Report of the Deputy Chief Executive

TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS - ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2021

1. Purpose of report

To inform the Committee of treasury management activity and the actual prudential indicators for 2020/21.

2. Detail

This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through regulations issued under the Local Government Act 2003.

During 2020/21 the minimum reporting requirements were that an annual treasury management strategy be approved in advance of the year, a mid-year report and finally an annual report be produced following the year describing the activity compared to the strategy. This report fulfils this requirement.

The CIPFA Code of Practice on Treasury Management required the Section 151 Officer to operate the treasury management function in accordance with the treasury management strategy approved at the Council meeting of 4 March 2020. Details of all borrowing and investment transactions for 2020/21 together with the balances at 31 March 2021 and treasury management limits on activity are also provided in appendix 1. All treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice on Treasury Management and the approved treasury management strategy.

Under the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council is required to prepare a number of prudential indicators against which treasury management performance should be measured. Performance against prudential indicators is given in appendix 2.

The CIPFA Prudential Code for Capital Financing in Local Authorities was revised in December 2017 and introduced a requirement for the production of a Capital Strategy. This is considered alongside the Treasury Management Strategy Statement and the Investments Strategy by this Committee as part of the Budget Proposals and Associated Strategies report each year before being presented to full Council for approval in March.

Recommendation
The Committee is asked to NOTE the annual report for the year ended 31 March 2021.

Background papers
Nil

APPENDIX 1

1. Borrowing

a) Debt Outstanding and Transactions during the Year

Loan debt outstanding as at 31 March 2021 together with comparative figures for 31 March 2020 is summarised in the table below:

	Amount Outstanding at 31 March 2020 £	Amount Outstanding at 31 March 2021 £
Short Term Loans	15,405,768	23,785,728
Long Term Loans:		
Public Works Loan Board	79,769,130	74,327,519
Local Authorities	0	0
Barclays Bank	3,000,000	3,000,000
	98,174,898	101,113,247

b) Short Term Loans

The movement in short term loans from other local authorities during the year is set out in the table below:

Lender	Balance at 31 March 2020 (£)	Start Date	End Date	Rate (%)	Balance at 31 March 2021 (£)
Guildford Borough Council	2,000,000	17 May 2019	15 May 2020	1.00	Nil
Notts Police & Crime Commissioner	2,000,000	5 July 2019	6 April 2020	0.90	Nil
East Suffolk Council	2,000,000	25 September 2019	23 September 2020	0.90	Nil
Lichfield District Council	2,000,000	8 November 2019	11 May 2020	0.72	Nil
Hyndburn Borough Council	1,000,000	6 December 2019	4 December 2020	0.90	Nil
North West Leicestershire District Council	2,000,000	30 January 2020	30 July 2020	0.85	Nil
Breckland District Council	1,000,000	31 January 2020	30 October 2020	0.93	Nil

Bridgend County Borough Council	2,000,000	6 February 2020	6 August 2020	0.87	Nil
Breckland District Council	1,000,000	6 February 2020	5 February 2021	0.95	Nil
Merseyside Fire & Rescue Service	N/A	5 May 2020	04 May 2021	0.90	2,000,000
Somerset County Council	N/A	06 August 2020	06 May 2021	0.60	2,000,000
North of Tyne Combined Authority	N/A	30 September 2020	29 September 2021	0.55	2,000,000
South Derbyshire District Council	N/A	06 October 2020	06 April 2021	0.10	2,000,000
Shropshire & Wrekin Fire Authority	N/A	11 November 2020	11 May 2021	0.10	2,000,000
Merthyr Tydfil	N/A	05 February 2021	05 August 2021	0.04	3,000,000
Liverpool Combined Council	N/A	01 March 2021	01 September 2021	0.10	5,000,000
TOTAL	15,000,000				18,000,000

Short term loans outstanding at 31 March 2021 included £275,121 invested with the Council by the Bramcote Crematorium Joint Committee. The equivalent figure was £395,288 as at 31 March 2020.

Short term loans outstanding at 31 March 2021 also include nominal PWLB annuities totalling £11,625. The equivalent figure at 31 March 2020 was £10,481.

c) Long Term Loans

The majority of the loans from the PWLB is comprised of the £66.446m borrowed on 28 March 2012 as part of the reform of council housing finance.

No new loan term loans were received from the PWLB in 2020/21. The reduction in long term PWLB loans in the year reflects the re-classification of loans to short term at 31 March 2021 as they will be repaid in the next twelve months.

The Council has a loan of £3.0m at 4.19% with Barclays Bank that is due to mature on 4 February 2073.

d) Borrowing Strategy 2020/21

Overall, debt was kept under review in order to match the level of borrowing with the financing requirement for assets, based on analysis of the Council's balance sheet with the aim of maintaining the Council's borrowing at the most efficient level in line with the prudential framework for capital finance.

The approved budget for 2020/21 indicated that further borrowing of £7.886 million would be required to help fund the 2020/21 capital programme. £3 million of additional borrowing was actioned with the potential need for additional funds re-profiled in line with a revised capital programme in the medium term.

e) Debt Profile

The Council's debt had an average of 7.03 years to maturity at 31 March 2020 (31 March 2019, 8.28 years). The average interest rate payable in the year was 2.93% (2019/20 2.97%).

The one-off preferential rates offered by the PWLB for the £66.446m additional loans taken out in March 2012 continue to have a substantial impact upon both the average interest rate payable and the debt profile.

f) Debt Restructuring

The Section 151 Officer in association with the Council's treasury management advisors carefully scrutinises the Council's loan portfolio to identify potential opportunities to achieve a reduction in risks and/or savings in interest costs by prematurely repaying loans and refinancing them on similar or different terms.

No suitable debt restructuring opportunities were identified in 2020/21 as the cost associated with premiums payable on the premature repayment of loans, ranging from 5% to 97% of the loan principal amount, could not be offset by lower refinancing rates.

3. Investments

a) Investment Policy

The Council's investment policy is governed by MHCLG Guidance and was incorporated in the annual investment strategy approved at the Council meeting on 4 March 2020. The investment activity during 2020/21 conformed to the approved strategy with security of capital being the Council's main investment objective.

Counterparty credit quality was assessed and monitored with reference to credit ratings and other available information. The minimum long-term counterparty credit rating determined for the 2020/21 investment strategy was A- (or equivalent) across the Fitch, Standard and Poor and Moody's credit rating agencies.

In keeping with the MHCLG Guidance, the Council sought to maintain a sufficient level of liquidity through the use of money market funds (MMFs) and overnight deposit/call accounts. The Council had no liquidity difficulties in 2020/21.

The Council attempted to optimise returns commensurate with its objectives of security and liquidity.

b) Interest Received

The total interest receivable for the year amounted to £265,165 (2019/20 £314,080). This includes interest relating to long term investments of: -

- £80,048 (£85,344 2019/20) from a £2 million investment in the CCLA Local Authorities Property Fund (LAPF)
- £65,610 (£67,609 2019/20) from a £2 million investment in the CCLA Diversified Income Fund
- £47,601 (£22,602 2019/20) from a £2 million investment in the Ninety-One Diversified Income Fund

A long term investment of £1 million was made in September 2019 into the Ninety-One Diversified Income Fund with a further £1 million deposited in December 2020.

The table in 3 (d) includes details of the changes in the average life of investments during 2020/21.

The average interest rate received on investments in year was 1.06% (1.68% 2019/20). The United Kingdom bank rate remained at 0.10% for the year which was reflected in short term money market rates with a corresponding impact on investment income. The rates of return on investments also continues to reflect the priorities of security and liquidity before yield.

c) Investments Placed

A summary of all investments placed in 2020/21 is set out below.

	Average Credit score	Balance at 01/04/2020 £000s	Investments Made £000s	Investments Repaid £000s	Balance at 31/03/221 £000s	Increase/ (Decrease)
UK Banks and Building Societies						
Santander UK	A+	-	3,000		3,000	3,000
Bank of Scotland	A+	-	4,300	(1,300)	3,000	3,000

Local Authorities						
Mid Suffolk DC	A+	3,000		(3,000)	-	(3,000)
Eastleigh BC	A+	3,000		(3,000)	-	(3,000)
Money Market Funds						
Aberdeen	A+	2,860	98,921	(101,402)	379	(2,481)
Insight	A+	-	5,700	(5,700)	0	0
Legal & General Investment Management	AA-	-	91,480	(91,480)	0	0
Federated	AA-	-	50,470	(50,470)	0	0
Public Sector Deposit Fund	AA-	-	36,996	(35,123)	1,873	1,873
Other Funds						
Royal London Enhanced Cash Plus Fund	AA	2,000			2,000	
Ninety One Diversified Income Fund	AA	1,000	1,004		2,004	1,000
CCLA Diversified Income Fund	AA	2,000			2,000	
CCLA Property Fund	AA	2,000			2,000	
Total		**15,860**	**291,871**	**(291,475)**	**16,256**	**396**

Investments with counterparties such as Santander UK and Money Market Funds are set up as individual accounts where funds can be placed short-term (often overnight) and monies withdrawn as and when required. This increases the volume and value of investments made with these institutions during the year.

Money Market Fund credit ratings are indicative only due to the disparate investment strategies utilised by the funds.

d) Credit Score Analysis

Counterparty credit quality has been maintained in accordance with the Treasury management strategy approved by the Finance & Resources committee on 13 February 2020 and confirmed by Council on 4 March 2020.

No investments were made with institutions where the credit rating exceeded a score of 7. All deposits were made with institutions achieving an average score of 5 or better.

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

4. Treasury Management Limits on Activity

There are four treasury management indicators that were previously prudential indicators. The indicators are:

- Upper limits on fixed rate exposure – This indicator identifies a maximum limit for fixed interest rates based upon the debt position net of investments.

- Upper limits on variable rate exposure – Similar to the previous indicator this covers a maximum limit on variable interest rates.

- Maturity structures of fixed rate borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

- Total principal funds invested for periods longer than one year – These limits aim to reduce the risk of long-term investments needing to be realised before their natural maturity dates due to cash flow requirements, which could result in the investment being realised when market conditions are unfavourable.

The purpose of these indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position.

	2020/21 Planned Upper		2020/21 Actual 31 March 2021	
Limits on fixed interest rates	100%		84%	
Limits on variable interest rates	40%		32%	
Maturity Profile of Borrowings				
	Lower	**Upper**	**Lower**	**Upper**
Under 12 months	0%	50%	0%	23%
12 months to 2 years	0%	50%	0%	4%
2 years to 5 years	0%	50%	0%	24%
5 years to 10 years	0%	75%	0%	40%
10 years to 20 years	0%	100%	0%	2%
20 years to 30 years	0%	100%	0%	0%
30 years to 40 years	0%	100%	0%	3%
40 years to 50 years	0%	100%	0%	0%
50 years and above	0%	100%	0%	3%

* The CIPFA Prudential Code for Capital Finance in Local Authorities requires indicators to be set for the maturity structure of fixed borrowing only. The above limits applied equally to total borrowing (fixed and variable borrowing).

As suggested in the CIPFA Code of Practice on Treasury Management, all investments (whether fixed or variable rate) with a period of less than twelve months to maturity are regarded as variable rather than fixed rate investments as they are potentially subject to movements in interest rates when they mature. Likewise, any fixed rate borrowing that is due to mature within twelve months is regarded as being at a variable rate as the rate to be paid on any replacement loan could differ from the rate currently being paid.

With regard to the total principal funds invested, the investment strategy 2020/21 proposed that investments would only be made with those institutions on the counterparty list that were viewed as presenting the least risk.

At 31 March 2021 the Council's investments with a duration more than one year totalled £8 million. This consisted of £2 million invested in the Royal London Enhanced Cash Plus Fund; £2 million in the CCLA Local Authorities Property Fund (LAPF); £2 million in the CCLA Diversified Income Fund; and £2 million in the Ninety-One Diversified Income Fund.

5. <u>Regulatory Framework, Risk and Performance</u>

The Council has complied with all of the relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular, the Council's adoption of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities means that its capital expenditure is prudent, affordable and sustainable and that its treasury management practices demonstrate a low risk approach.

6. Money Market Brokers

The Treasury Management Strategy Statement 2020/21 to 2022/23 approved by Finance and Resources Committee on 13 February 2020 and by Council on 4 March 2020 included details of the external money market brokers to be used by Treasury Management.

Tradition (UK) Ltd
Beaufort House
15 St Botolph Street
London
EC3A 7QX

Sterling International Brokers
1 Churchill Place
Canary Wharf
London
E14 5RD

Martins Brokers (UK) Ltd
20th Floor
1 Churchill Place
Canary Wharf
London
E14 5RD

King and Shaxson Ltd
6th Floor
120 Cannon Street
London
EC4N 6AS

Imperial Treasury Services
25 St Andrew Street
Hertford
SG14 1HZ

APPENDIX 2

Prudential Indicators

1. Introduction

The Local Government Act 2003 requires local authorities to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out their capital budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators, which provide the basis for the management and monitoring of capital expenditure, borrowing and investments. The indicators are based on the Council's planned and actual capital spending.

2. Capital Expenditure and Financing 2020/21

The Council undertakes capital expenditure on assets which have a long term value. 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 resulting impact upon 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.

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

	2019/20 Actual £000s	**2020/21 Estimate £000s**	**2020/21 Actual £000s**
General Fund	4,808	16,617	10,352
HRA	6,013	8,897	6,373
Total Capital Expenditure	**10,821**	**25,514**	**16,725**
Financed by:			
Capital Receipts	1,931	9,245	4,077
Capital Grants	1,497	3,018	1,980
Revenue	5,419	6,254	4,607
Unfinanced Capital Expenditure	**1,974**	**9,950**	**6,061**

Further details of capital expenditure are included in Appendix 2 of the Statement of Accounts update and outturn position report 2020/21 on this agenda.

3. The Council's Overall Borrowing Need

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position and represents net capital expenditure in 2020/21 and prior years that has not yet been paid for by revenue or other resources.

Part of the Council's treasury management activity seeks to address this borrowing need, either through borrowing from external bodies or utilising temporary cash resources within the Council.

Whilst additional borrowing can be undertaken or existing loans repaid at any time within the confines of the treasury management strategy, the Council is required by statute to make an annual revenue charge to reduce the CFR. This charge is effectively a repayment of the General Fund borrowing need and is known as the minimum revenue provision (MRP).

The total CFR can also be reduced by:

- The application of additional capital resources (such as unapplied capital receipts); or
- Charging more than the statutory revenue charge (MRP) each year through a voluntary revenue provision (VRP)

The Council's 2020/21 MRP Policy (as required by MHCLG Guidance) was approved at the Council meeting on 4 March 2020. For expenditure incurred before 1 April 2008, the General Fund MRP was based upon 4% of the CFR at that date utilising a reducing balance approach. For all unsupported borrowing incurred from 1 April 2008, the MRP was based upon the estimated life of the assets that the borrowing was intended to finance using an annuity based, as opposed to equal instalment, approach to more accurately reflect the time value of money.

There is no statutory requirement to charge MRP to the HRA. However, an authority can charge VRP to the HRA should it wish to do so. The Council meeting on 4 March 2020 determined that no VRP was to be charged to the HRA in 2020/21.

The Council's CFR for 2020/21 represents a key prudential indicator and is shown below.

Capital Financing Requirement (CFR)	**General Fund £000s**	**HRA £000s**	**Total £000s**
Opening Balance at 1 April 2020	**19,629**	**81,267**	**100,896**
Add: Unfinanced Capital Expenditure 2020/21	6,061	0	6,061
Less: MRP/VRP in 2019/20	(834)	0	(834)
Closing Balance at 31 March 2021	**24,856**	**81,267**	**106,123**

4. Treasury Position at 31 March 2021

Whilst the Council's gauge of its underlying need to borrow is the CFR, the Section 151 Officer can manage the Council's actual borrowing position by either:

- Borrowing to the CFR; or
- Choosing to utilise some temporary internal cash flow funds in lieu of borrowing (under borrowing); or
- Borrowing for future increases in the CFR (borrowing in advance of need)

The figures in this report are based upon the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest.

The Section 151 Officer managed the debt position in 2020/21 by, on occasions, choosing to utilise some temporary internal cash flow funds in lieu of additional borrowing.

The borrowing position at 31 March 2021 compared with the previous year was:

Actual Borrowing Position	**31 March 2020**		**31 March 2021**	
	Principal £000s	**Average Rate**	**Principal £000s**	**Average Rate**
Fixed Interest Rate Debt	98,175	3.02%	101,044	3.01%
Variable Interest Rate Debt	0	0.0%	0	0.0%
Total Debt	**98,175**	**3.02%**	**101,044**	**3.01%**
Capital Financing Requirement				
CFR – General Fund	19,629		24,856	
CFR – HRA	81,267		81,267	
Total Capital Financing Requirement	**100,896**		**106,123**	
Over/(Under) Borrowing	**(2,721)**		**(5,079)**	

5. Prudential Indicators and Compliance Issues

Some of the prudential indicators provide either an overview or specific limits on treasury management activity. These are as follows:

i) Gross Borrowing and the Capital Financing Requirement (CFR)

In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council needs to ensure that its gross borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional increases to the CFR for the current and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes. The table below highlights the Council's gross borrowing position against the CFR.

	31 March 2020 Actual	**31 March 2021 Planned**	**31 March 2021 Actual**
	£'000	**£'000**	**£'000**
Gross Borrowing			
- PWLB and Market	97,780	107,930	100,769
- Bramcote Crematorium	395	295	275
Gross Borrowing Position	**98,175**	**108,125**	**101,044**

Capital Financing Requirement (CFR)			
CFR – General Fund	19,629	29,579	24,856
CFR – HRA	81,267	81,267	81,267
Total CFR	**100,896**	**110,106**	**106,123**

The Section 151 Officer can report that gross borrowing was below the CFR at 31 March 2021 as it was at 31 March 2020. Gross borrowing in terms of PWLB loans remained largely unchanged throughout the year with the only movement being the repayment of some PWLB annuity loans. There was an overall increase of £3 million in market loans during 2020/21 and maturing loans were replaced throughout the year. As set out in appendix 1, the additional borrowing undertaken in 2020/21 was intended to bring greater alignment between the overall borrowing level and the Council's underlying need to borrow as measured by the CFR. The decrease in borrowing from Bramcote Crematorium over 2020/21 reflects the reduction in available surplus when compared with the previous year.

The CFR increase shown here is analysed in section 3 above.

As stated above, gross borrowing at 31 March 2021 was below the CFR and it is anticipated that gross borrowing will continue to be below the CFR over the current and following two financial years. Any borrowing decisions will take account of the effect upon the total CFR.

ii) Authorised Limit and Operational Boundary for External Debt

The authorised limit is a statutory limit determined under section 3 (1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which could be afforded in the short term to maximise treasury management opportunities and cover temporary cash flow shortfalls, but is unlikely to be sustainable over the longer term. The table below demonstrates that during 2020/21 the Council has maintained gross borrowing within its authorised limit.

The operational boundary is based on the probable external debt during the course of the year. The operational boundary is not a limit and actual borrowing can vary around the levels shown for short times. The operational boundary should act as an indicator to ensure the authorised limit is not breached and is a key management tool for in year monitoring of treasury management activities by the Section 151 Officer.

Actual external debt is gross borrowing plus other long-term liabilities. As mentioned previously, gross borrowing includes sums invested with the Council by Bramcote Crematorium. Other long-term liabilities are liabilities outstanding (other than borrowing) in relation to the financing of capital expenditure. They relate to, for example, private finance initiative (PFI) credits or finance leases. The Council did not have such long-term liabilities at 31 March 2021 or at any stage during 2020/21.

	Operational Boundary 31 March 2021 £000	Authorised Limit 31 March 2021 £000	Actual External Debt 31 March 2021 £000
Borrowing	**106,550**	**133,200**	**101,044**
Other Long-Term Liabilities	**0**	**0**	**0**
Total	**106,550**	**133,200**	**101,044**

The Section 151 Officer reports that there were no breaches of the authorised limit during 2020/21. The maximum level of borrowing during 2020/21 was £101 million

iii) Total Principal Sums Invested for More than One Year

This limit is intended to contain exposure to the possibility of any loss that may arise as a result of the Council having to seek early repayment of any investments made. If an investment has to be re-paid before its natural maturity date due to cash flow requirements then, if market conditions are unfavourable, there could be an adverse impact upon the Council.

The Council's policy for 2020/21 as set out in the annual investment strategy was to retain the flexibility to invest a proportion of its available balances for a period in excess of one year should credit conditions continue to show signs of stabilisation or improvement. An estimated amount of £8 million was identified in the strategy as being available for longer term investment. Details of sums invested over more than 1 year are identified in section 4 of appendix 1

iv) The Ratio of Financing Costs to Net Revenue Stream

This indicator as shown in the table below compares net financing costs (borrowing costs less investment income) to net revenue income from business rates, 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.

	2019/20 Actual	2020/21 Revised	2020/21 Actual
General Fund	10.6%	10.8%	13.2%
HRA	15.0%	17.8%	15.2%

General Fund performance reflects cost of borrowing broadly similar between 2019/20 and 2020/21. The out turn report for 2020/21 identifies an under spend of £2.12 million which increases the proportion of budget required for financing costs. HRA revised figures included a level of capital funding from revenue that was not required in year due to a re-profiling of the medium term capital programme.

6. The Prudential Code for Capital Finance in Local Authorities

The code has been subject to various reviews and consultations mainly in respect of borrowing for Investment / Yield.

Exploratory activity is now complete and a revised code is due to be published in December 2021.

Financial implications of the revised code as applicable to the Council will be reported to the committee early in 2022.