Treasury Management Outturn Report 2020/21

Introduction

The Council has 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 a treasury management annual report after the end of each financial year.

This report fulfils the Councils legal obligation to have regard to the CIPFA Code.

The Council's treasury management strategy for 2020/21 was approved at a meeting of the Authority on 26th February 2020. The Authority 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 are therefore central to the Authority's treasury management strategy.

External Context

Economic background: 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.

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

The Bank of England (BoE) 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 BoE noted that while 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to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

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. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

Financial markets: 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%.

Credit review: Credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

Local Context

On 31st March 2021, the Authority had net borrowing of £93m arising from its revenue and capital income and expenditure, an increase on 2020 of £7.8m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.20 Actual £000	2020/21 Movement £000	31.3.21 Actual £000
General Fund CFR	18,447	6,218	24,665
HRA CFR	128,403	(1,926)	126,477
Total	**146,850**	**4,292**	**151,142**
Less: Usable reserves	(47,233)	(8,877)	(56,110)

Less: Working capital	(14,405)	12,382	(2,023)
Net borrowing	**85,212**	**7,797**	**93,009**

Net borrowing has increased due to a rise in the CFR as new capital expenditure was lower than the financing applied.

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31st March 2021 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	31.3.20 Balance £000	**2020/21 Movement £000**	**31.3.21 Balance £000**	**31.3.21 Rate %**
Long-term borrowing	127,341	(1,912)	125,429	
Short-term borrowing	0	0	0	
Total borrowing	**127,341**	**(1,912)**	**125,429**	**3.76**
Long-term investments	0	0	0	
Short-term investments	28,104	28,104	0	
Cash and cash equivalents	14,025	(18,395)	32,420	
Total investments	**42,129**	**9,709**	**32,420**	**0.01**
Net borrowing	**85,212**	**7,797**	**93,009**	

Borrowing Activity

At 31st March 2021, the Authority held £125m of loans, a decrease of £2m on the previous year, as part of its strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change in show in table 3 below.

Table 3: Borrowing Position

	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	31.3.21 Rate %	31.3.21 Average maturity years
Public Works Loan Board	127,341	(1,912)	125,429	3.76	26 years
Total borrowing	**127,341**	**(1,912)**	**125,429**		

The Authority'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, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

In furtherance of these objectives, no new external borrowing was undertaken in 2020/21, while existing loans were allowed to mature without replacement. This strategy enabled the Authority to reduce net borrowing costs and reduce overall treasury risk.

In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November the margin on 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 except to refinance existing loans or externalise internal borrowing. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

The Authority 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 if required.

Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21, the Authority's investment balance ranged between £32m and £74m million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 4 below.

Table 4: Investment Position

	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	31.3.21 Rate %	31.3.21 Average maturity years
Government (incl. local authorities)	28.0	(15.2)	12.8	0.00	<1 year
Money Market Funds	14.1	5.5	19.6	0.01	<1 year
Total investments	**42.1**	**(9.7)**	**32.4**		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority'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.

In furtherance of these objectives, the Authority continued to increase deposits into more secure asset classes during 2020/21. As a result, investment risk was lowered.

Other Non-Treasury Holdings and Activity

Although not classed as treasury management activities, the 2017 CIPFA Code now requires the Authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and regeneration purposes as well as commercial investments which are made mainly for financial reasons. The Authority holds £44m of directly owned investment property and land. The Authority also holds a £100,000 loan to the Derbyshire Building Control Partnership that commenced in March 2018, a

£67,500 loan to Staveley Town Council that commenced in March 2020 and a £500,000 loan to Chesterfield Football Club Community Trust that commenced in August 2020.

Performance Report

The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget, as shown in table 5 below.

Table 5: Performance

	Actual £000	Budget £000	Over/ under
Total investment income	(96)	(97)	1
Total debt expense	4,783	4,784	(1)
GRAND TOTAL	4,687	4,687	0

Compliance Report

The Service Director - Finance is pleased to report that all treasury management activities undertaken during 2020/21 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	2020/21 Maximum	31.3.21 Actual	2020/21 Limit	Complied
Any single organisation (excluding Central Government)	**£5m**	**£0**	**£5m**	✓
Any group of funds under the same management	**£4m**	**£0**	**£7.5m**	✓
Enhanced Money Market Funds	**£12m**	**£9.9m**	**£12m**	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	2020/21 Maximum £000	31.3.21 Actual £000	2020/21 Operational Boundary £000	2020/21 Authorised Limit £000	Complied
Borrowing	**£127,341**	**£125,429**	**£143,400**	**£158,000**	✓

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 was below the operational boundary for the whole of 2020/21.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates were:

Interest rate risk indicator	31.3.21 Actual	2020/21 Limit	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	£28,000	£300,000	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	£28,000	£300,000	✓

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

	31.3.21 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3%	10%	0%	✓
12 months and within 24 months	2%	10%	0%	✓
24 months and within 5 years	7%	15%	0%	✓
5 years and within 10 years	11%	25%	0%	✓
10 years and within 25 years	51%	70%	20%	✓
25 years and above	26%	75%	20%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	2020/21	2021/22	2022/23
Actual principal invested > 364 days	£0	£0	£0
Limit on principal invested > 364 days	£10m	£10m	£10m
Complied	✓	✓	✓