

For publication

**Treasury Management Annual Report 2020/21 and Monitoring Report
2021/22**

Meeting:	Council
Date:	13 th October 2021
Cabinet portfolio:	Deputy Leader
Directorate:	Finance

1.0 Purpose of report

- 1.1 To consider the Annual Treasury Management Report for 2020/21.
- 1.2 To consider the Treasury Management activities for the first five months of 2021/22
- 1.3 To approve the revised prudential indicator in respect of the maturity structure of borrowing for the financial year 2021/22.

2.0 Recommendations

- 2.1 The outturn Prudential Indicators for 2020/21 be approved.
- 2.2 The treasury management stewardship report for 2020/21 be approved.
- 2.3 The treasury management position for the first five months of 2021/22 be noted.
- 2.4 The revised prudential indicator in respect of the maturity structure of borrowing for the financial year 2021/22 be approved.

3.0 Reasons for recommendations

3.1 To keep Members informed about the council's treasury management activities and to comply with the CIPFA Code of Practice for Treasury Management in the Public Services.

4.0 Report Details

4.1 Background

4.1.1 The Council's Treasury Management Strategy requires the full Council to receive three treasury reports each financial year; the Strategy report before the start of each financial year, an annual report for the previous financial year and a mid-year review for the current year.

4.1.2 The Annual Report for 2020/21 is attached at Appendix A. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

4.1.3 Following the Icelandic banks collapse in 2008 the regulatory framework places a much greater emphasis on the review and scrutiny by Members of treasury management activities. The attached report provides details of the treasury management activities in 2020/21 and confirms compliance with the Council's approved policies.

4.1.4 This report was considered by the Standards and Audit Committee at its meeting on 29 September, 2021 where it was resolved that the report and its recommendations be supported and referred to Council for approval.

4.2 Summary of the Annual Report

4.2.1 During 2020/21, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2019/20 Actual £'000	2020/21 Revised £'000	2020/21 Actual £'000
Actual capital expenditure	25,539	70,400	31,423
Capital Financing Requirement:			
- General Fund	18,447	48,100	24,665
- HRA	128,403	126,477	126,477

Total	146,850	174,577	151,142
External debt	127,341	138,400	125,429
Investments	42,129	10,000	32,420
Net borrowing	85,212	128,400	93,009

- 4.2.2 Other prudential and treasury indicators are to be found in Appendix A. The Service Director - Finance also confirms that borrowing over the medium term is only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached in 2020/21.
- 4.2.3 The financial year 2020/21 continued the challenging environment of low investment return, with bank base rates holding steady at a record low of 0.10% for the entire year. There was a large differential between borrowing and investments rates during the year.
- 4.2.4 **Investments** – Interest income received for the year was on budget at £96,000. During the 2020/21 financial year the Council continued with its policy of prioritising its investments with other local authorities and the Debt Management Office in order to achieve greater security. Further information can be found in Appendix A.
- 4.2.5 The in-house team managed average balances of £49.5m earning an average rate of return of 0.19%.
- 4.2.6 **Borrowing** – in terms of activity during the year on the Council’s debt portfolio:
- No new external long term borrowing was undertaken; &
 - Long term loan repayments of £1m were made.
- 4.2.7 **Treasury Management Advisors** – Arlingclose continued to provide treasury management advice to the Council throughout 2020/21. Treasury recommendations were incorporated into the 2020/21 Treasury Management Strategy Statement that was approved by Council in February 2020.
- 4.3 Mid-year Review 2021/22
- 4.3.1 **Annual Investment Strategy** - In accordance with the CIPFA Code and the Council’s Treasury Management Strategy, the investment priority is to ensure security and liquidity of capital, and to obtain an appropriate level of return which is consistent with the Council’s risk appetite. Due to the Covid-19 pandemic the Bank Rate remains at a record low of 0.10%; this, together with the continuing uncertainty of economic recovery and the geo-political uncertainties prompt a low risk and short term strategy. There is the possibility that the Bank of England could cut rates further,

and the possibility of negative interest rates cannot be ruled out. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the five months ended 31st August 2021.

4.3.2 **Internally Managed Cash Balance** - In the first quarter of the year the interest rates achieved were lower than those assumed when setting the budget (0.01% against 0.1%), which has resulted in internal investment returns being £5,000 worse than forecast for the first quarter of the year.

4.3.4 **Borrowing activities in the period** – Short term borrowing of £5m has been undertaken during the first 5 months of 2021/22. No repayments of principal have yet been made and no debt rescheduling has been undertaken.

4.3.4 **Compliance with Treasury & Prudential Limits** - All treasury limits and Prudential Indicators set out in the Council’s Treasury Management Strategy Statement and in compliance with the Council’s Treasury Management Practices have been maintained.

The main Prudential Indicators relating to borrowing are:

- Authorised Borrowing Limit – the limit for the year was set at £188.8m, the limit has not been breached.
- Operational Boundary – this was set at £175.6m for the year, again the limit has not been breached.

4.4 Treasury Management and Prudential Indicators

4.4.1 The Prudential Indicators for 2021/22 were approved in February 2021. Following a mid-year review of these indicators an amendment to the Maturity Structure of Borrowing indicator is proposed.

4.4.2 This indicator is set to control the Authority’s exposure to refinancing risk. The revised upper and lower limits on the maturity structure of borrowing for 2021/22 will be:

	Upper limit	Lower limit
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%

10 years and within 25 years	70%	20%
25 years and above	75%	15%

This change is suggested to provide increased flexibility in managing cashflow requirements.

4.4.3 Amendments to the 2021/22 General Fund capital programme will be considered by Council in December. Further borrowing may be necessary and this additional borrowing would require an adjustment to the Prudential Indicators (PI's) approved as part of the Treasury Management Strategy Statement in February. The PI's detailed below would need to be amended:-

- General fund Capital Expenditure & Financing
- General Fund Capital Financing Requirement
- Operational Boundary
- Authorised Limit

These amended PI's will be reported to Cabinet as part of the budget monitoring report in the autumn.

5 Alternative options

5.1 There are no alternative options to consider.

6 Implications for consideration – Council Plan

6.1 These arrangements enable the priorities set out in the Council Plan to be achieved.

7 Implications for consideration – Financial and value for money

7.1 The report in its entirety deals with financial and value for money implications.

8 Implications for consideration – Legal

8.1 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003. There are no other legal implications.

9 Implications for consideration – Human resources

9.1 There are no human resource considerations arising from this report.

10 Implications for consideration – Risk management

10.1 There are a number of risks inherent within any treasury management strategy, the most significant risks at the moment include:

- Reporting is not compliant with statutory guidelines.
- Investment and borrowing activity is outside the approved TM framework.
- Long term borrowing is taken at rates that are not advantageous.
- Investment of principal sums with insecure counterparties.
- Investment returns are volatile and may not meet budgeted amounts.
- Borrowing is not affordable.

11 Implications for consideration – community wellbeing

11.1 Although there are no direct community wellbeing implications to consider in this report, the ability for the Council to appropriately manage its day to day finances and to be able to achieve a balanced budget position is critical to the continued delivery of the full range of council services that are targeted at supporting community wellbeing across the borough.

12 Implications for consideration – Economy and skills

12.1 Although there are no direct economy and skills implications to consider in this report, the ability for the Council to appropriately manage its day to day finances and to be able to achieve a balanced budget position is critical to the continued delivery of the full range of council services that are targeted at supporting the economy and skills agenda across the borough.

13 Implications for consideration – Climate Change

13.1 Individual climate change and environmental impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

14 Implications for consideration – Equality and diversity

14.1 There are no and diversity impact implications arising from this report.

Decision information

Key decision number	1054
Wards affected	All wards

Document information

Report author	Contact number/email
Karen Ludditt	01246 936276 Karen.ludditt@chesterfield.gov.uk
Background documents	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
Appendices to the report	
Appendix A	Annual Treasury Management Report 2020/21