

**Report To:** Cabinet

**Date:** 8 July 2021

**Report Title:** Treasury management annual report 2020/21 and latest TM monitoring

**Report of:** Homira Javadi, Chief Finance Officer

**Cabinet member:** Councillor Zoe Nicholson, Deputy Leader of the Council and Cabinet Member for Finance and Assets

**Ward(s):** All

**Purpose of report:** To present the Annual Treasury Management Report for 2020/21 and the latest Monitoring Report

**Decision type** Budget and Policy Framework

**Officer Recommendations:** To recommend to Full Council:

- (1) Agree the Annual Treasury Management report for 2020/21.**
- (2) Approve the 2020/21 Prudential and Treasury Indicators included in the report.**
- (3) Note that the Treasury Management activities for the period starting from 1 March to 31 March 2021 has been in accordance with the approved Treasury Strategies for that period.**

**Reasons for recommendations:** Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.

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## **1 Introduction**

1.1 The Council is required, under the Local Government Act 2003, to produce an annual review of Treasury Management 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).

- 1.2 During 2020/21, the Full Council received the annual Treasury Management Strategy Statement (TMSS), whilst Cabinet were presented with the 2020/21 Treasury Management Update Report in relation to the sources and methods of borrowing and approved organisations for lending temporarily surplus funds.
- 1.3 The regulatory environment places responsibility on Members for the review and scrutiny of TM policy and activities. This report is therefore important, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members. This report will be considered by the Audit and Standards Committee at their 12 July 2021 meeting.

## **2 Treasury Management 2020/21**

- 2.1 Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium/long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.
- 2.2 The criteria for lending to Banks are derived from the list of approved counter parties provided by the Council's Treasury Management advisors, Link Asset Services. The list is amended to reduce the risk to the Council by removing the lowest rated counterparties and reducing the maximum loan duration.
- 2.3 During the year some outstanding other authorities' loans were repaid on time with the interest due. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic which caused the Monetary Policy Committee to cut Bank Rate in March 2020, 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.
- 2.4 The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with significant amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied significant 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.
- 2.5 While 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.

- 2.6 On the debt portfolio, no new loans were taken and external debt is around £56.673m. The MTFs 2020-21 capital programme includes a funding requirement of £88.9m to be funded from borrowing. However, due to the strength of the Council's balance sheet, it is expected to be possible to use internal balances to fund this on a temporary basis instead of raising new loans.
- 2.7 The loan portfolio has produced a level of performance in the period in which performance figures have been calculated. Adding significant value in a period of extremely low interest rates is very difficult. Given that interest rates are unlikely to rise for the next two years, low levels of returns are likely to continue and the cost of getting investment decisions wrong is unlikely to be significant. The overall position as at 31 March 2021 are detailed within the attached **Appendix A**.

### 3 Latest Treasury Management Activity

- 3.1 The timetable for reporting Treasury Management activity in 2020/21 and 2021/22 are shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
26 July 2021	2020/21 Annual Report (incl. 1 March to 31 March 2021)
14 September 2021	1 April to 30 July 2021
16 November 2021	1 August to 31 October 2021
18 January 2022	1 November to 31 December 2021
8 March 2022	1 January to 28 February 2022

### 3.2 Fixed Term Deposits pending maturity.

The following table shows the fixed term deposits held at 31 March 2021 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All the deposits met the necessary criteria the minimum rating required for deposits made after 1 April 2018 is long term A- (Fitch).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
249231	Surrey County Council	08 Mar 21	08 Apr 21	31	5,000,000	0.05	*

\*UK Government body and therefore not subject to credit rating

### 3.3 Fixed Term Deposits which have matured in the reporting period.

The table below shows the fixed term deposits which have matured since 1 March 2021, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £5m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating	
249221	Kirklees Council	17 Feb 21	26 Mar 21	37	5,000,000	0.01%	*	
	<b>Total</b>				5,000,000			
	*UK Government body and therefore not subject to credit rating							

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 March and 31 March 2021 was 0.07%, below the average bank base rate for the period of 0.10%.

### 3.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £2.611m generating interest of approximately £0.3k.

	Balance at 31 March '21 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£5,000	4,774	0.08
Lloyds Bank Corporate Account	£1,551	2,032	0.00
Lloyds Bank Call Account	£3,010	1,026	0.01

### 3.5 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £10m in each fund, and at no time was this limit exceeded.

	Balance at 31 March '21 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£0,000	1,516	0.00
Deutsche Managed Sterling Fund	£0,010	1,807	0.00

### 3.6 Treasury Bills (T-Bills)

There were no Treasury Bills held at 31 March 2021, and there was no activity in the period.

### 3.7 Secured Investments

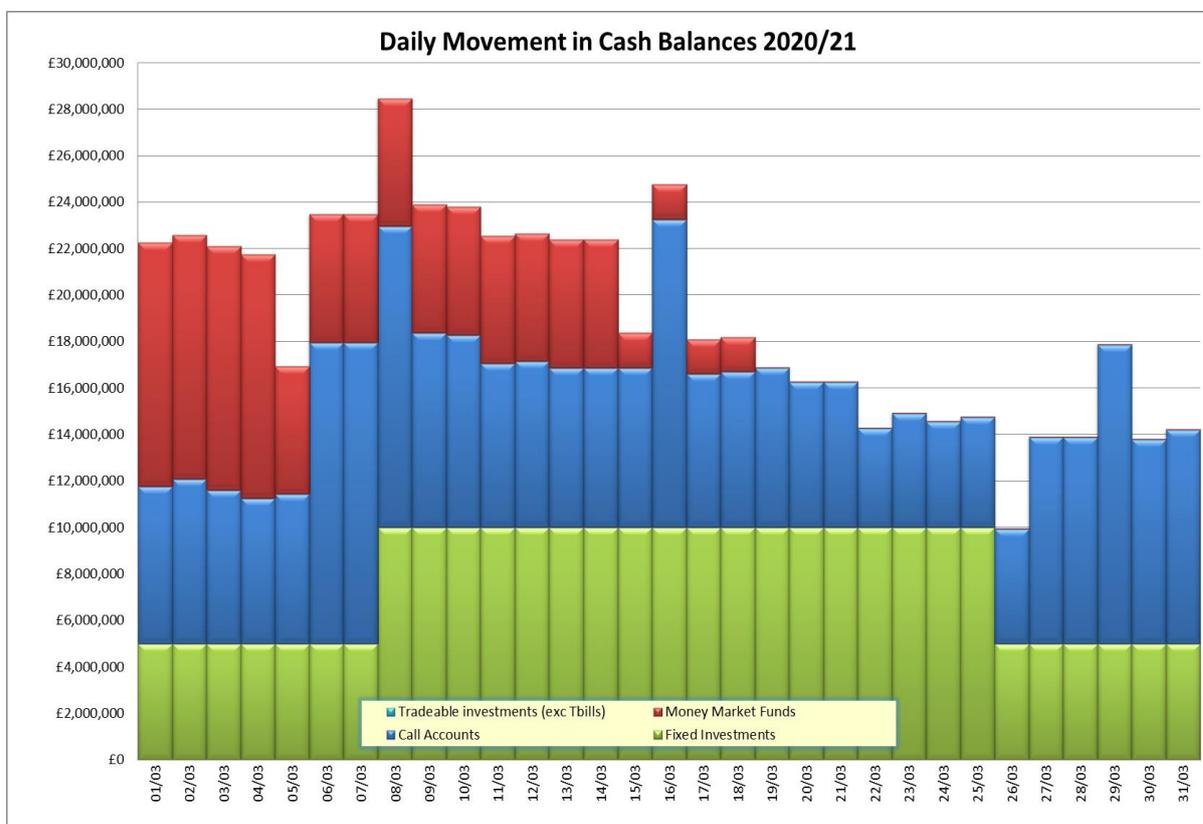
There were no Secured Investments at 31 March 2021.

### 3.8 Tradeable Investments

There were no Tradeable Investments at 31 March 2021, and there was no activity in the period.

### 3.9 Overall investment position

The chart below summarises the Council's investment position over the period 1 March to 31 March 2021. It shows the total sums invested each day as Fixed Term deposits, Treasury Bills, amounts held in Deposit accounts, Money Market Funds and Tradeable Investments.

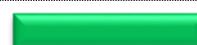


### 3.10 Borrowing

The current account with Lloyds Bank remained in credit throughout the period. No temporary borrowing for cash-flow management purposes took place. There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m.

#### 4. Compliance with Treasury and Prudential Limits

- 4.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
- 4.2 As at 31 March 2021, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	2020/21 Estimate	2020/21 Actual	RAG Status
Authorised limit for external debt (CS 4.2.4)	£132.0m	£132.0m	
Operational boundary for external debt (CS 4.2.4)	£122.0m	£122.0m	
Gross external debt (CS 4.2.2)	£88.9m	£56.7m	
Capital Financing Requirement (GF & HRA)	£113.8m	£88.9m	
Debt vs CFR under/(over) borrowing	£24.9m	£32.2m	
<i>Investments</i>			
Investment returns expectations	0.65	0.07	
Upper limit for principal sums invested for longer than 365 days			
<i>Maturity structure of fixed rate borrowing - upper limits:</i>			
Under 12 months	75%	75%	
12 months to 2 years	75%	75%	
2 years to 5 years	75%	75%	
5 years to 10 years	100%	100%	
10 years and above	100%	100%	
Capital expenditure (CS 2.1.4)	£44.6m	£14.4m	
<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	3.94%	3.90%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	11.03%	10.33%	

Key: CS – 2020/21 Capital Strategy Appendix 1

#### 5. Non-treasury investments

- 5.1 At its previous meeting, the Committee requested that information should be included in this report about the Council's 'non-treasury' investment activity e.g. loans to Council-owned companies or the purchase of property assets for the purpose of income generation.

## 5.2 Lewes Housing Investment Company

5.2.1 Lewes Housing Investment Company (LHIC) is a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC was established to acquire, improve, and let residential property at market rents. A capital allocation of £2.5m was approved as potential commercial loan funding to facilitate property purchases. At 31 March 2021, a total of £1,065 has been drawn down. The balance has been rolled forward into 2021/22. There have been no transactions during the period 1 April 2021 to 30 June 2021.

## 5.3 Aspiration Homes LLP

5.3.1 Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH was established for the purpose of developing housing to be let at affordable rent. A capital allocation of £17.5m was approved as potential commercial loan funding to AH to facilitate property purchases. At 31 March 2021, a total of £912,910 (net of grant) has been drawn down for the purchase of Gray's School, Newhaven. There has been a further drawdown of £789,016 during the period 1 April 2021 to 30 June 2021, making a total drawdown of £1,701,926. The balance has been rolled forward into 2021/22.

5.3.2 A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2021, £20,000 of the working Capital facility loan had been drawn down. There have been no transactions during the period 1 April 2021 to 30 June 2021.

## 6. Annual Treasury Management Report

6.1 As well as reviewing details of Treasury transactions during the course of the year, the Audit and Standards Committee is required to review a formal summary report after the year-end before it is considered by Council in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

6.2 The Annual Report is attached at Appendix 1. It should be noted that this report has been drafted prior to the final audit of the Council's accounts and, as a result, some minor changes may be necessary. If so, the changes will be reported verbally at the meeting.

## 7. Coronavirus Impact

7.1 The full extent of the impact from Coronavirus continue to be assessed and analysed. However, the immediate risk to the financial markets coupled with additional burdens on Council spending and uncertainty over funding have increased the need to manage larger cash balances. The projection of gradual rises in interest rates that formed the Bank of England Monetary Policy Committee's guidance at the start of the period eased through the year.

7.2 As the Council's borrowing rates are directly linked to market expectations this gives rise to the potential that our borrowing rates will remain close to all-time lows for some time. With the Council's Capital Programme and re-financing commitments over the next few years, our ability to secure good value in our borrowing has significant implications for the spending plans of Council as a whole.

## **8. Climate change and environmental implications**

8.1 Treasury management is a Council-wide function and its climate change, environmental and sustainability implications are the same as for the Council itself. The Council and its Treasury Management Advisors have regard to the environmental activities of its Counterparties (where reported) but: -

- Prioritises Security, Liquidity and Yield.
- Recognises that as large global institutions, our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change considerations are an increasingly important and heavily-scrutinised part of their overall business.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Council's capacity to mitigate risk through diversification.

### **2021/22 Environmental, Social and Governance (ESG) – updates.**

8.2 The Cabinet at its meeting on 4 February 2021 approved the 2021/22 Treasury Management and Investment Strategy, which include Non-Specified investments in Green Energy Bonds and/or other ESG products that met the Council's internal and external due diligence criteria. Following this meeting, the Council external treasury management advisors (Link Asset Services) has been requested to conduct a review looking into what potential investment options would be available to the Council that would fulfil the Council's objective of supporting climate related activities including investing with regard to Environmental, Social and Governance concerns (ESG).

8.3 In terms of typical local authority investments, there is not a wide range of products in this area at the moment, although we expect to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent the council will continue to monitor it and make best use of ESG opportunities when they become available within the parameters of the Council's counterparty criteria and the requirement of the MHCLG Investment Guidance to prioritise security, liquidity before yield in that order of importance.

## **9 Financial Implications**

9.1 All relevant implications are referred to in the above paragraphs.

## **10. Risk Management Implications**

- 10.1 The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

## **11 Equality Screening**

- 11.1 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

## **12 Legal Implications**

- 12.1 None arising from this report.

## **13 Appendices**

- 13.1 Appendix A: Annual Treasury Management Report 2020/21

## **14. Background Papers**

- 14.1 Treasury Management Strategy Statements 2020/21