

# **Cherwell District Council**

## **Council**

**19 July 2021**

## **Treasury Management Outturn Report – 2020-21**

### **Report of the Director of Finance**

This report is public

#### **Purpose of report**

To receive information on treasury management performance and compliance with treasury management policy and Prudential Indicators for 2020-21 as required by the Treasury Management Code of Practice.

#### **1.0 Recommendations**

The meeting is recommended:

- 1.1 To note the contents of the 2020-21 Treasury Management Outturn Report.

#### **2.0 Introduction**

- 2.1 In 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.
- 2.2 The Council's Treasury Management strategy for 2020-21 was approved by Council on 24 February 2020. The Council has borrowed and 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 is therefore central to the Council's treasury management strategy.
- 2.3 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by Council covering capital expenditure and financing, treasury management and non-treasury investments. The Capital Strategy, complying with CIPFA's requirement, was approved by Council on 24 February 2020.

## **3.0 Report Details**

### **External Context**

- 3.1 An economic and credit report provided by our treasury advisers, Arlingclose, can be found at Appendix 1.

### **Summary Position & Strategy**

- 3.2 At 31 March 2021 the Council had borrowing of £184m and investments of £38.6m - a net borrowing position of £145.4m (£133.4m at 31/12/20).
- 3.3 Lower interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk
- 3.4 All treasury management activities undertaken during 2020-21 complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, and all Prudential Indicators were met during, and at the end of, the reporting period.

### **Borrowing Update**

- 3.5 In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26 November 2020, the margin on Public Works Loan Board (PWLB) loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.
- 3.6 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that the authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.
- 3.7 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.
- 3.8 The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.

### **Borrowing performance for year ended 31 March 2021**

- 3.9 The Council requires external borrowing to fund its capital programme and had total debt of £184m at 31 March 2021. £75m (41%) of the current debt is at fixed rate for the medium-long term from the PWLB, with the remainder borrowed short term from

other local authorities (at fixed rates, but on a rolling basis with various durations, therefore effectively variable rate over the long term).

3.10 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long term borrowing was maintained.

3.11 The table below shows the borrowing position during and at the end of the reporting period:

	<b>Borrowing Amount £</b>	<b>Interest Rate</b>	<b>Interest Budget* £</b>	<b>Interest Actual* £</b>	<b>Variance £</b>
2020-21	£154.5m (average)	1.45% (annualised)	£2.205m	£2.237m	£0.032m
As at 31/3/21	£184m	1.32%	-	-	-

\* Interest payable relates to external loans only, excluding finance lease interest of £185k

3.12 The table below shows average borrowing rates for the reporting period:

<b>Borrowing Benchmarking</b>	<b>3-year</b>	<b>5-year</b>	<b>10-year</b>	<b>20-year</b>
PWLB Maturity rate	1.64%	1.70%	2.01%	2.48%

3.13 A full list of current borrowing is shown below:

<b>Lender</b>	<b>Principal Borrowed £</b>	<b>Maturity Date</b>
Derbyshire Pension Fund	10,000,000	01/04/2021
Islington Borough Council	5,000,000	19/04/2021
Derbyshire County Council	5,000,000	20/04/2021
St Helens Council	10,000,000	14/05/2021
Rugby Borough Council	5,000,000	08/07/2021
Derbyshire Pension Fund	7,000,000	16/08/2021
Warwickshire County	5,000,000	13/09/2021
North of Tyne Combined Authority	10,000,000	29/09/2021
West Yorkshire Fire & Rescue	5,000,000	12/10/2021
Lincolnshire County Council	5,000,000	15/10/2021
West Yorkshire Fire & Rescue	5,000,000	29/10/2021
Wandsworth BC	5,000,000	15/11/2021
Wandsworth BC	5,000,000	10/12/2021
Wandsworth BC	5,000,000	23/05/2022
Oxfordshire County Council	5,000,000	15/07/2022
East Sussex County Council	5,000,000	16/08/2022
Derbyshire County Council	5,000,000	19/08/2022

South Northamptonshire / West Northamptonshire Council	2,000,000	15/12/2022
East Sussex County Council	5,000,000	13/01/2023
PWLB - ref 506477	21,000,000	19/10/2024
PWLB - ref 116158	6,000,000	25/09/2025
PWLB - ref 114322	6,000,000	19/09/2026
PWLB - ref 507455	10,000,000	31/05/2028
PWLB - ref 116160	6,000,000	25/09/2029
PWLB - ref 114324	6,000,000	19/09/2030
PWLB - ref 507456	5,000,000	31/05/2033
PWLB - ref 116162	5,000,000	25/09/2034
PWLB - ref 114326	5,000,000	19/09/2035
PWLB - ref 507457	5,000,000	31/05/2048
<b>TOTAL</b>	<b>184,000,000</b>	

### Prudential Indicators – Borrowing:

#### 3.14 Authorised Limit and Operational Boundary for external debt

	<b>2020-21 Maximum</b>	<b>31/3/21 Actual</b>	<b>2020-21 Operational Boundary</b>	<b>2020-21 Authorised Limit</b>	<b>Complied?</b>
Borrowing / Total debt	£186m	£184m	£215	£240m	Yes

Since the operational boundary is a management tool for in-year monitoring, it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt did not exceed the operational boundary during 2020-21.

#### 3.15 **Maturity Structure of Borrowing.** This indicator is set to control the Council's exposure to refinancing risk. The lower and upper limits on the maturity structure of fixed rate borrowing were:

	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>31.3.21 Actual</b>	<b>Complied ?</b>
Under 12 months	10%	80%	45%	Yes
12 months and within 24 months	0%	80%	15%	Yes
24 months and within 5 years	0%	80%	15%	Yes
5 years and within 10 years	0%	80%	15%	Yes
10 years and above	0%	80%	10%	Yes

### Treasury Investment performance for year ended 31 March 2021:

#### 3.16 Funds available for investment are on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and funding of the capital programme.

3.17 During 2020-21 the Council received £48m central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. These funds are disbursed as early as possible, dependant on applications and subject to eligibility criteria and verification procedures. Funding held on account was temporarily invested in short-dated, liquid instruments.

3.18 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.19 Following the cut in Bank rate from 0.75% to 0.10% in March 2020, the Council had expected to receive significantly lower income from its cash and short-dated money market investments, including money market funds in 2020/21, as rates on cash investments are close to zero percent. Whilst the arrival and approval of vaccines against COVID-19 and the removal of Brexit uncertainty that had weighed on UK equities were encouraging developments, dividend and income distribution was dependent on company earnings in a very challenging and uncertain trading environment as well as enforced cuts or deferral required by regulatory authorities.

3.20 The table below shows the investment position during and at the end of the reporting period:

	<b>Investment Amount £</b>	<b>Interest Rate</b>	<b>Interest Budget £</b>	<b>Interest Actual £</b>	<b>Variance £</b>
2020-21	£32.4m (average)	0.27% (annualised)	£101k	£86k	£15k
As at 31/3/21	£38.6m	0.14%	-	-	-

3.21 The table below shows average money-market rates for the reporting period:

<b>Investment Benchmarking</b>	<b>Overnight</b>	<b>7-day</b>	<b>1-month</b>	<b>3-month</b>
LIBOR	0.05%	0.05%	0.07%	0.14%
SONIA (mid-rate)	0.09%	0.11%	0.11%	0.18%

3.22 The Council's cash investments are held primarily for liquidity purposes and therefore only available for relatively short term deposits in a restricted selection of high quality instruments.

3.23 A full list of current investments is shown below:

<b>Counterparty</b>	<b>Principal Deposited £</b>	<b>Maturity Date/ Notice period</b>
Fixed Term Deposits		

South Somerset DC	2,000,000	19/04/2021
Luton BC	2,000,000	20/04/2021
Merthyr Tydfil CBC	2,000,000	28/04/2021
Mid Suffolk DC	5,000,000	17/05/2021
Darlington BC	2,000,000	21/05/2021
Merseyside Police	2,000,000	01/07/2021
North Lanarkshire Council	4,000,000	15/07/2021
Aberdeen City Council	3,000,000	23/08/2021
Surrey Heath BC	1,000,000	23/08/2021
Thurrock BC	2,000,000	14/10/2021
Lancashire County Council	2,000,000	01/11/2021
Redcar & Cleveland BC	2,000,000	02/12/2021
South Cambridgeshire DC	2,000,000	16/12/2021
<u>Money Market Funds</u>		
Goldman Sachs Asset Management	4,061,000	Same day
Federated Investors UK	3,450,000	Same day
<u>Notice account</u>		
Handelsbanken	47,311	Same day
<b>TOTAL</b>	<b>38,558,311</b>	

### 3.24 Investment limits.

	<b>2020-21 Maximum</b>	<b>30/9/20 Actual</b>	<b>2020-21 Limit</b>	<b>Complied?</b>
Any single organisation, except the UK Government	£5.0m	£5.0m	£5m	Yes
UK Central Government	£35.5m	Nil	Unlimited	Yes
Any group of organisations under the same ownership	£5.0m	£5.0m	£5m per group	Yes
Any group of pooled funds under the same management	£5.0m	£5.0m	£5m per manager	Yes
Money Market Funds	£10.0m	£10.0m	£15m in total	Yes

**3.25 Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2020-21 £m	2021-22 £m	2022-23 £m
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	5	5	5
Complied	Yes	Yes	Yes

### Non-treasury investment activity

- 3.26 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 3.27 As at 31 March 2021, the Council holds £94.3m of investments in the form of shares (£33.1m) and loans (£61.2m) to subsidiary companies and other organisations, primarily Graven Hill and Crown House.
- 3.28 The loan elements of these non-treasury investments generate a higher rate of return than earned on treasury investments, but this reflects the additional risks to the Council of holding such investments.
- 3.29 For the year ending 31 March 2021 these loans have earned interest of £4.281m, an adverse variance of £58k against budget income of £4.339m.

### Overall performance

- 3.30 The overall performance for the year to 31 March 2021 is as follows:

	Budget £	Actual £	Variance £m
Borrowing costs*	2.390m	2.422m	0.032
Treasury income	(0.101)	(0.086)	0.015
Non-treasury income	(4.339)	(4.281)	0.058
Total cost/(income)	(2.050)	(1.945)	0.105

\*Borrowing costs include finance lease interest of £185k

### Other Developments

- 3.31 CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.
- 3.32 In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's

corporate objectives, i.e. recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the “gross debt and the CFR” with the liability benchmark as a graphical prudential indicator.

- 3.33 Proposed changes to the Treasury Management Code include requiring job specifications and “knowledge and skills” schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.
- 3.34 **IFRS 16:** The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.

## **4.0 Conclusion and Reasons for Recommendations**

- 4.1 This report details the Treasury Performance and compliance with the Prudential Indicators for the Council for the year ending 31 March 2021.

## **5.0 Consultation**

- 5.1 The Accounts, Audit and Risk Committee considered and recommended that Council note the 2020-21 Treasury Management Outturn Report and the associated Appendix on 21 June 2021.

## **6.0 Alternative Options and Reasons for Rejection**

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

## **7.0 Implications**

### **Financial and Resource Implications**

- 7.1 The variances to budget as noted above were included in the forecast revenue outturn contained in the Monthly Performance, Risk and Finance Monitoring Report considered by the Executive in June 2021.

Comments checked by:

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## **Legal Implications**

- 7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:

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## **Risk Implications**

- 7.3 It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by:

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## **Equalities and Inclusion Implications**

- 7.4 There are no Equalities and Inclusion implications arising directly from any outcome of this report.

Comments checked by:

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## **Sustainability Implications**

- 7.5 There are no Sustainability implications arising directly from any outcome of this report.

Comments checked by:

Sam Thomas, Climate Action Officer, 01295 221964  
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## **8.0 Decision Information**

**Key Decision:** N/A

**Financial Threshold Met:** N/A

**Community Impact Threshold Met:** N/A

### **Wards Affected**

All.

## **Links to Corporate Plan and Policy Framework**

Links to all areas of Corporate Plan.

## **Lead Councillor**

None.

## **Document Information**

### **Appendix number and title**

- Appendix 1 - Economic and credit report provided by Arlingclose.

## **Background papers**

None

## **Report Author and contact details**

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