TREASURY MANAGEMENT ANNUAL REPORT 2020/21

1. INTRODUCTION AND BACKGROUND

This Council 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 the financial year 2020/21. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The Council's Treasury Management Strategy for 2020/21 was approved at a meeting on 19 February 2020. The Council has 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 remains central to the Council's treasury management strategy.

The CIPFA Code of Practice on Treasury Management was adopted by this Council on 24 February 2010; this was updated in November 2011 and updated further in December 2017.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy*)* for the year ahead and an annual review report of the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of the treasury management strategy to a specific named body which in this Council is the Finance, Assets and Performance Scrutiny Committee.
6. Delegation by the Council of the role of scrutiny of treasury management performance to a specific named body which in this Council is the Audit and Standards Committee, a midyear and year-end review report is received by this Committee.

Treasury Management in this context is defined as:

"The management of the local authority's investments and 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."

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of Treasury Management activities, for the financial year 2020/21.

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 Council's policies previously approved by members.

This Council has complied with the requirement under the Code to give prior scrutiny to the annual review report by reporting this to the Audit and Standards Committee prior to it being reported to Council.

2. THIS ANNUAL TREASURY REPORT COVERS

- The Council's treasury position as at 31 March 2021;
- The strategy for 2020/21;
- The economy in 2020/21;
- Investment rates in 2020/21;
- Compliance with treasury limits and Prudential Indicators;
- Investment outturn for 2020/21;
- Involvement of Elected Members;
- Other issues.

3. TREASURY POSITION AS AT 31 MARCH 2021

The Council's investment position at the beginning and the end of the year was as follows:

	At 31/03/21	Average Return	Average Life (Days)	At 31/03/20	Average Return	Average Life (Days)
Total Debt	£0m	0.00%	0	£0m	0.00%	0
Total Investments	£0m	0.07%	2	£0m	0.51%	4

It should be noted that the above table is only a snapshot of the total Investments as at 31 March 2021. Large fluctuations in cash inflows and outflows that occur throughout the month can have an impact on the figure reported.

4. THE STRATEGY FOR 2020/21

The strategy agreed by Council on 19 February 2020 was that:

- The Council may be required to borrow during 2020/21 if capital receipts did not materialise in order to fund the capital programme;

- All borrowing would be kept absolutely within the Authorised Limit of £85m and would not normally exceed the Operational Boundary of £75m (although it could for short periods of time be permitted to rise to a figure between £75m and £85m due to variations in cash flow);

- Temporary surpluses which might arise would be invested, either in short term deposits with the Council's various deposit accounts or in money market investments (cash deposits) if the size warranted this and for an appropriate period in order that these sums would be available for use when required;

- The proportions of loans and investments to be at fixed or variable rates were: fixed rate loans to be between 0% and 100% of the total and variable rate to be between 0% and 100% of the total, thus enabling maximum flexibility to take advantage of interest rate trends;

- Long term investments to be permitted as follows: maturing beyond 31/03/20 £25m, maturing beyond 31/03/21 £25m, maturing beyond 31/03/22, £25m;

- The overriding consideration is safeguarding the Council's capital. At all times the risk to the Council will be minimised. Within these constraints, the aim will be to maximise the return on investments; and,

- Forward commitment of funds for investment is permitted in respect of in-house investments, in instances where market conditions warrant it.

5. THE ECONOMY AND INTEREST RATES - narrative supplied by the Council's Treasury Management Advisors – Arlingclose Limited

The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency. The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

A Brexit trade deal was agreed with only days to spare before the 11pm 31 December 2020 deadline, having been agreed with the European Union on Christmas Eve.

The Bank of England held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the Bank of England noted that while Gross Domestic Product (GDP) would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target.

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% quarter on quarter, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

6. INVESTMENT RATES IN 2020/21 – narrative supplied by the Council's Treasury Management Advisors – Arlingclose Limited

Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November 2020, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

7. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Annex 1.

8. INVESTMENT OUTTURN FOR 2020/21

Internally Managed Investments

The Council manages its investments in-house and during 2020/21 invested with institutions in compliance with the credit worthiness service of the Council's treasury management advisors, Arlingclose Limited.

The Council invested for a range of periods from overnight to up to five and a half months during 2020/21, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. 107 of 118 investments made in 2020/21 were for a period of 2 weeks or less. 7 of 118 investments were deposited in the Council's business reserve account due to the available rate and liquidity. 3 investment were made with the Public Sector Deposit Fund. The remaining 108 investments were deposited in the Debt Management Account Deposit Facility.

With only 29 investments being placed during 2019/20, the increase in 2020/21 has been due to the Council holding funds throughout the year in relation to a range of COVID-19 related grants that were for disbursement.

In addition, funds were held in the general fund account that the Council has with Lloyds Bank.

Investment Outturn for 2020/21

During 2020/21 an average rate of return of 0.07% was achieved on an average individual investment of £3.071m, compared with a target of 0.40%. This target was not achieved due to the impact of COVID-19 on interest rates.

9. INVOLVEMENT OF ELECTED MEMBERS

Elected members have been involved in the treasury management process during 2020/21 including:

- Scrutiny of the treasury management strategy by the Finance, Assets & Performance Scrutiny Committee prior to being submitted for approval by the Council.
- Scrutiny of treasury management performance by the Audit and Standards Committee through the receipt of a half yearly treasury management report.
- A quarterly budget monitoring and performance report is reported to Cabinet, this contains details of Treasury Management activity undertaken during the quarter.

ANNEX 1: PRUDENTIAL INDICATORS

Position/Prudential Indicator		2019/20 Actual	2020/21 Indicator	2020/21 Actual
1	Capital Expenditure	£2.923m	£7.303m	£7.521m
2	Capital Financing Requirement at 31 March *	£4.364m	£4.405m	£5.395m
3	Treasury Position at 31 March: Borrowing Other long term liabilities Total Debt Investments Net Borrowing	 £0 £0 £0 £0 £0	 N/A N/A N/A N/A N/A	 £0 £0 £0 £0 £0
4	Authorised Limit (against maximum position)	£0	£85.0m	£0
5	Operational Boundary (against maximum position)	£0	£75.0m	£0
6	Ratio of Financing Costs to Net Revenue Stream	(0.37%)	0.25%	(0.13%)
7	Upper Limits on Variable Interest Rates (against maximum position) Loans Investments	 0% 0%	 100% 100%	 0% 0%
8	Actual External Debt	£0	N/A	£0
9	Principal Funds Invested for Periods Longer than 365 days (against maximum position)	£0	£25.0m	£0

GLOSSARY

CFR – Capital Financing Requirement

The Capital Financing Requirement is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.

CIPFA – The Chartered Institute of Public Finance and Accountancy

The Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations.

CPI – Consumer Price Index

A measure that examines the weighted average of prices of a basket of consumer goods and services. The Consumer Price Index is calculated by taking price changes for each item in the predetermined basket of goods/services and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

GDP – Gross Domestic Product

Gross Domestic Product is the market value of all officially recognised final goods and services produced within a country in a given period of time.

QE – Quantitative Easing

Quantitative easing acts in a similar way to cuts in Bank Rate. It lowers the interest rates on savings and loans. And that stimulates spending in the economy.