Report to Council

Treasury Management Review 2020/21

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Reason for Decision

The 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 2020/21. 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).

During 2020/21 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (approved 26 February 2020)
- a mid-year (minimum) treasury update report (approved 16 December 2020)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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.

The Council confirms that it has complied with the requirements under the Code to give prior scrutiny to the treasury strategy and the mid-year update. The Audit Committee is charged with the scrutiny of treasury management activities in Oldham and reviewed the content of this annual report at its meeting of 29 June 2021. The Committee was content to commend the report to Cabinet and Council (to ensure full compliance with the Code for 2020/21). Cabinet approved the report on 23 August 2021 and was content to commend the report to Council.

Executive Summary

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	54,383	81,013	73,227
Total Capital Financing Requirement:	472,377	504,935	491,713
Gross borrowing	167,843	172,843	172,843
External debt	403,709	402,195	397,248
Investments			
· Longer than 1 year	15,000	15,000	15,000
· Under 1 year	103,120	52,000	68,540
· Total	**118,120**	**67,000**	**83,540**
Net Borrowing (Gross borrowing less investments)	49,723	105,843	89,303

As can be seen in the table above, actual capital expenditure was less than the revised budget estimate for 2020/21 presented within the 2020/21 Treasury Management Strategy report considered at the Council meeting of 4 March 2021. The outturn position was significantly less than the £147.632m original capital budget for 2020/21 as approved at Budget Council on 26 February 2020.

It was apparent at the beginning of 2020/21 that spending plans were not going to be realised, the COVID-19 pandemic halted works on projects and delayed the start of others. Because of this, and taking account of re-profiled expenditure, new assumptions, approvals and scheme updates the expenditure budgets and funding plans were continually reassessed throughout in year. The significant re-phasing was associated with the revised vision and strategic framework for 'Creating a Better Place' which was approved in August 2020. This placed more emphasis on economic recovery, given the impact of the pandemic. This review required several existing regeneration projects to be reviewed and rephased to align to the long-term vision of the new strategy.
The final outturn position for 2020/21 of £73.227m was a significant reduction compared to the expenditure initially planned and approved at Budget Council in February 2020.

Short Term Temporary Borrowing was undertaken during the year and is detailed in the report.

Other prudential and treasury indicators are to be found in the main body of this report.

The Director of Finance confirms that the statutory borrowing limit (the authorised limit) was not breached during the financial year 2020/21.

The financial year 2020/21 continued the challenging investment environment of previous years, namely low investment returns.

Recommendations

Council is recommended to:

1) Approve the actual 2020/21 prudential and treasury indicators presented in this report
2) Approve the annual treasury management report for 2020/21

Council **8 September 2021**

Treasury Management Review 2020/21

1 **Background**

1.1 The Council has adopted the Revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2017. The primary requirements of the code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year
- 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. In Oldham, this responsibility is delegated to the Section 151 Officer (Director of Finance).
- Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. In Oldham, the delegated body is the Audit 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. "*

1.2 The report therefore summarises the following the:-

- Council's capital expenditure and financing during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2 Current Position

2.1 The Council's Capital Expenditure and Financing during 2020/21

2.1.1 The Council undertakes capital expenditure when it invests in or acquires long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- Financed by borrowing if insufficient immediate financing is available, or a decision is taken not to apply available resources, the capital expenditure gives rise to a borrowing need.

2.1.2 The actual level of capital expenditure forms one of the required prudential indicators (these indicators are all summarised in Appendix 1). The table below shows the actual level of capital expenditure and how this was financed. As can be seen in the table below, actual capital expenditure in 2020/21 was less than the revised budget estimate. The revised budget estimate is based on the month 8 2020/21 reported position to align with the Annual Treasury Management Strategy 2020/21 report, and not the latest reported position (March 2021). All prudential indicators in the 2020/21 strategy are based on this revised budget. Capital expenditure was less in year due to re-phasing of some IT projects, property related schemes, Housing Revenue Account (HRA) schemes and education schemes that were expected to progress during the year. In addition, a revised vision and strategic framework for 'Creating a Better Place' was approved in August 2020, which placed more emphasis on economic recovery, given the impact of the pandemic. This review required several existing regeneration projects to be reviewed and rephased to align to the long-term vision of the new strategy.

	2019/20 Actual £'000	2020/21 Revised £'000	2020/21 Actual £'000
Non-HRA capital expenditure	52,249	76,061	68,830
HRA capital expenditure	2,134	4,952	4,397
Total capital expenditure	**54,383**	**81,013**	**73,227**
Resourced by:			
• Capital receipts	9,914	2,335	3,184
• Capital grants	42,091	19,827	20,820
• HRA	2,134	4,974	2,532
• Revenue	244	323	147
Unfinanced capital expenditure	**0**	**53,553**	**46,544**

2.2 **The Council's Overall Borrowing Need**

2.2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2020/21 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

2.2.2 Part of the Council's treasury activity is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets) or utilising temporary cash resources within the Council.

Reducing the CFR

2.2.3 The Council's (non-Housing Revenue Account [HRA]) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non- HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

2.2.4 The total CFR can also be reduced by:

- The application of additional capital financing resources (such as unapplied capital receipts); or
- Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

2.2.5 The Council's 2020/21 MRP Policy (as required by Ministry of Housing Communities and Local Government Guidance) was approved as part of the Treasury Management Strategy report for 2020/21 on 26 February 2020.

2.2.6 The Council's CFR for the year is shown in the table below and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. In 2020/21 the Council had seven PFI schemes in operation; however, no borrowing is actually required against these schemes as a borrowing facility is included within each contract.

Capital Financing Requirement	2019/20 Actual £'000	2020/21 Revised £'000	2020/21 Actual £'000
Opening balance	493,880	472,377	472,377
Add unfinanced capital expenditure	0	53,553	46,544
Add adjustment for the inclusion of on-balance sheet PFI and leasing schemes (if applicable)	525	0	270
Less MRP/VRP*	(2,742)	(2,742)	(2,742)
Less PFI & finance lease repayments	(19,286)	(18,253)	(24,736)
Closing balance	472,377	504,935	491,713

* Includes voluntary application of capital receipts and revenue resources

2.2.7 Borrowing activity is constrained by prudential indicators for net borrowing, the CFR and by the authorised limit.

Gross borrowing and the CFR

2.2.8 In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years.

2.2.9 This essentially means that the Council is not borrowing to support revenue expenditure.

2.2.10 This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2020/21 if so required. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2019/20 Actual £'000	2020/21 Revised £'000	2020/21 Actual £'000
Gross borrowing position	403,709	402,195	397,248
CFR - including PFI / Finance Leases	472,377	504,935	491,713
Under / (Over) funding of the CFR	68,668	102,740	94,465

The table above shows the position as at 31 March 2021 for the Council's gross borrowing position and CFR. This shows, compared to the revised budget position:

- Movement in the gross borrowing position, reflecting the fact that additional borrowing of £5m of short term borrowing still outstanding at 31 March 2021 which has been offset by repayment of transferred debt, PFI and finance leases.

- An increase in the CFR, predominantly through additional prudential borrowing in the capital programme.

The Authorised Limit

2.2.11 The authorised limit is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003 and was set at £537.5m. Once this has been set, the Council does not have the power to borrow above this level.

The Operational Boundary

2.2.12 The operational boundary is the expected borrowing position of the Council during the year and was set at £512.5m. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2020/21 Actual £'000
Authorised Limit	537,500
Operational Boundary	512,500

Actual financing costs as a proportion of net revenue stream

2.2.13 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream and is within expected levels.

	2020/21 Actual £'000
External Debt	172,843
PFI / Finance leases	224,405
Actual External Debt (Gross Borrowing) (rounded)	**397,248**
Financing costs as a proportion of net revenue stream (General Fund)	12.39%

2.2.14 The table above splits the gross borrowing position of the Council between actual external debt (loans) and PFI / Finance lease debt. As can be seen above the gross borrowing position is well within the Authorised Limit and Operational Boundary. The difference between the two reflects the Council’s under borrowed position.

2.3 **The Council's Debt and Investment Position**

2.3.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

2.3.2 At the end of 2020/21 the Council's treasury position was as follows:

	31 March 2020 Principal £'000	Average Rate/ Return	Average Life years	31 March 2021 Principal £'000	Average Rate/ Return	Average Life years
Fixed rate funding:						
-PWLB	35,482			35,482		
-Stock	6,600			6,600		
Market	125,761			130,761		
Total borrowings	**167,843**	4.30%	37.08	**172,843**	3.96%	36.35
PFI & Finance lease liabilities	**235,867**			**224,405**		
Total External debt	**403,710**			**397,248**		
CFR	**472,377**			**491,713**		
Over/ (under) borrowing	**(68,667)**			**(94,465)**		
Investments:						
Financial Institutions/LA's	103,120	0.94%		68,540	0.37%	
Property	15,000	4.32%		15,000	4.44%	
Total investments	**118,120**			**83,540**		
Net Debt	**49,723**			**89,303**		

2.3.3 The maturity structure of the debt portfolio was as follows:

	2019/20 Actual %	Upper Limit %	Lower Limit %	2020/21 Actual %
Under 12 months	23%	40%	0%	32%
12 months and within 24 months	0%	40%	0%	10%
24 months and within 5 years	32%	40%	0%	13%
5 years and within 10 years	4%	40%	0%	4%
10 years and above	40%	50%	0%	40%

2.3.4 The investment portfolio and maturity structure was as follows:

Investment Portfolio	Actual 31 March 2020 £'000	Actual 31 March 2020 %	Actual 31 March 2021 £'000	Actual 31 March 2021 %
Treasury Investments				
Banks	37,500	15.31%	20,000	23.94%
Local Authorities / Public Bodies	28,500	35.92%	28,000	33.52%
Money Market Funds (MMF's)	37,120	31.10%	20,540	24.59%
Total managed in house	**103,120**	**82.33%**	**68,540**	**82.04%**
Bond Funds				
Property Funds	15,000	12.70%	15,000	17.96%
Cash Fund Managers				
Total Managed Externally	**15,000**	**12.70%**	**15,000**	**17.96%**
TOTAL TREASURY INVESTMENTS	**118,120**	**100.00%**	**83,540**	**100%**
TOTAL NON TREASURY INVESTMENTS *	2,181	100%	0	0%

* Members should note that the Non-Treasury Investments during 2019/20 related to property purchase. No purchases classed as property investment purchases were made in 2020/21. During the year the Council did acquire the Spindles Shopping Centre. This purchase is part of the regeneration of the town centre and is held in the Council's accounts under the category of Other Land and Buildings.

	2019/20 Actual £'000	2020/21 Actual £'000
Investments		
Longer than 1 year	0	0
Under 1 year	103,120	68,540
Property Fund	15,000	15,000
Total	**118,120**	**83,540**

2.3.5 Key features of the debt and investment position are:

a) Over the course of the year 2020/21, investments have decreased by £34.580m. The large decrease in investments related to additional Government grants received in March 2020 in the previous reporting period to support the increase in expenditure needed to tackle the COVID-19 crisis. Another factor was the funds being held to make the upfront payment of pension costs in April 2020. By the end of the financial year, treasury activity had returned to more normal levels and this resulted in lower investment balances at the end of 2020/21.

b) The average rate of return on investments with Financial Institutions decreased from 0.94% in 2019/20 to 0.38% in 2020/21. This decrease relates to the Bank of England base rate being at 0.10% whereas it was 0.75% for the majority of the previous year. These low investment returns are a factor of Brexit and the COVID 19 Global Pandemic.

c) Investments were arranged throughout the year to ensure there was enough liquid cash available to support the paying of COVID support grants to local businesses, but still trying to make a return by placing cash for longer periods.

2.4 Investment Strategy and control of interest rate risk

2.4.1 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.

2.4.2 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 COVID-19 pandemic beginning in March 2020 which caused the Monetary Policy Committee (MPC) to cut 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.

2.4.3 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 lockdown. 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 for borrowing, with the consequent effect that investment earnings rates plummeted.

2.4.4 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

2.4.5 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

2.4.6 The table below shows bank rate at various timeframes together with a high, low and average rate.

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
Low Date	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
Average	0.10	-0.07	-0.05	0.01	0.07	0.17
Spread	0.00	0.10	0.25	0.66	0.73	0.83

2.5 Borrowing Strategy and control of interest rate risk

2.5.1 During 2020/21, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and counterparty risk on placing investments was also minimised.

2.5.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

2.5.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

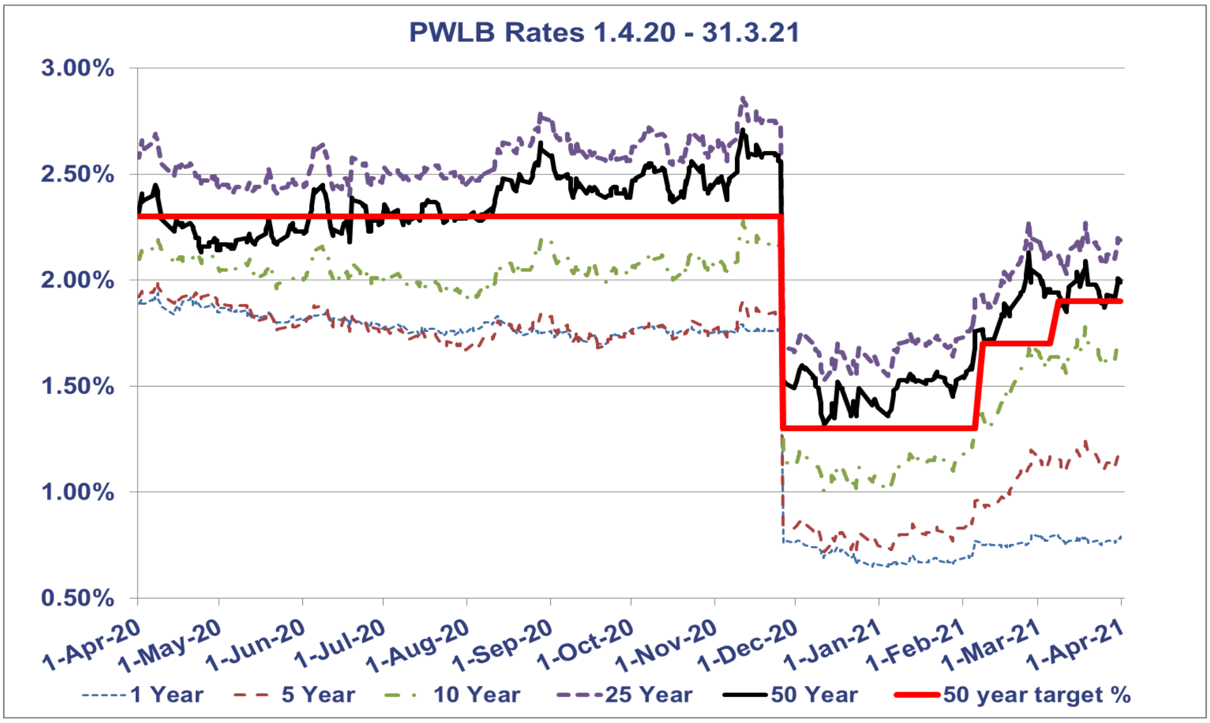
2.5.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasury Management Team and the Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks

- if it had been felt that there was a significant risk of a sharp **fall** in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper **rise** in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst

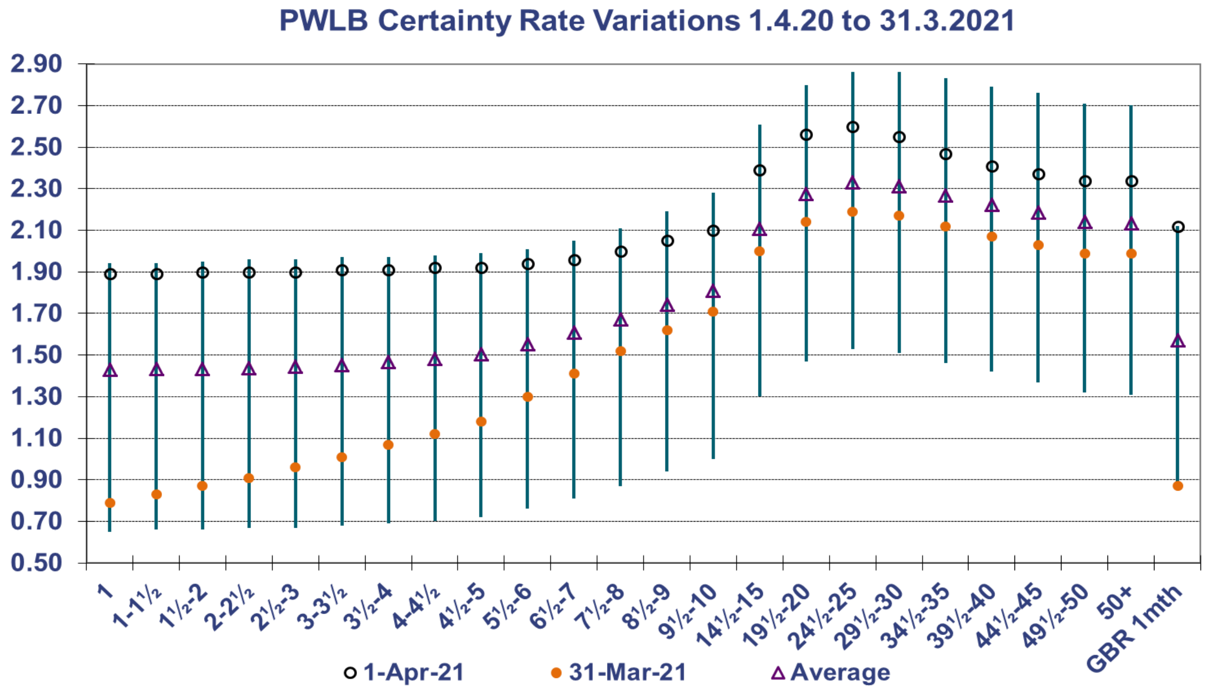
interest rates were lower than they were projected to be in the next few years.

2.5.5 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

2.5.6 The information in the table below and in graphs and tables in Appendices 2 and 3 show PWLB rates for a selection of maturity periods, the average borrowing rates, the high and low points in rates:



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Low date	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
High date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.43%	1.50%	1.81%	2.33%	2.14%
Spread	1.29%	1.27%	1.28%	1.33%	1.39%



2.5.7 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M. Treasury determining a specified margin to add to gilt yields.

2.5.8 The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc.

2.5.9 This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the last two years in the Eurozone, many bond yields up to 10 years have turned negative on the expectation that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.

2.5.10 Gilt yields fell sharply from the start of 2020 and then spiked up during a challenging period for financial markets in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/21 but then converged in the final quarter.

2.5.11 Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.

2.5.12 At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

2.5.13 HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019/20** without any prior warning. The first took place on 9 October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11 March 2020, but not for mainstream non-HRA capital schemes.

2.5.14 A consultation was then held with local authorities and **on 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates;** the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had the purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)

2.5.15 There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

2.6 Borrowing Outturn for 2020/21

Treasury Borrowing

2.6.1 The Council borrowed short term £20m from Public Bodies in April 2020 as can be seen in the table below. The borrowing was undertaken to fund capital expenditure early on in the financial year when cash flows were a little uncertain due to the COVID Pandemic and following the large payment to the Greater Manchester Pension Fund for the 3-year upfront payment. A further £5m was borrowed in November 2020.

Date	Lender	Principal £'000	Type	Interest Rate	Maturity (Months)
23-Apr-20	West Midlands CA	10,000	Maturity	0.720%	3
23-Apr-20	North of Tyne CA	10,000	Maturity	0.800%	6
04-Nov-20	Hampshire Pension Fund	5,000	Maturity	0.160%	6
Total		**25,000**			

Debt Rescheduling

2.6.2 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Repayment of Debt

2.6.3 Due to the type of borrowing undertaken in year £20m of the short-term borrowing reached maturity and was repaid as can be seen in the table below:

Date	Lender	Amount repaid £'000	Interest Rate	Comment
27-Jul-20	West Midlands CA	10,000	0.720%	Repayment of short term debt
04-Nov-20	North of Tyne CA	10,000	0.800%	Repayment of short term debt
Total		**20,000**		

The £5m remaining at the end of 2020/21 was repaid on 04 May 2021.

Borrowing in Advance of Need

2.6.4 The Council has not borrowed in advance of its needs.

2.7 Investment Outturn

Investment Policy

2.7.1 The Council's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy which for 2020/21 was approved by Council on 26 February 2020. This policy sets out the approach for choosing investment 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.).

2.7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources

2.7.3 The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2020 (£'000)	31 March 2021 (£'000)
Balances General Fund	15,110	17,263
Balances HRA	21,796	21,370
Earmarked Reserves	79,360	113,513
Provisions	28,367	25,428
Usable Capital Receipts	0	0
Total (rounded)	**144,633**	**175,422**

Investments at 31 March 2021

2.7.4 The Council managed all of its investments in house with the institutions listed in the Council's approved lending list. At the end of the financial year the Council had £83.540m of investments as follows:

Institution	Type	Amount £'000	Term (days)	Rate %	Start date	End date
CCLA Property	Property	15,000		4.44%		
Total Property		**15,000**				
Wokingham Borough Council	Fixed	5,000	31	0.08%	29-Mar-21	29-Apr-21
Blackpool Council	Fixed	3,000	94	0.07%	19-Mar-21	21-Jun-21
Goldman Sachs	Fixed	5,000	181	0.11%	26-Jan-21	26-Jul-21
Aberdeen City Council	Fixed	5,000	181	0.06%	05-Feb-21	05-Aug-21
Warrington Borough Council	Fixed	5,000	161	0.06%	25-Feb-21	05-Aug-21
Blaenau Gwent County Council	Fixed	5,000	182	0.08%	22-Feb-21	23-Aug-21
Canterbury City Council	Fixed	5,000	185	0.17%	05-Mar-21	06-Sep-21
Total Fixed Deposits		**33,000**				
Santander	Notice	2,500	35	0.30%	03-Jun-20	
Bank of Scotland	Notice	5,000	95	0.05%	22-Dec-20	
Santander	Notice	2,500	180	0.58%	02-Nov-20	30-Apr-21
Santander	Notice	5,000	180	0.58%	30-Nov-20	28-May-21
Total Notice Accounts		**15,000**				
Invesco MMF	MMF	2,000		0.01%	01-Mar-21	01-Apr-21
Federated MMF	MMF	8,540	1	0.01%	31-Mar-21	01-Apr-21
Aberdeen MMF	MMF	10,000	1	0.01%	31-Mar-21	01-Apr-21
Total Money Market Funds		**20,540**				
Total Investments		**83,540**				

* Money Market Funds (MMF)

2.7.5 The Council's investment strategy was to maintain sufficient cash reserves to give it necessary liquidity, whilst trying to attain a benchmark average rate of return of London Interbank Bid Rate (LIBID) on the relevant time deposit multiplied by 5%, whilst ensuring funds were invested in institutions which were the most secure. The table below shows the returns by the relevant time period.

	LIBID + 5%	Actual Return %
7 Day	(0.074%)	0.131%
1 Month	(0.055%)	0.270%
3 Month	0.016%	0.467%
6 Month	0.077%	0.633%
Average		0.375%

2.7.6 The Council's overall average performance on its cash investments exceeded its LIBID benchmark in all periods.

2.7.7 The investments held with the Churches, Charities and Local Authorities (CCLA) property fund generated £0.622m of income with an average return in year of 4.44%. Furthermore, the Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during 2020/21.

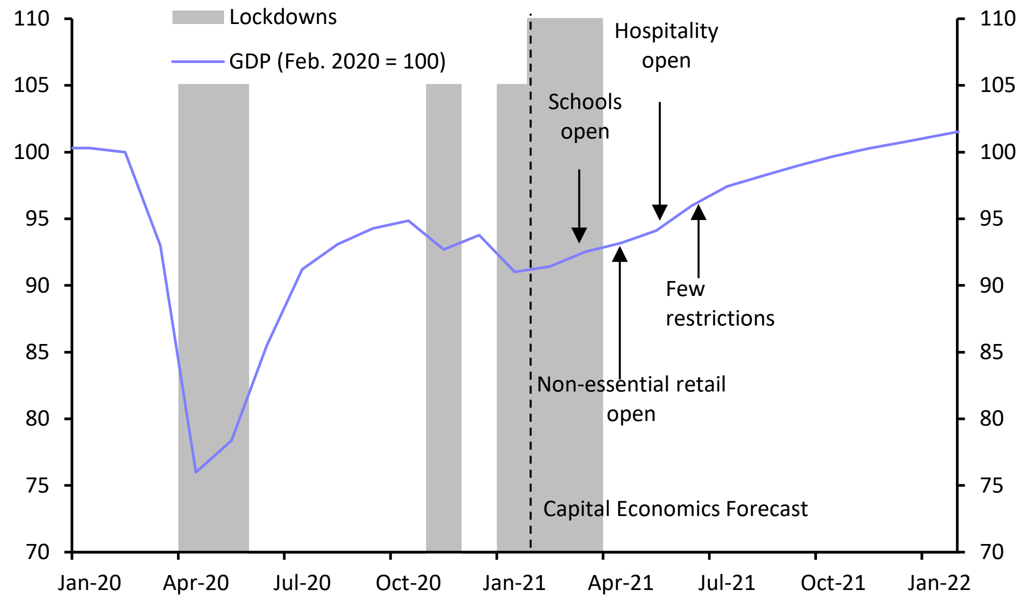
2.8 The Economy and Interest Rates

UK – Coronavirus

2.8.1 The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown beginning in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one.

2.8.2 The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy.

2.8.3 In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022 as illustrated in the table below.



2.8.4 Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

2.8.5 The Monetary Policy Committee cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing (QE) (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC then increased QE by £100bn in June and by £150bn in November to a total of £895bn.

2.8.6 While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

2.8.7 Average inflation targeting was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and ***achieving the 2% target sustainably***". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate.

2.8.8 This sets a high bar for raising Bank Rate and no increase is expected until March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

Government support.

2.8.9 The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit increasing in 2020/21 and 2021/22 so that the Debt to Gross Domestic Product (GDP) ratio reaches around 100%.

2.8.10 The Budget on 3 March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the Government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%.

2.8.11 An area of concern, though, is that the Government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

Brexit

2.8.12 The final agreement on 24 December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis.

2.8.13 There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

USA

2.8.14 The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate, although power is more limited in the latter. This enabled the Democrats to pass a $1.9trn (8.8% of GDP) stimulus package in March on top of the $900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also planning to pass a $2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

2.8.15 After Chair Jerome Powell spoke on the US Federal Reserve (**Fed) adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed a new inflation target - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan.

2.8.16 It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting.

2.8.17 There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow, as indeed the Bank of England has done so already. The Fed expects strong economic growth during 2021 to have only a transitory impact on inflation, which explains why the majority of Fed officials project US interest rates to remain near-zero through to the end of 2023.

2.8.18 The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping treasury yields at historically low levels.

2.8.19 However, financial markets in 2021 have been concerned that the sheer amount of fiscal stimulus, on top of highly accommodative monetary policy, could be over-kill leading to a rapid elimination of spare capacity in the economy and generating higher inflation much quicker than the Fed expects.

2.8.20 They have also been concerned as to how and when the Fed will eventually wind down its programme of monthly QE purchases of treasuries. These concerns have pushed treasury yields sharply up in the US in 2021 and is likely to have also exerted some upward pressure on gilt yields in the UK.

<u>Eurozone (EZ)</u>

2.8.21 Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021. Many countries experienced a sharp rise in cases which threatened to overwhelm hospitals in some major countries; this led to renewed severe restrictions or lockdowns during March.

2.8.22 This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

2.8.23 Inflation was well under 2% during 2020/21. The ECB did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations - the Pandemic Emergency Purchase Programme (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, unlikely to be a euro crisis while the European Central Bank (ECB) is able to maintain this level of support.

China

2.8.24 After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

Japan

2.8.25 Three rounds of Government fiscal support in 2020 together with Japan’s relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.

World Growth

2.8.26 World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Deglobalisation

2.8.27 Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation.

2.8.28 However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of Government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China and is likely to mean that the China / EU investment deal then being negotiated, will not proceed.

2.8.29 After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates.

Central banks’ monetary policy.

2.8.30 During the pandemic, the Governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total Government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth.

2.8.31 This provides Governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed onhitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of Government debt more quickly.

3 **Options/Alternatives**

3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management the Council has no option other than to consider and approve the contents of the report. Therefore, no options/alternatives have been presented.

4 **Preferred Option**

4.1 The preferred option is that the contents of the report are approved.

5 **Consultation**

5.1 There has been consultation with Link Asset Services, Treasury Management Advisors.

5.2 The presentation of the Treasury Management Review 2020/21 to the Audit Committee for detailed scrutiny on 29 June 2021 was in compliance with the requirements of the CIPFA Codes of Practice. The report was then presented to Cabinet for approval on 23 August 2021. Cabinet was content to commend the report to Council for its approval.

5.3 Approval by Council will complete the compliance with the CIPFA Codes of Practice for 2020/21.

6 **Financial Implications**

6.1 All included in the report.

7 **Legal Services Comments**

7.1 None

8 **Cooperative Agenda**

8.1 The treasury management strategy embraces the Council's cooperative agenda. The Council will develop its investment framework to ensure it complements the cooperative ethos of the Council.

9 **Human Resources Comments**

9.1 None

10 **Risk Assessments**

10.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in Internal Audit reports and in the External Auditors' reports presented to the Audit Committee.

11 **IT Implications**

11.1 None

12 **Property Implications**

12.1 None

13 **Procurement Implications**

13.1 None

14 **Environmental and Health & Safety Implications**

14.1 None

15 **Equality, community cohesion and crime implications**

15.1 None

16 **Equality Impact Assessment Completed**

16.1 No

17 **Key Decision**

17.1 Yes

18 **Key Decision Reference**

18.1 FLC-11-21

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are provided in Appendices 1 and 2
Officer Name:	Lee Walsh
Contact No:	0161 770 6608

20 **Appendices**

Appendix 1 Prudential and Treasury Management Indicators
Appendix 2 Graphs

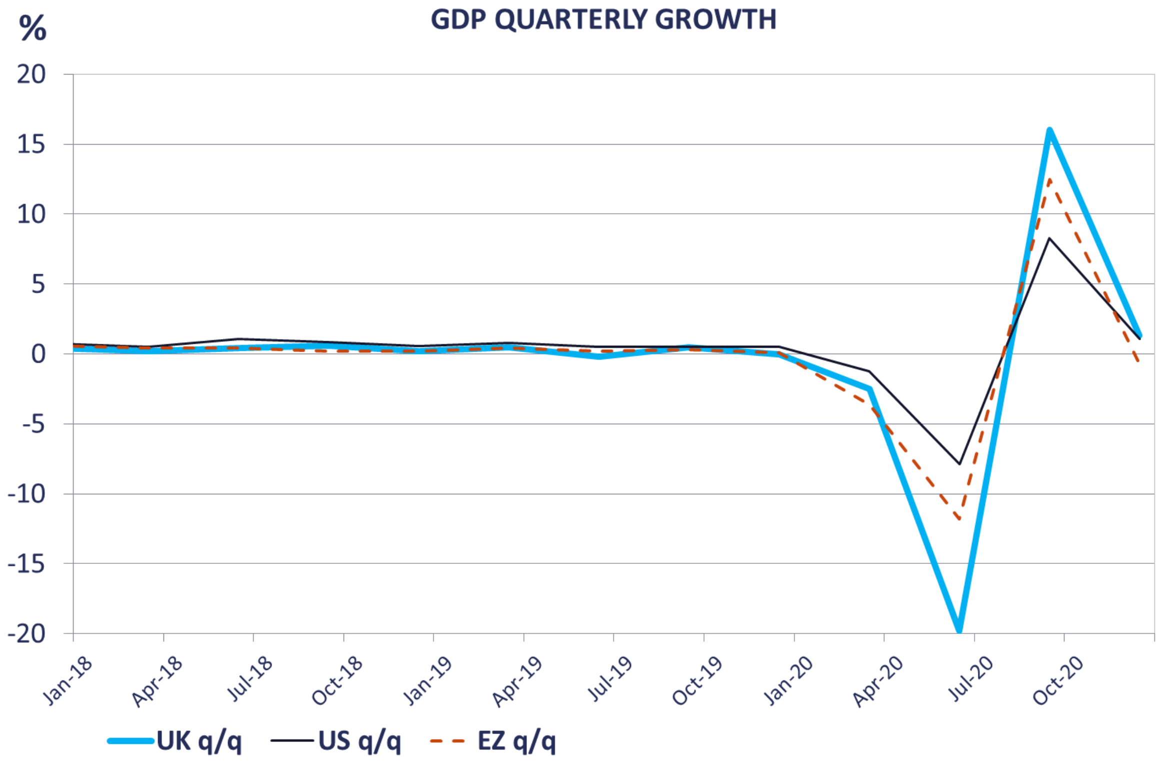
Appendix 1: Prudential and Treasury Indicators

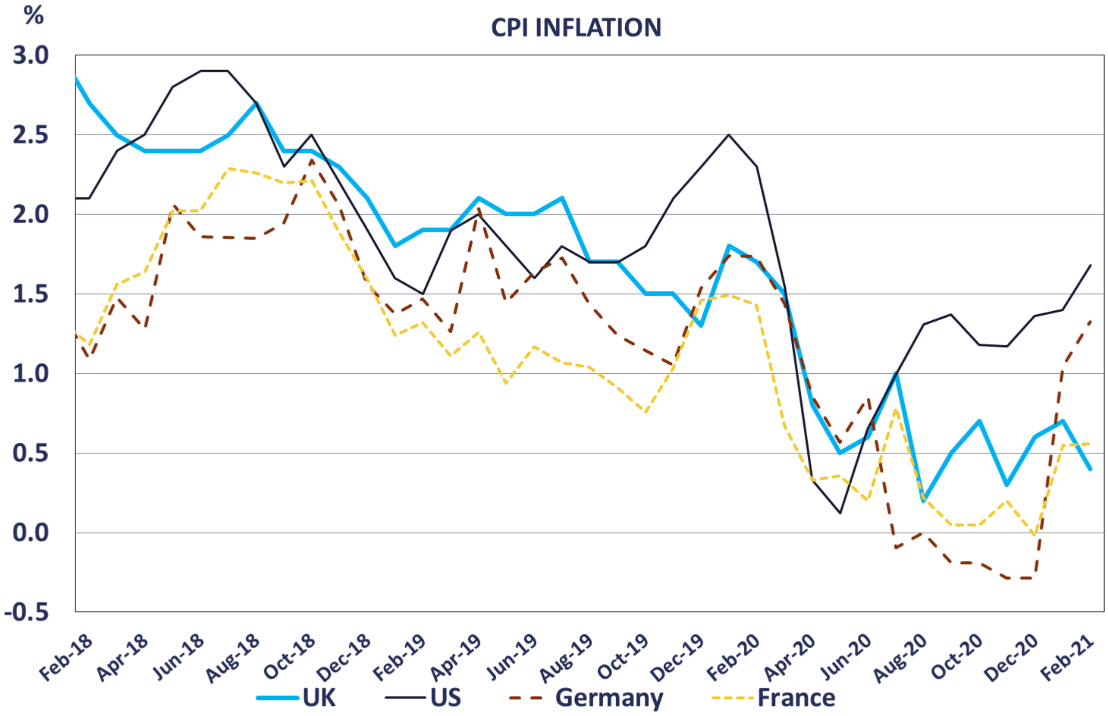
TABLE 1: Prudential indicators	2019/20	2020/21	2020/21	2020/21
	Outturn	Original	Revised	Outturn
Capital Expenditure				
Non – HRA	52,249	142,094	76,061	68,830
HRA	2,134	5,538	4,952	4,397
TOTAL	54,383	147,632	81,013	73,227
Ratio of financing costs to net revenue stream				
Non – HRA	13.41%	14.02%	14.02%	12.39%
In year Capital Financing Requirement				
Non – HRA	(21,503)	94,865	32,558	19,336
TOTAL	(21,503)	94,865	32,558	19,336
Capital Financing Requirement as at 31 March	472,377	567,242	504,935	491,713

TABLE 2: Treasury management indicators	2019/20	2020/21	2020/21	2020/21
	Outturn	Original Budget	Revised	Outturn
Authorised Limit for external debt				
Borrowing	272,000	372,000	308,000	308,000
Other long term liabilities	240,000	229,500	229,500	229,500
TOTAL	**512,000**	**601,500**	**537,500**	**537,500**
Operational Boundary for external debt -				
Borrowing	260,000	350,000	288,000	288,000
Other long term liabilities	235,000	224,500	224,500	224,500
TOTAL	**495,000**	**574,500**	**512,500**	**512,500**
Actual external debt	403,710			397,248
Upper limit for total principal sums invested for over 364 days	50,000	50,000	50,000	50,000

Maturity structure of fixed rate borrowing during 2020/21	Upper Limit	Lower Limit	Actual
Under 12 months	40%	0%	32%
12 months and within 24 months	40%	0%	10%
24 months and within 5 years	40%	0%	13%
5 years and within 10 years	40%	0%	4%
10 years and above	50%	0%	40%

Appendix 2 Graphs





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CPI INFLATION
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