
Report To: Policy & Resources Committee **Date:** 10 August 2021

Report By: Interim Service Director,
Corporate Services &
Organisational Recovery **Report No:** FIN/42/21/AP/KJ

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Subject: TREASURY MANAGEMENT – ANNUAL REPORT 2020/21

1.0 PURPOSE

- 1.1 The purpose of this report is to advise the Committee of the operation of the treasury function and its activities for 2020/21 as required under the terms of Treasury Management Practice 6 (“TMP6”) on “Reporting Requirements and Management Information Arrangements”.

2.0 SUMMARY

- 2.1 As at 31 March 2021 the Council had gross external debt (including PPP) of £257,757,141 and investments of £39,905,732. This compares to gross external debt (including PPP) of £274,392,487 and investments of £29,655,497 at 31 March 2020.
- 2.2 The Council’s Capital Financing Requirement at 31 March 2021 was £292,997,000. The gross external debt was £35,239,859 (12.0%) less than the Capital Financing Requirement meaning that the Council was in an underborrowed position (and remains so in 2021/22). This position is attributable to the level of cash-backed reserves held by the Council.
- 2.3 The Loans Fund Pool Rate for 2020/21 was lower than that in 2019/20 and at its lowest level since before Local Government reorganisation.
- 2.4 The average rate of return achieved on investments during 2020/21 was 0.249% which exceeds the benchmark return rate for the year of 0.015% by 0.234% and resulted in £98,500 of additional interest on investments for the Council.
- 2.5 The Council operated within the required treasury limits and Prudential Indicators for the year set out in the Council’s Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices.
- 2.6 The Covid-19 crisis caused significant economic uncertainty in the UK and around the world during 2020/21 and continues to do so. The economic situation continues to be closely monitored. In addition, the volume and scale of Covid related grants had a positive impact on the Council’s cashflow and year end cash-backed reserves,

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee notes the contents of the annual report on Treasury Management for 2020/21 and the ongoing work to seek to ensure the delivery of financial benefits for the Council during the current uncertainty and beyond.
- 3.2 It is recommended that the Committee notes that the report will be remitted to the Full Council for approval.

Alan Puckrin
Interim Service Director, Corporate Services & Organisational Recovery

4.0 BACKGROUND

- 4.1 The Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21.
- 4.2 Treasury Management in this context is defined as: "The management of the local authority's cash flows, 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."
- 4.3 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). The report also includes a section on Loan Fund Advances (section 7) which includes information required by regulations that came into effect on 1 April 2016.

5.0 ANNUAL REVIEW

- 5.1 The treasury management issues arising during the year were:
 - a. The Council's debt (including PPP) reduced during the year by £16.635m whilst Council investments increased by £10.251m. The reduction in debt was due to repaying maturing debt without undertaking new borrowing and included the repayment of £10m of 1 year borrowing that was done in March 2020 for additional liquidity to cover payments expected to arise due to Covid-19.
 - b. The Council remained within its Prudential Indicator and Treasury Management limits during 2020/21.
 - c. As at 31 March 2021 the Council had under borrowed against its capital financing requirement by £35.240m. This under borrowing is £7.399m higher than at the end of 2019/20.
 - d. In January 2020 the Treasury Consultants forecast that the Bank Rate would remain at 0.75% for 2020/21 but, in March 2020 and due to the Covid-19 crisis, the Bank of England cut the Bank Rate twice in 8 days at emergency meetings, firstly by 0.50% to 0.25% and then down to 0.10% - the lowest Bank Rate ever in the UK in addition to a further £200bn of Quantitative Easing. The Bank Rate remained unchanged at 0.10% during the year with a further £150bn of Quantitative Easing being agreed in November 2020.
 - e. PWLB rates for new borrowing were expected to increase by between 0.20% and 0.30%. Rates actually fell by up to 1.11% for short-term loans and 0.39% for long-term but rates were affected by the removal by the PWLB, in November 2020, of the 1% added to all new borrowing rates in October 2019. If the November 2020 adjustment had not taken place then rates during the year would have fallen by 0.11% for short-term loans but increased by 0.61% for longer periods.
 - f. The 1% reduction by the PWLB followed a consultation into their future lending terms and has resulted in measures to stop PWLB borrowing from being used to purchase investment assets primarily for commercial purposes (not an issue in Scotland).
 - g. Following the March 2020 Bank Rate cuts to 0.10%, the interest rates for investments have remained low during the year with most Call Account and Fixed Term Deposits now between 0% and the 0.10% Bank Rate.
 - h. The Council's investments earned a rate of return of 0.249% during the year and outperformed the benchmark return of 0.015% resulting in additional income to the Council of £98,500.
 - i. All investments were in accordance with the Council's investment policy and no institutions with which investments were made had any difficulty in repaying those investments and interest in full during the year.
 - j. The Council's investment performance is due to undertaking fixed term and notice account investments at interest rates that were above the benchmark with counterparties which have high creditworthiness (the Bank of Scotland and Santander UK) and in accordance with the Council's investment strategy.
- 5.2 The Covid-19 crisis caused significant economic uncertainty in the UK and around the world during 2020/21 and continues to do so in relation to the unknown economic impact

on the UK and all global economies and how the crisis will be affected by vaccinations and by new Covid-19 variants.

The economic situation continues to be closely monitored.

5.3 The Council's Year End debt position was as follows:

	At 31 March 2020	At 31 March 2021
	£	£
Total Excluding PPP	213,699,487	198,761,141
PPP Debt	60,693,000	58,996,000
Total Including PPP	274,392,487	257,757,141

Further detail is given in the following table:

	At 31 March 2020		At 31 March 2021		Movement 2020/21
	Principal	Rate	Principal	Rate	Principal
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	114,117		99,065		(15,052)
- Market *	55,000		56,000		1,000
	169,117	3.55%	155,065	3.67%	(14,052)
Variable Rate Funding:					
- PWLB	0		0		0
- Market *	44,400		43,400		(1,000)
- Temporary #	182		296		114
	44,582	4.86%	43,696	4.91%	(886)
Total Debt (Excl PPP)	213,699	3.82%	198,761	3.94%	(14,938)
PPP Debt	60,693		58,996		(1,697)
Total Debt (Incl PPP)	274,392		257,757		(16,635)

* - Market Loans are shown as variable when they have less than 1 year to go until their next call date. The total value of Market Loans has not changed between financial years, just the split between fixed and variable.

- Temporary Loans includes funds held by the Council on behalf of the Common Good and Trust Funds and that are to be treated as borrowing for Treasury Management purposes under Scottish Government requirements.

5.4 The Council's cash balances investment position was as follows:

	At 31 March 2020		At 31 March 2021		Movement 2020/21
	Principal	Return	Principal	Return	Principal
	£000		£000		£000
Investments:					
- Fixed Term Deposits	0	0.00%	10,000	0.25%	10,000
- Notice Accounts	10,036	0.25%	14,534	0.40%	4,498
- Deposit Accounts	19,619	0.10%	15,372	0.01%	(4,248)
Totals	29,655	0.15%	39,906	0.21%	10,250

Investments as at 31 March 2021: £39,905,732
 Maximum level of investments in 2020/21: £53,402,958 on 15 January 2021
 Minimum level of investments in 2020/21: £28,111,705 on 2 June 2020
 Daily average for the year 2020/21: £42,085,791

The Council's forecast and actual Investment Balances for 2020/21 for "investments" as defined in the Investment Regulations (including loans/holdings not managed under the treasury function) are shown in Appendix 1.

5.5 2020/21 Outturn Compared to Estimates in 2020/21 Strategy

The 2020/21 outturn compared to the estimates in the 2020/21 strategy:

	2020/21 Estimate	2020/21 Outturn
<u>Borrowing Requirement</u>	£000	£000
New borrowing	0	0
Alternative financing requirements	0	0
Replacement borrowing	10,000	0
TOTAL	10,000	0
<u>Prudential/Treasury Management Indicators</u>	£000	£000
Gross external debt including PPP (As at 31 March 2021)	267,694	257,757
Capital financing requirement (As at 31 March 2021)	292,977	292,997
(Under)/over borrowing against CFR	(25,283)	(35,240)
	£000	£000
Gross capital expenditure	18,420	16,797
Ratio of financing costs (including PPP) to net revenue stream	13.86%	12.28%
Ratio of net debt (debt and PPP less investments) to net revenue stream	124.1%	100.3% #

- The net revenue stream for 2020/21 was higher than estimated due to Covid related grants that were received in the year, leading to the ratio being lower than estimated. If these grants were removed from the net revenue stream (as expected in coming years), the ratio of net debt to net revenue stream will be higher than in 2020/21.

5.6 The table in paragraph 5.5 above shows that as at 31 March 2021 the Council had under borrowed against its capital financing requirement by £35.240m. Under borrowing means that the Council is using cash it already has (e.g. in earmarked reserves and other balances) to cash flow capital expenditure and maturing debt rather than bringing in new funds from borrowing. The level of under borrowing is considered manageable but is kept under review in light of Council capital financing and other funding requirements.

5.7 2020/21 Outturn Compared to Limits in 2020/21 Strategy

The 2020/21 outturn compared to limits in the 2020/21 strategy:

Prudential/Treasury Management Indicators

Authorised limit for external debt

- Borrowing
- Other long term liabilities

Operational boundary for external debt

- Borrowing
- Other long term liabilities

Upper limit on sums invested for periods longer than 364 days (Actual is maximum in period)

Limits on fixed and variable rate borrowing maturing in each period at 31 March 2021 (LOBOs included based on call dates and not maturity dates)

- Under 12 months
- 12 months and within 24 months
- 24 months and within 5 years
- 5 years and within 10 years
- 10 years and within 30 years
- 30 years and within 50 years
- 50 years and within 70 years

Council Policy Limits

Maximum Percentage of Debt Repayable In Any Year (Actual is as at 31 March 2021 and relates to Financial Year 2077/78)

Maximum Proportion of Debt At Variable Rates (Actual is as at 31 March 2021)

Maximum Percentage of Debt Restructured In Year (Actual is as at 31 March 2021)

2020/21 Limits		2020/21 Outturn	
£000		£000	
241,000		198,761	
61,000		58,996	
302,000		257,757	
£000		£000	
224,000		198,761	
61,000		58,996	
285,000		257,757	
£000		£000	
10,000		0	
Fixed	Var.	Fixed	Var.
45%	35%	5.1%	22.0%
45%	35%	3.8%	0%
45%	35%	11.8%	0%
45%	35%	5.7%	0%
45%	35%	8.9%	0%
45%	35%	22.6%	0%
45%	35%	20.1%	0%
25%		20.1%	
45%		22.0%	
30%		0%	

5.8 The Prudential Code requires that the Council states how interest rate exposure is managed and monitored.

The position in 2020/21 was that all of the Council's PWLB debt was at fixed rates. The Market debt contained some debt at fixed rates, some small elements at variable rates and some where the rates could change (but none did). The Council's investments, which were all for less than 1 year, were all variable or regarded as variable under the treasury management rules.

During 2020/21, these interest rate exposures were managed and monitored by the Council through management reports on treasury management that were received and reviewed by the Chief Financial Officer.

- 5.9 The forecast from the Treasury Consultants in the Strategy for the Bank Rate as at 31 March and the latest forecast (produced on 11 May 2021) are:

	Forecast Per 2020/21 Strategy	Actual/ Latest Forecast	
2020/21	0.75%	0.10%	(Actual)
2021/22	1.00%	0.10%	(Forecast)
2022/23	1.25%	0.10%	(Forecast)

- 5.10 The Council's Loans Fund Pool Rate for Interest is used to allocate interest charges to the General Fund and reflects the actual cost of the Council's Treasury activities. The rates for the last 5 years (excluding expenses) are as follows:

Year	Loans Fund Pool Rate
2016/17	3.659%
2017/18	3.557%
2018/19	3.608%
2019/20	3.436%
2020/21	3.362%

The Loans Fund Pool Rate for 2020/21 is its lowest level since before Local Government reorganisation.

It is expected that there will be a small increase in the Pool Rate in the medium term.

- 5.11 The Council's investment policy for the year is governed by Scottish Government Investment Regulations and was implemented in the annual investment strategy approved by the Council on 24 September 2020 (after review by the Policy & Resources Committee on 24 March 2020). The policy sets out the approach for choosing investment categories and 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, bank share prices etc.

All investments in 2020/21 and 2021/22 to date were in accordance with the policy and no institutions with which investments were made had any difficulty in repaying investments and interest in full.

- 5.12 The result of the investment strategy undertaken by the Council in 2020/21 is as follows:

Average Investment	Rate of Return (gross of fees)	Benchmark Return (3 month LIBID un compounded)
£42,085,791	0.249%	0.015%

The Council have outperformed the benchmark by 0.234% resulting in additional income to the Council of £98,500. (Note: The benchmark rate has been negative since 3/7/2020).

6.0 LOANS FUND ADVANCES

- 6.1 Where capital expenditure is funded by borrowing (referred to as loans fund advances), the debt financing costs are paid from the Revenue Budget as loan charges comprised of the repayments of debt along with interest and expenses costs on the borrowing.

6.2 The Council is required to set out its policy for the repayment of loans fund advances.

- a. For loans fund advances made before 1 April 2016 the policy will be to maintain the practice of previous years and use the Statutory Method (option 1) with annual principal repayments being calculated using the annuity method.
- b. The same method is being used for loans fund advances made after 1 April 2016 for the permitted 5 year transitional period to the end of 2020/21. In applying the annuity method to new advances in any year, the interest rate used in the annuity calculation will be the Council's loans fund pool rate for the year (including expenses) as rounded up to the nearest 0.01%.
- c. Of the options available for new capital expenditure from 1 April 2021 onwards, it is proposed to use the annuity method with the interest rate used being as in b. above.

This policy was approved by the Full Council at its meeting on 22 April 2021.

6.3 The outstanding loans fund advances (representing capital expenditure still to be repaid from the Revenue Budget) are:

	2020/21
	Actual
	£000
Balance As At 1 April	241,151
Add: Advances For The Year	3,515
Less: Repayments For The Year	12,280
Balance As At 31 March	232,386

6.4 For the loans fund advances outstanding as at 31 March 2021, the liability to make future repayments (excluding debt interest and expenses) is as follows:

	£000
Year 1	8,267
Years 2-5	31,795
Years 6-10	40,134
Years 11-15	39,849
Years 16-20	34,249
Years 21-25	34,481
Years 26-30	24,507
Years 31-35	11,167
Years 36-40	3,831
Years 41-45	1,177
Years 46-50	1,047
Years 51-55	1,173
Years 56-60	208
Years 61-65	34
Years 66-70	40
Years 71-75	48
Years 76-80	58
Years 81-85	69
Years 86-90	82
Years 91-95	98
Years 96-100	72
TOTAL	232,386

7.0 IMPLICATIONS

Finance

- 7.1 Through the achievement of exceeding the investment benchmark return rate, the Council has benefited from additional returns of £98,500. The Council utilises Treasury Management as part of the overall Financial Strategy. Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

Legal

- 7.2 None. Any borrowing or lending is done under the Council's legal powers.

Human Resources

- 7.3 There are no HR implications arising from this report.

Equalities

- 7.4 There are no equalities implications arising from this report.

(a) Equalities

Has an Equality Impact Assessment been carried out?

	YES (see attached appendix)
X	NO – This report does not introduce a new policy, function or strategy or recommend a substantive change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required

(b) Fairer Scotland Duty

If this report affects or proposes any major strategic decision:-

Has there been active consideration of how this report's recommendations reduce inequalities of outcome?

	YES – A written statement showing how this report's recommendations reduce inequalities of outcome caused by socio-economic disadvantage has been completed.
X	NO

(c) Data Protection

Has a Data Protection Impact Assessment been carried out?

	YES – This report involves data processing which may result in a high risk to the rights and freedoms of individuals.
X	NO

Repopulation

7.5 There are no repopulation implications arising from this report.

8.0 CONSULTATIONS

8.1 This report has been produced based on advice from the Council's treasury consultants (Link Treasury Services Limited).

9.0 LIST OF BACKGROUND PAPERS

9.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition
Inverclyde Council – Treasury Management Strategy Statement and Annual Investment Strategy 2020/21-2023/24

**FORECAST OF INVESTMENT BALANCES
ESTIMATE FOR 2020/21 AND ACTUAL AT 31 MARCH 2021**

Investment Regulation 31 requires the Council to provide forecasts for the level of investments. The estimate for 2020/21 and the actual as at 31 March 2021 are:

	2020/21	2020/2
	Estimate	Actual At 31 March 2021
	£000	£000
Cash balances managed in-house		
- At 1 April 2020	20,000	29,655
- At 31 March 2021	22,838	39,906
- Change in year	2,838	10,251
- Average daily cash balances	21,419	42,086
Holdings of shares, bonds, units (includes local authority owned company)		
- At 1 April 2020	2	2
- Purchases	0	0
- Sales	0	0
- At 31 March 2021	2	2
Loans to local authority company or other entity to deliver services		
- At 1 April 2020	442	441
- Advances	0	0
- Repayments	43	43
- At 31 March 2021	399	398
Loans made to third parties		
- At 1 April 2020	2,117	2,117
- Advances	4	14
- Repayments	720	721
- At 31 March 2021	1,401	1,410
Total of all investments		
- At 1 April 2020	22,561	32,215
- At 31 March 2021	24,640	41,716
- Change in year	2,079	9,501

The movements in the forecast investment balances shown above are due largely to ongoing treasury management activity in accordance with the Council's treasury management strategy or, for loans made to third parties, in accordance with Council decisions made in respect of such loans.

All of the Council's cash balances are managed in-house with no funds managed by external fund managers.

The "holdings of shares, bonds, units (includes authority owned company)" are historic and relate to the Common Good.

The Loans made to third parties includes a £50,000 loan to Shared Interest Society Limited ("Shared Interest") as approved by the Policy & Resources Committee in August 2017. Shared Interest are a company that uses funds invested by individuals and organisations to allow it to provide loans to fair trade businesses around the world.