Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**	**Date:**	**26th JULY 2021**
Heading:	**COUNCIL'S TREASURY MANAGEMENT AND BORROWING ACTIVITIES 2020/21**		
Portfolio Holder:	**PORTFOLIO HOLDER FOR FINANCE, REVENUES AND BENEFITS – CLLR DAVID MARTIN**		
Ward/s:	**N/A**		
Key Decision:	**NO**		
Subject to Call-In:	**NO**		

Purpose of Report

This report provides information on the Council's Treasury Management activities which the Council carries out to manage both its funding and its cash flow, with the aim of minimising the risks to which the Council is exposed when borrowing and lending monies.

It sets out the performance in 2020/21 against the prudential indicators, which were previously approved by Full Council on the 5th March 2020, as part of the Treasury Management Strategy. This ensures that borrowing and lending are controlled within reasonable limits, in line with good practice.

Recommendation(s)

Members are requested to:

i) Note the performance including the compliant prudential indicators, as outlined in the report.

ii) Recommend consideration of the report by Cabinet, including points raised by the Audit Committee in respect of the report (if any).

Reasons for Recommendation(s)

The requirements of the Council's Financial Regulations include:

(C.31) the Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.
(C.30), Cabinet will receive an annual Treasury Management Performance Report.

In accordance with CIPFA Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code"), Members should approve the annual report for Treasury Management activity in 2020/21 which forms part of this document.

Under CIPFA's Prudential Code for Capital Finance in Local Authorities, Members have a statutory duty to adopt a set of annual indicators relating to capital expenditure and Treasury Management.

Alternative Options Considered

None. A report must be received to comply with the Council's Financial Regulations and CIPFA Codes of Practice.

Detailed Information

TREASURY MANAGEMENT - ANNUAL REPORT 2020/21

1. Introduction

1.1 The Treasury Management Policy Statement includes a requirement for the production of an Annual Report on the Treasury Management activities undertaken during the year. This requirement is also incorporated in the Council's Financial Regulations and is considered as good practice in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management.

2. The Financial Markets During 2020/21

2.1 Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the onset of the Covid-19 pandemic in March 2020 which caused the Monetary Policy Committee to cut the Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The base rate has remained at 0.10% for the duration of 2020/21.

2.2 The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdowns. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

3. Borrowing

3.1 The borrowing activities undertaken during the year are summarised below:

Table 1 – Borrowing Activities 2020/21

Type of Loan	Amount Outstanding 01/04/20 £'000	Borrowed £'000	Repaid £'000	Amount Outstanding 31/03/21 £'000
Long Term Loans				
- PWLB	62,536	0	(0)	62,536
- Mortgage Loan	34,500	0	(0)	34,500
- Temporary Loan	5,000	0	(5000)	0
Total External Debt	**102,036**	**0**	**(5,000)**	**97,036**

3.2 The temporary loan repaid had reached maturity and was therefore repaid.

3.3 The table represents the actual transactions undertaken and therefore will differ to those shown in the statement of accounts due to the differences between face value and fair value.

4. Prudential Borrowing Limits

4.1 One of the requirements of the CIPFA Prudential Code is to report performance against a range of indicators to Members. Underpinning the Prudential system for borrowing is the fundamental objective that any investment in assets needs to be both affordable and remain within sustainable limits. The Council sets its own targets, boundaries or limits against which it monitors actual performance. For 2020/21 these were approved by Council on 5th March 2020. The comparison of out-turn to those targets are set out in Appendix 1 to this report.

4.2 There was one occasion where the receipt of interest on our Handelsbanken deposit account temporarily caused the balance to exceed the £5m limit as previously reported in the mid-year report.

5. Loan Interest Payments

5.1 There are two measures of performance used for assessing the Council's borrowing activities. These are the total amount of interest paid compared to estimated figures and the average rate of interest paid on external loans. An analysis of interest payments compared to the revised estimates is given below:

Table 2 – Loan Interest Payments

	Revised Estimate	Actual	Variance
	£'000	£'000	£'000
PWLB	1,946	1,946	0
Mortgage Loans	1,576	1,576	0
Temporary Loans	16	16	0
Total	3,538	3,538	0

6. Investments

6.1 Cash flow surpluses are placed in investment accounts or in short-term money market deals. The movement in external investments during the year is given below:

Table 3 - Investments

	Temporary Advances **£000**
Balance at 01/04/20	9,984
New Investments	202,243
Repayments	194,511
Balance at 31/03/21	17,716
Annual Return	**0.18%**

6.2 Overall Investment Income achieved compared to the revised budget is as follows:

Table 4 – Investment Income

Budget **£000**	**Actual** **£000**
35	42

6.3 The above figures demonstrate that investments are an important element of the Council's budget. Relatively small movements in interest rates can have a significant impact on the income received. The main reasons for the better than expected investment income was due to the Council receiving more grant money than anticipated as a result of the pandemic and underspends on the capital programme resulting in higher cash balances available for investment.

Implications

Corporate Plan:

The reporting of the Council's Treasury Management and Borrowing Activities ensures compliance with the Council's Financial Regulations and the CIPFA best practice. The Council's effective treasury management activities support delivery of the Corporate Plan objectives.

Legal:

The recommendations contained in the report ensure compliance with Financial Regulation C.30 and C.31.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	No direct financial implications arising from this report.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
None Identified	N/A

Human Resources:
No adverse Human Resources implications identified.

Environmental/Sustainability
No Environmental/Sustainability implications.

Equalities:
No adverse Equality implications.

Background Papers
(if applicable)

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APPENDIX 1 PRUDENTIAL INDICATORS OUTTURN 2020/21

The target indicators were approved by Council on 5th March 2020. After the indicators were set the Government announced that it would end PWLB borrowing for those authorities who continue to purchase investment properties for yield. The authority initially had a £20m scheme for investment property purchases in 2020/21. This capital scheme and funding requirement was therefore subsequently reduced to £3.305m, which is the value of the single investment property purchased in April 2020. The reduction in investment property expenditure is the primary reason for the variance to target on several indicators.

1. Prudential Indicators of Affordability

a) **Ratio of financing costs to net revenue stream split between the Housing Revenue Account and the General Fund**

The Council is required to calculate an estimated ratio of its financing costs divided by its net revenue stream for both the General Fund and the Housing Revenue Account.

2020/21	Target %	Actual %
Housing Revenue Account	13.79	14.52
General Fund	26.60	14.09

The variance to target on the Housing Revenue is due to a reduction in interest receivable following the base rate cut to 0.10% on 19th March 2020.

The variance to target on the General Fund is due to the reduced financing costs due to the reduction of the investment property budget of £16.7m.

b) **Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels**

Authorities are required to estimate the impact on the Council Tax (General Fund) and Rent levels (Housing Revenue Account) of the associated financing costs of the incremental capital programme.

2020/21	Target £	Actual £
Housing Revenue Account – Rents (52 Weeks)	0.00	0.00
General Fund -Council Tax (Band D)	59.62	30.64

There was no new borrowing completed for the HRA in 2020/21 as expected.

The reduction against target for the impact on Council Tax for the General Fund is primarily due to a reduction in the investment property capital programme.

c) **Net borrowing and the Capital Financing Requirement split between the General Fund and the Housing Revenue Account**

In order to ensure that in the medium term borrowing is only undertaken for capital purposes, local authorities are required to ensure that net external borrowing does not exceed, except in the short term, the total of their capital financing requirement. In broad terms the capital financing requirement reflects an authority's need to borrow for capital purposes and is a measure of the assets contained on the balance sheet which have as yet not been fully financed, i.e. there is still some debt outstanding.

31st March 2021	Target £m	Actual £m
Housing Revenue Account	80	80
General Fund	108	82

The main reason for the variance for the General Fund is due to the movement on the investment property capital programme and lower than expected MRP charges as a result of slippage on the 2019/20 capital outturn.

d) **Estimates of capital expenditure split between the General Fund and the Housing Revenue Account**

2020/21	Target £m	Revised Capital Programme £m	Actual £m
Housing Revenue Account	14.1	5.7	5.1
General Fund	27.3	11.6	6.6

The main reasons for the differences between the Housing Revenue Account (HRA) and the General Fund (GF) are as follows:

i) HRA – Variance to revised capital programme is largely due to HRA vehicle purchases being delayed due to pandemic. Also, the target indicator was set before the pandemic and therefore decent homes work costs were expected to be higher.

ii) GF – The start dates were delayed for the Kirkby Leisure Centre and Towns Fund Projects and the scheme expenditure has slipped into 2021/22.The target indicator included £20m of investment properties the Council only purchased one investment property for £3.3m and spend on the new Kirkby Leisure Centre in 2020/21 was £4.5m less than target (timing difference).

e) **Authorised Limit of external debt**

The Council is required to set an authorised limit for its total external debt, gross of investments and includes the need to borrow on a short-term basis to cover for temporary shortfalls in cash flow. The Authorised limit is set at a level which is the approximate value of the funded capital programme plus the Capital Financing Requirement.

2020/21	Authorised Limit £m	Actual Borrowing £m
Borrowing	206	97

f) **Operational Boundary**

The operational boundary is based on the most likely or prudent but not worst-case scenario in relation to cash flow. The reason for the difference between the Operational and Actual Borrowing is due to the Authority using internal reserves and working capital e.g. the HRA balances to fund Capital Expenditure rather than borrowing.

2020/21	Operational Boundary £m	Actual Borrowing £m
Borrowing	191	97

2. Prudential Indicators for Prudence

a) **Interest rate exposure**

This indicator gives the following maximum levels of exposure to fixed and variable interest rate payments. Fixed interest loans charge the same amount of interest from the start of the loan until the loan is repaid. The interest payable for variable rate loans may change from the inception date to the maturity date. The target for fixed rate loans is set at the same level as the Authorised Limit whereas the target for variable rate loans is set at an amount which is 40% of the Authorised Limit.

Principal Outstanding 2020/21	Target £'000	Actual £'000
At Fixed Rates	206,000	97,036
At Variable rates	82,400	0

b) **Maturity Structure of fixed rate borrowing**

The Council has numerous fixed rate loans. It is prudent to ensure that these loans do not mature at the same time. Therefore, the Council has set lower and upper limits for the maturity of its fixed rate loans.

Maturity	Lower Limit £'000	Upper Limit £'000	Actual 31st March 2021 £'000
Less than 12 months	0	20,000	0
12 months to 24 months	0	20,000	1,500
24 months to 5 years	0	25,000	13,190
5 years to 10 years	0	50,000	9,046
10 year and over	0	100,000	73,300

Principal sums invested for more than 364 days

The below represents the maximum amount the Authority can invest with any institution. This is to reduce the potential exposure to the Authority should any institution become insolvent.

2020/21	Limit £m	Actual £m
Upper Limit	5	0