

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

TREASURY MANAGEMENT OUTTURN REPORT 2020/21

1. Purpose

To provide a review of the Council's treasury management activities for the year to 31 March 2021.

Information and Advice

2. Background

2.1 Treasury management is defined as 'the management of the council's investments and cashflows; 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'.

2.2 The Council's Treasury Management Strategy is approved annually by Full Council and there is also a mid-year report which goes to Full Council. Responsibility for the implementation, scrutiny and monitoring of treasury management policies and practices is delegated to the *Treasury Management Group*, comprising:

- the Service Director (Finance, Infrastructure & Improvement)
- the Group Manager (Financial Services)
- the Senior Accountant (Pensions & Treasury Management)
- the Senior Accountant (Financial Strategy & Accounting)
- the Investments Officer.

2.3 During 2020/21, borrowing and investment activities were in accordance with the approved limits as set out in the Council's Treasury Management Policy and Strategy. The main points from this report are:

- All treasury management activities were carried out by authorised officers within the limits agreed by the Council.
- All investments were made to counterparties on the Council's approved lending list.
- Reports have been submitted to Council and the Finance & Major Contracts Management Committee as required.
- The Council's net external borrowing increased by £17.4m during the financial year.
- Over the course of the year the Council earned 0.08% on its cash investments, compared with the average 7-day London Interbank BID (LIBID) rate for 2020/21 which was effectively zero.

3. Outturn Treasury Position

3.1 The Council's treasury management strategy and associated policies and practices for 2020/21 were approved in February 2020 by Full Council. The

Service Director (Finance, Infrastructure & Improvement) complied with the strategy throughout the financial year.

- 3.2 Table 1 below shows the Council's treasury portfolio position as at 31 March 2021. It can be seen from the almost 4% differential between borrowing and lending rates that it remains in the Council's financial interests to keep its actual borrowing to finance capital expenditure as low as is practicable; in other words, by making use of 'internal borrowing' wherever possible. This also ensures the Council maintains lower cash balances, which also minimises credit risk.

Table 1. Treasury Position as at 31 March 2021		£m	£m	Average Interest Rate
EXTERNAL BORROWING				
Long-term				
Fixed Rate	PWLB	415.2		4.00%
	LOBOs	60.0		3.85%
	Other	30.0	505.2	3.80%
Short-term				
Fixed Rate	Other	-	-	
Total			505.2	
Other Long-Term Liabilities			106.4	
Total Gross Debt			611.6	
Less: Investments			(99.2)	0.03%
Total Net Debt			512.4	

Notes: PWLB = Public Works Loans Board

LOBOs = Lenders' Option, Borrowers' Option loans

Other = market loans taken directly from banks or via brokers

4. Treasury Management Activities 2020/21

- 4.1 The Council manages its cash flows through borrowing and lending activities on the wholesale money markets. The Council has an approved list of counterparties for investment and aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. During 2020/21, all new long-term borrowing was sourced from the PWLB.
- 4.2 The change in the Council's temporary cash balances over the financial year is summarised in Table 2 below.

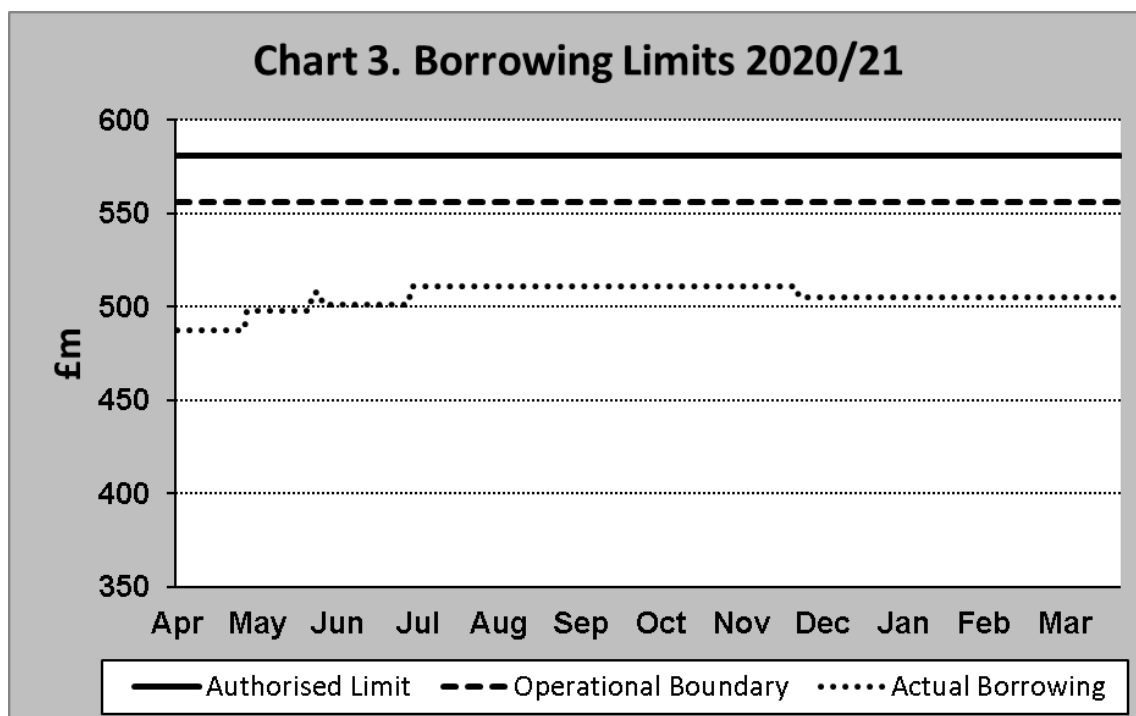
Table 2 Temporary cash balances	£m
Outstanding 31 March 2020	44.2
Amount lent during 2020/21	682.0
Amount repaid during 2020/21	(627.0)
Outstanding 31 March 2021	99.2

- 4.3 The Council's average cash investment level over 2020/21 was £84.5m (compared with £67.7m in 2019/20). The return achieved on this balance over the course of the year was 0.08% against the 7-day LIBID, the standard benchmark, which was effectively zero. Investment rates available in the market remain very low.
- 4.4 Table 3 shows the returns achieved by type of deposit. It should be pointed out that at the end of the year many money market funds were offering zero interest on balances.

Table 3 Returns on Investments	Average Balance	Interest Earned	Average Return
	£m	£000	%
Fixed Term Investments	5.1	9.1	0.18
Call Accounts / Money Market Funds	79.4	56.5	0.07
Total	84.5	65.6	0.08

5. Long Term Borrowing

- 5.1 The Treasury Management Strategy for 2020/21 presented to Council in February 2020 outlined the Council's long-term borrowing strategy for the year. Long-term borrowing is sourced from either the market (including other local authorities) or from the PWLB.
- 5.2 The Treasury Management Strategy for 2020/21 identified a need to borrow approximately £50m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. However, due to slippage and to higher than expected cash balances, some £20m of this has been postponed, so actual new long-term loans totalled only £30m, taken at an average rate of 2.38%, and an average length of 31 years.
- 5.3 Total external borrowing stood at £505.2m on the 31 March 2021 which is within the operational boundary of £556m agreed by the Council. The chart below shows that the level of external debt throughout the year was below the key treasury indicators of the authorised limit and the operational boundary, demonstrating that borrowing was well within plan during the year. Further details on these treasury prudential indicators are provided in Appendix D.

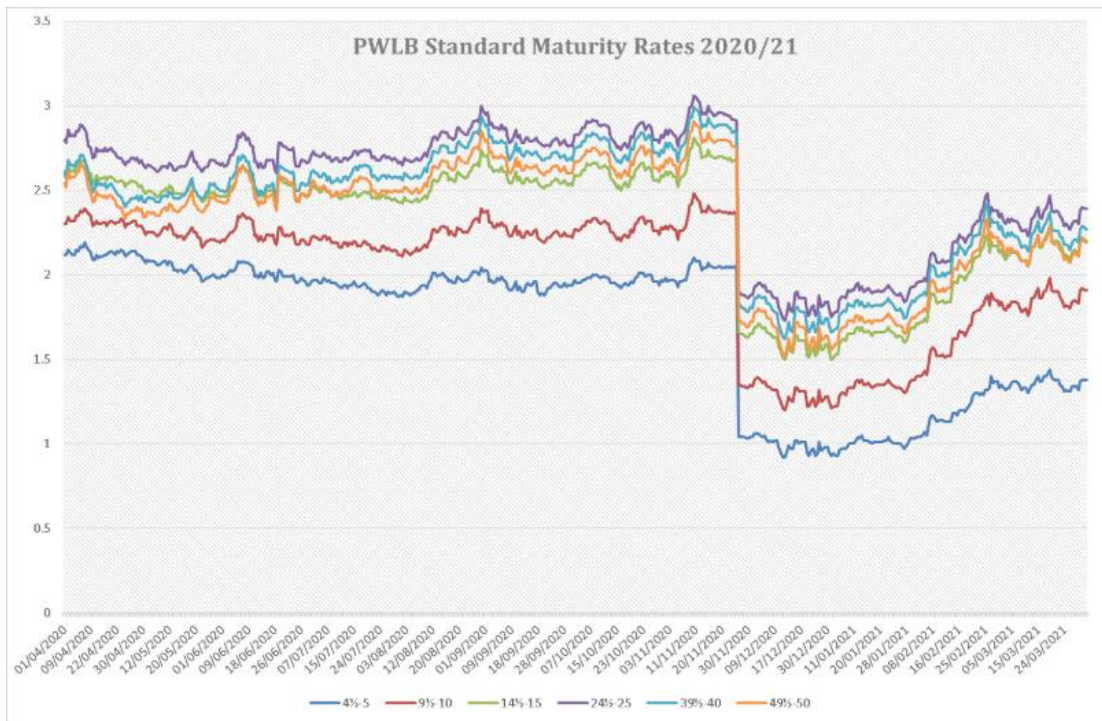


5.4 Table 4 shows the movement in long-term borrowing during 2020/21.

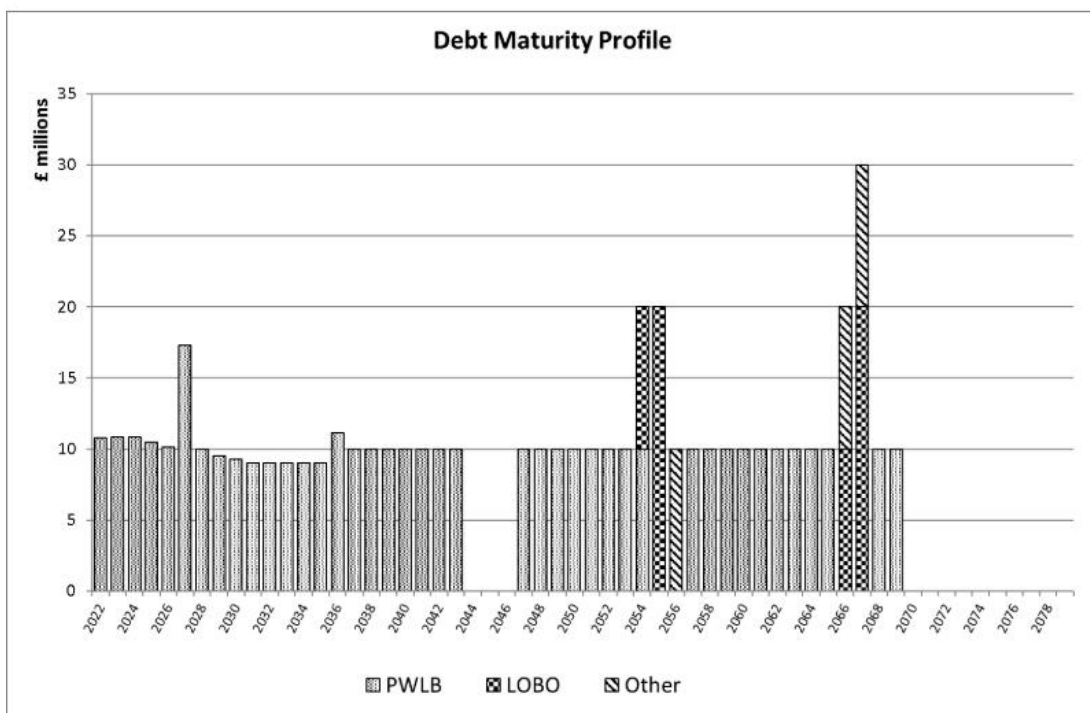
Lender	B/fwd	Advances	Normal Repayments	Premature Repayments	C/fwd
	01/04/20 £m	2020/21 £m	2020/21 £m	2020/21 £m	31/03/21 £m
PWLB	397.8	30.0	(12.6)	-	415.2
LOBO	60.0	-	-	-	60.0
Market	30.0	-	-	-	30.0
Total	487.8	30.0	(12.6)	-	505.2

5.5 LOBOs are loans whereby the lender can opt, at specified dates, to increase the interest rate payable and the borrower can either accept the increased rate or repay the loan in full. These options constitute a greater degree of interest rate risk for the Council. The market loans in the table above are ex-LOBOs that have been converted to straightforward maturity loans.

5.6 The movement in PWLB standard maturity rates over the course of 2020/21 is shown in the chart below. This shows that rates remained consistent during the first half of the year, then dropped sharply in October after the PWLB reversed its policy-driven increase from 2019/20, before steadily rising in anticipation of the various lockdown restrictions being lifted.



5.7 The chart below shows the debt maturity profile as at 31 March 2021. This is spread fairly evenly until 2044, thereby minimising refinancing risk. In this chart it is assumed that the remaining LOBO loans will run to maturity, and not be called at an earlier date. The average rate on all outstanding external debt at year-end was 3.97% (compared to 4.09% in 2019/20, and 4.22% in 2018/19), reflecting both the lower rates now available to the Council and the higher rates of the Council’s maturing debt.



5.8 The Council has always had the option of rescheduling its existing PWLB debt should market conditions indicate opportunities for savings. This would be achieved by redeeming fixed rate debt and raising new debt at a lower rate of

interest. However, for a number of years now the PWLB has charged a prohibitive premium on early redemptions. No financially attractive opportunities for debt rescheduling therefore arose over the reporting period.

6. Prudential Indicators for Treasury Management

6.1 Table 6 below shows how the treasury management outturn position compares with the prudential indicators for the year. The objective of these indicators is to manage treasury management risks effectively. No indicators were breached during the year.

Table 6 TREASURY MANAGEMENT INDICATORS 2020/21	Approved limits	Outturn
Authorised Limit for external debt	£581m	£505.2m
Operational Boundary for external debt	£556m	£505.2m
Upper limit for Rate Exposure – Fixed	100%	100%
Upper limit for Rate Exposure - Variable	75%	0%
Upper limit for principal sums invested for over 364 days	Higher of £20m and 15%	£0m

6.2 Table 7 shows how the Council's debt portfolio is managed with regard to maturity structure. The aim here is to ensure that the risk of the Council having to replace maturing debt in any one year is minimised, as part of an overall Treasury Management risk strategy.

Table 7 Maturity structure of fixed rate borrowing	Approved Lower limit	Approved Upper limit	Outturn
under 12 months	0%	25%	3.5%
12 months and within 24 months	0%	25%	2.1%
24 months and within 5 years	0%	75%	6.1%
5 years and within 10 years	0%	100%	10.7%
10 years and above	0%	100%	77.5%
Adoption of CIPFA's Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes			Adopted