| **Audit, Governance & Standards Committee** | **28 July 2021** |
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# Treasury Management Annual Review 2020/21

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| **Final Decision-Maker** | Audit, Governance & Standards Committee |
| **Lead Head of Service** | Ellie Dunnet – Head of Finance |
| **Lead Officer and Report Author** | John Owen – Finance Manager |
| **Classification** | Public |
| **Wards affected** | All Wards |


**Executive Summary**

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code requires that authorities report on the performance of the treasury management function at least twice a year (at mid-year and year-end).

Council has delegated the role of considering these reports to the Audit, Governance and Standards Committee. This report sets out the activities of the Treasury Management function for 2020/21 financial year.


**Purpose of Report**

This report requires noting from the Committee.

**This report makes the following recommendations to this Committee:**

1. That the review of the financial year 2020/21 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted.
2. That no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2020/21.

| **Timetable** | |
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| ***Meeting*** | ***Date*** |
| Audit, Governance & Standards Committee | 28 July 2021 |

# Treasury Management Annual Review 2020/21

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
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| **Impact on Corporate Priorities** | The Treasury Management Function ensures the safeguarding of Council finances and the liquidity of funds when liabilities become due to support the strategic plan objectives. | Head of Finance |
| **Cross Cutting Objectives** | The report recommendations support the achievements of all the cross cutting objectives in the way stated above. | Head of Finance |
| **Risk Management** | Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2020/21 report. This report is purely for information purposes and has no risk management implications. | Head of Finance |
| **Financial** | This report relates to the financial activities of the council in respect of treasury management and specific financial implications are therefore detailed within the body of the report. | Section 151 Officer & Finance Team |
| **Staffing** | None | Head of Finance |
| **Legal** | Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.<br><br>The legal implications are detailed within the body of the report which is compliant with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities. | Legal Team |
| **Privacy and Data Protection** | None | Policy and Information Team |

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| **Equalities** | The recommendations do not propose a change in service therefore will not require an equalities impact assessment. | Policy & Information Team |
| **Public Health** | None | Public Health Officer |
| **Crime and Disorder** | None. | Head of Finance |
| **Procurement** | None | Head of Service & Section 151 Officer |
| **Biodiversity and Climate Change** | There are no implications on biodiversity and climate change. | Biodiversity and Climate Change Officer |

## 2. INTRODUCTION AND BACKGROUND

2.1 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 CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

2.1.1 The Treasury Management Strategy Statement (TMSS) for 2020/21 states the reporting requirements for the following reports:

- an annual treasury strategy in advance of the year (Full Council 26th February 2020)
- a mid-year treasury update report (Audit, Governance & Standards Committee 16th November 2020)
- an annual review following the end of the year describing the activity compared to the strategy (Audit Governance & Standards Committee - this report)

2.1.2 This report sets out the activities of the treasury management function for the 2020/21 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 12 months.

2.1.3 The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

2.1.4 The Authority's Treasury Management Strategy Statement for 2020/21 was approved by full Council on 26th February 2020. The key elements of the Strategy are:

- Utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate; and

- Further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments is considered. Greater use of local authority investments will be used where the borrowers offer a high level of security.

- Review of the Council's borrowing options prior to cash balances being fully utilised.

2.2 Economic Overview

2.2.1 The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. A fast programme of vaccination during 2021, has appeared to have been instrumental in speeding economic recovery and the reopening of the economy.

2.2.2 Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs. The Monetary Policy Committee cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC then increased QE by £100bn in June 2020 and by £150bn in November 2020 to a total of £895bn. The threat of negative rates was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months, by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

2.2.3 The Bank of England had to change its policy on the implementation of its 2% inflation target by stating that even if inflation rises to 2% in a couple of years' time, it may not necessarily mean Bank Rate will rise until it is clearly seen that the level of inflation is going to be persistently above target, if it takes no action on Bank Rate. Forecasts of Bank Rate are that it is not expected to increase prior to March 2024.

2.2.4 The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%.

2.2.5 The final agreement on Brexit 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 form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

2.3 Investment Activity

2.3.1 The CIPFA Code and Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council has adhered to these principles during 2020/21.

2.3.2 The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21 the Authority's investment balances have ranged between £5.24m and £48.6m. The average investment balance for the year was £22.385m. The Council held investments totalling £16.160m as at 31st March 2021. This final investment balance is an increase on previous year due to postponement of certain projects within the capital programme and the influx of Government grant funding due to COVID-19. A full list of the investments can be found within **Appendix A**.

2.3.3 Investment income for the year totalled £29k. This relatively low amount had been anticipated due to the dramatic fall in the Bank of England Base Rate prior to the financial year and the Council maintaining investment funds in short term instruments, to ensure they are readily available to fund the capital programme and grant payments.

2.3.4 Over the past financial year the Council's cash balances have, at certain intervals, been significantly higher than anticipated prior to the onset of the COVID-19 pandemic and associated government interventions. The key reasons for this are the upfront payments received for section 31 grants (to compensate for reductions in business rates income payable by ratepayers) and COVID-19 Business Grants which, although only held by the Council for a short time before being paid out to businesses, are significant in terms of value.

2.3.5 On Thursday 14th January 2021, the Council were informed that £12.4m was to be received from the government as grant funding. As local authorities around the country will have received similar allocations, the scope for short term lending to other councils was extremely limited. Options were to either retain the cash in the current account with Lloyds, or to allocate it to lower rated counterparties. These options were rejected to avoid the over concentration of risk in one area or compromising on the security of our cash deposits. It was decided by officers and agreed by the Section 151 Officer, that the funds would be spread over a number of counterparties using limits that were being proposed in the Treasury Management Strategy Statement 2021/22 that went to Audit, Governance & Standards Committee on 18th January 2021. All counterparties are highly rated institutions and in money market funds where the majority of the cash can be accessed instantly.

2.3.6 Due to the fact there was a breach of the counterparty limits agreed within the Treasury Management Strategy for 2020/21, this was reported to Policy & Resources Committee and agreed at full Council to address the breach of limits and adopting the new limits in advance of the previously envisaged adoption date of 1st April 2021.

2.3.7 The Council has invested its funds within the parameters set within the Treasury Management Strategy for 2020/21.

2.4 Borrowing Activity

2.4.1 During 2020/21, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as this reduces cost of carry and minimises counterparty risk on placing investments.

2.4.2 The Council started the year with £11m of short-term loan debt funded by other local authorities. £2m had previously been repaid, however an additional £2m was required close to the financial year end. The total amount of loan debt as at 31st March 2021 was £11m, which a full list of can also be found in **Appendix A**.

2.4.3 All Council's loan debt is short term and the decision to lock into longer term funding was discussed with the Council's treasury advisors, Link Asset Services. As interest rates on short term funding are at an all-time low and funding is readily available, it was decided to keep with short term debt throughout 2020/21. The decision to secure long term funding will be monitored during 2021/22.

2.4.4 The Council has borrowed funds within the parameters set within the Treasury Management Strategy for 2020/21.

2.5 Prudential and Treasury Indicators

2.5.1 The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the indicators that must be set and monitored each year.

2.5.2 The Council has operated within its Prudential and Treasury Indicators set out in the Treasury Management Strategy 2020/21 and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **Appendix B**.

2.6 Compliance Report

2.6.1 The Director of Finance & Business Improvement can confirm that all treasury management activities undertaken during 2020/21 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

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## 3. AVAILABLE OPTIONS

3.1 The Audit, Governance and Standards Committee agrees that that the review of the financial year 2020/21 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted and that no amendments to the strategy are required in consequence.

3.2 The Audit, Governance and Standards Committee could propose changes to the current procedures as a result of the review of activities in 2020/21.

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## 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The Audit, Governance and Standards Committee agrees that that the review of the financial year 2020/21 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted and no amendments to the strategy are required as there is no justification to make any changes.

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## 5. RISK

5.1 Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2020/21 report. This report is purely for information purposes and has no risk management implications.

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## 6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 None.

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## 7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 If Audit, Governance and Standards Committee agrees that no changes are required in the current treasury management procedures, then there will be no further action.

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## 8. REPORT APPENDICES

8.1 The following documents are to be published with this report and form part of the report:

- Appendix A: List of Investments and Borrowing as at 31st March 2021.
- Appendix B: Prudential and Treasury Indicators

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## 9. BACKGROUND PAPERS

9.1 None.