

# **Annual Treasury Management Review 2020/21**

---

July 2021

# Annual Treasury Management Review 2020/21

## 1. Introduction

This Authority 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).

During 2020/21 the minimum reporting requirements were that the Policy and Resources Committee should receive the following reports;

- an annual treasury strategy in advance of the year,
- a mid-year (minimum) treasury update report and
- an annual review following the end of the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

## 2. Treasury Position as at 31 March 2021

At the beginning and the end of 2020/21 the Authority's treasury (excluding borrowing by Public Finance Initiatives (PFI and finance leases) position was as follows:

DEBT PORTFOLIO	31 March 2020 Principal	Rate/ Return	Average Life years	31 March 2021 Principal	Rate/ Return	Average Life years
Total Debt	£3.200m	4.40%	34	£3.200m	4.40%	33
CFR	£6.074m			£5.059 m		
Over / (under) Borrowing	(£2.874m)			(£1.859m)		
Total Investments	£15.414m	0.70%		£10.681m	0.04%	
Net Investments	£12.214m			£7.481m		

INVESTMENT PORTFOLIO	Actual 31.3.20 £000	Actual 31.3.20 %	Actual 31.3.21 £000	Actual 31.3.21 %
<b>Treasury Investments</b>				
Banks	13,414	87.02	8,681	81.27
Building Societies - rated	2,000	12.98	2,000	18.73
<b>TOTAL TREASURY INVESTMENTS</b>	15,414	100%	10,681	100%

All investments were 364 days or less

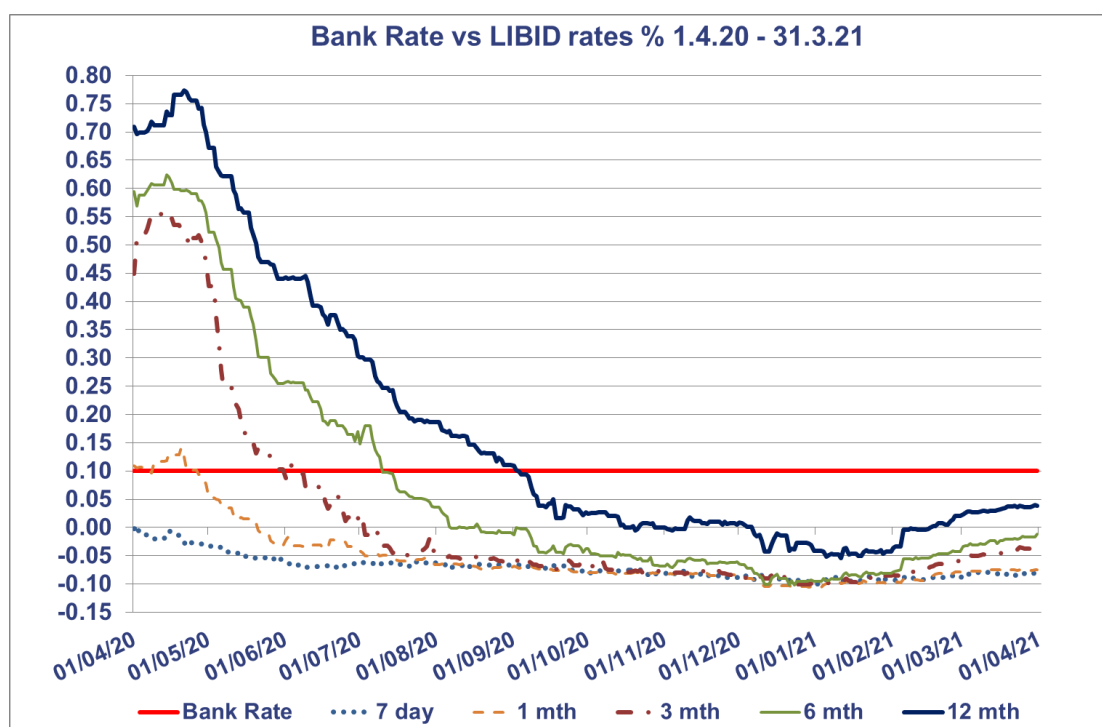
### 3. Investment Outturn

**Investment Policy** – the Authority's investment policy is governed by MHCLG investment guidance which has been implemented in the investment strategy approved by the Authority in February 2018. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data such as rating outlooks, credit default swaps and bank share prices etc.

The investment activity during the year conformed to the approved strategy and the Authority had no liquidity difficulties.

## 4. The Strategy for 2020/21

### 4.1 Investment strategy and control of interest rate risk



Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. 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 bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, 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. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge 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.

While the Authority 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 extremely stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates, as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure by having fewer investments placed in the financial markets.

---

## 4.2 Borrowing strategy and control of interest rate risk

During 2020/21, the Authority 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 Authority's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

## 5. Investment Outturn

**Investment Policy** – the Authority's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Authority in February 2018. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data.

The investment activity during the year conformed to the approved strategy and the Authority had no liquidity difficulties.

**Resources** – the Authority's cash balances comprise revenue and capital resources and cash flow monies. The Authority's core cash resources comprised as follows:

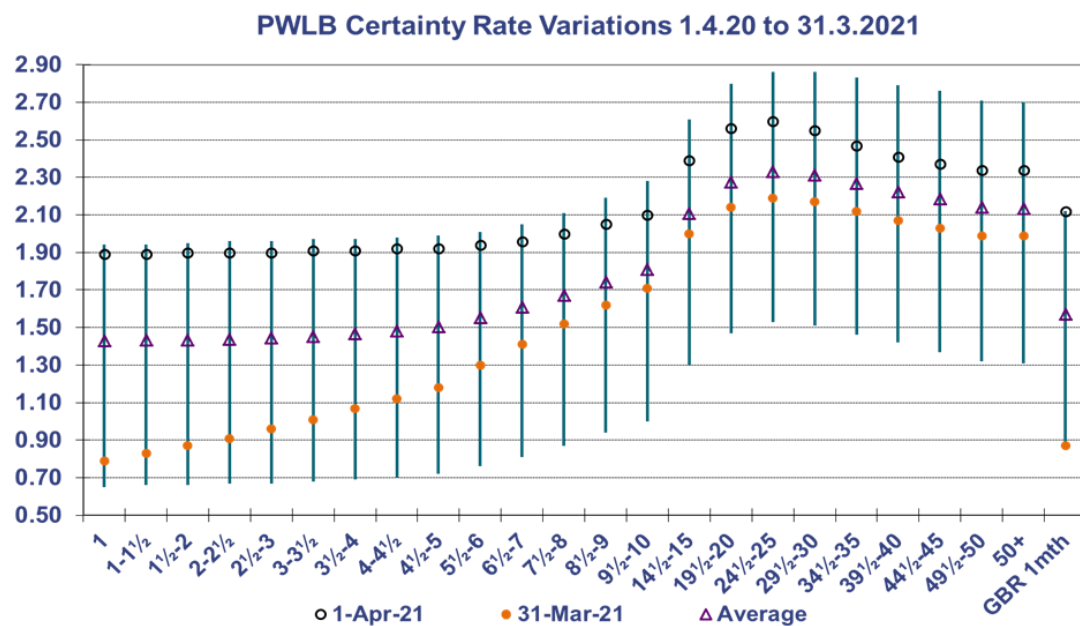
Balance Sheet Resources (£m)	31 March 2020	31 March 2021
Balances	3,185	2,098
Earmarked Reserves	7,453	7,007
Usable Capital Receipts	1,319	1,319
Usable Capital Grants	2,587	2,587
Total	14,544	13,011

## Appendix 1: Prudential and Treasury Indicators

	<b>Budget 2020/21 £m</b>	<b>Actual 2019/20 £m</b>
	<b>£m</b>	<b>£m</b>
Capital Financing Requirement	5.059	5.059
Operational Boundary	7.037	7.037
Actual External Debt as at 31 March 2021		3.200
Authorised Limit	8.537	8.537
Upper limit for fixed interest rate exposure		
Net principal fixed rate borrowing / investments	100%	100%
Upper limit for variable interest rate exposure	100%	100%
Net principal variable rate borrowing / investments		
Upper limit for total principal sums invested for over 364 days	0%	0%
Maturity structure of new fixed rate borrowing during 2016/17:		
	<b>Upper Limit</b>	<b>Lower Limit</b>
under 12 months	100%	0%
12 months and with 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

## Appendix 2: Borrowing and Investment Rates

### PWLB Borrowing Rates



### Money Market Investment Rates and Forecasts 2020/21

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
Low Date	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
Average	0.10	-0.07	-0.05	0.01	0.07	0.17
Spread	0.00	0.10	0.25	0.66	0.73	0.83

Link Group Interest Rate View		8.3.21											
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30