,107</b>

**The Section 151 Officer reports that the Council complied with the requirement to keep borrowing below the relevant CFR in 2020/21 and no difficulties are foreseen for the current or future years.**

**Borrowing Levels** – The following two indicators control the overall level of borrowing;

- **The Authorised Limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003;
- **The Operational Boundary** – This indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around the boundary for short times during the year. It should act as a barometer to ensure the authorised limit is not breached;
- **The actual borrowing compared to the Authorised and Operational limits agreed by Council are as follows:**

	2020/21 Original Limit £000's	2020/21 Revised Limit £000's	2020/21 Actual (Max) £000's
Authorised Limit	44,000	44,000	34,752

Operational Boundary	39,000	39,000	34,752
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**Ratio of Financing Costs to Net Revenue Stream** – This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, Council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time.

	<b>2020/21 Original Estimate %</b>	<b>2020/21 Revised Estimate %</b>	<b>2020/21 Actual %</b>
General Fund	16.3	15.7	10.7
HRA	11.3	10.9	10.9

The above indicator shows that within the General Fund, financing costs are equivalent to 10.7% of the net revenue income. This figure, however, reflects the extraordinary financial support given to the Council through S31 business rates relief grants in 20/21, due to the COVID-19 pandemic, which has had the effect of inflating the net revenue stream in-year, and thereby lowering the ratio. Adjusting for grant reclaimable and those which will be offset against the collection fund deficit in future years, gives a ratio of around 15%, in line with the estimates.

In the case of the HRA there is net interest payable which is equivalent to 10.9% of the net revenue income.

**Limits on Activity** – The following indicators constrain the activity of the treasury function to within certain limits, thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council’s overall financial position.

- **Upper Limits on Variable Rate Exposure** – This indicator identifies a maximum Limit for variable interest rates;
- **Maturity Structures of Borrowing** – These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing;
- **Total Principal Funds Invested** – This limit is set to reduce the need for early sale of investments and is based on the availability of investments after each year-end.

	2020/21 Original Indicators		2020/21 Revised Indicators		2020/21 Actual Maturity Structure	
	%		%		%	
Fixed Interest Rates Limit	100		100		100	
Variable Interest Rates Limit	100		25		0	
Maturity Structure of Borrowing	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 Months	0	50	0	50	0	42
12 Months to 2 Years	0	50	0	50	0	3
2 Years to 5 Years	0	50	0	50	0	9
5 Years to 10 Years	0	100	0	100	0	14
10 Years & Above	0	100	0	100	0	32

The Prudential Code requires indicators to be set for the maturity structure of fixed borrowings only.