

# Report to Audit Committee

Agenda  
Item:

**A4**

Meeting Date: 8 July 2021  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref: KD.09/21  
Within Policy and Budget Framework YES  
Public / Private Public

Title: TREASURY MANAGEMENT OUTTURN 2020/21  
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES  
Report Number: RD 07/21

## Purpose / Summary:

This report provides the annual report on Treasury Management (Appendix A), as required under both the Financial Procedure rules and the CIPFA Code of Practice on Treasury Management. Also included is the regular report on Treasury Transactions (Appendix B).

The Audit Committee is invited to make any observations on treasury matters which took place during 2020/21. The Committee is asked to note the report.

## Recommendations:

That the report be noted and received.

## Tracking

Executive:	<b>2 June 2021</b>
Overview and Scrutiny:	<b>BTSP 3 June 2021</b>
Audit Committee:	<b>8 July 2021 (for information only)</b>
Council:	<b>20 July 2021</b>

# Report to Executive

Agenda  
Item:

Meeting Date: 02 June 2021  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref: KD.09/21  
Within Policy and Budget Framework YES  
Public / Private Public

Title: TREASURY MANAGEMENT OUTTURN 2020/21  
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES  
Report Number: RD 07/21

## Purpose / Summary:

This report provides the annual report on Treasury Management (Appendix A), as required under both the Financial Procedure rules and the CIPFA Code of Practice on Treasury Management. Also included is the regular report on Treasury Transactions (Appendix B).

## Recommendations:

That this report be received and recommended to Council for approval.

## Tracking

Executive:	<b>02 June 2021</b>
Scrutiny:	<b>BTSP 03 June 2021</b>
Audit Committee:	<b>08 July 2021 (for information only)</b>
Council:	<b>20 July 2021</b>

## **1. BACKGROUND**

- 1.1 The purpose of this report is to inform Members on various Treasury Management issues.
- 1.2 **Appendix A1** to this report sets out a final report on Treasury Management in 2020/21 as required by the CIPFA Code of Practice on Treasury Management. **Appendix A2** highlights some performance measures and **Appendix A3** shows the final prudential indicators for 2020/21.
- 1.3 **Appendices B1-B3** details the schedule of Treasury Transactions for the period 1 January 2021 – 31 March 2021.

## **2. RISKS**

- 2.1 The Council's Treasury Management function is responsible for investing the Council's surplus cash balances and managing cash flows appropriately. The Treasury Management Strategy Statement and the Treasury Management Practices are completed and approved in line with the CIPFA Code and include appropriate mechanisms for dealing with the Council's investments and borrowing needs.

## **3. CONSULTATION**

- 3.1 Business and Transformation Scrutiny Panel will consider the report on 03 June 2021 and the Audit Committee will do so on 08 July 2021.

## **4. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

- 4.1 That this report be received and recommended to Council for approval.

## **5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

- 5.1 To ensure that the Council's investments are in line with appropriate policies including the Treasury Management Strategy Statement.

**Contact Officer:** Emma Gillespie **Ext:** 7289

**Appendices attached to report:**

- Appendix A1 – Treasury Management 2020/2021**
- Appendix A2 – Performance Statistics**
- Appendix A3 – Prudential Code and Prudential Borrowing**
- Appendix B1 – Treasury Transactions**
- Appendix B2 – Investment Transactions**
- Appendix B3 – Outstanding Investments**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- None

## **CORPORATE IMPLICATIONS:**

**Legal** – Treasury Management activities are delegated to the Corporate Director of Finance and Resources and Financial Procedure Rule 3.19 requires that she prepare an annual report on the topic. This Report fulfils that obligation.

**Property Services** – Not applicable

**Finance** – Included in the report

**Equality** - This report raises no explicit issues relating to the public sector Equality Duty

**Information Governance** – No implications

## TREASURY MANAGEMENT 2020/21

### 1. INTRODUCTION

- 1.1 The CIPFA Code of Practice on Treasury Management (2020) requires that full Council should receive both a mid-term and an annual report on treasury management activities during the year. This report on the treasury function during 2020/21, while being first presented to the Executive, is therefore required to have the approval of full Council in order to comply with the CIPFA Code.
- 1.2 Regular reports on treasury transactions are presented to the Executive while an interim report on treasury management in 2020/21 was presented in November 2020 (RD34/20). The purpose of this report is to complete the process of accounting for the treasury function in the last financial year in compliance with the Code. Any funding and other financing transactions are detailed and placed in the context of money market conditions in 2020/21 while the City Council's investment activities are also discussed.

Separate papers (**A2** and **A3**) provide information on performance in 2020/21 and on the Prudential Code on local authority borrowing.

### 2. MONEY MARKET CONDITIONS

- 2.1 The following table sets out the levels of bank base rate in 2020/21.

	%	
1 April 2020 – 31 March 2021	0.10	Average = 0.10%

- 2.2 Base rate has remained constant at 0.10% throughout the 2020/21 financial year.
- 2.3 The pattern of long-term borrowing rates in 2020/21 can be gauged by the following table of Public Works Loans Board (PWLB) fixed rate maturity loans during the year. These are the rates cited in the regular Treasury Transactions reports and relate to the type of loan that historically has most usually been taken up by the City Council.

	1 Yr %	10 Yr %	25 Yr %
1 April 2020	2.09	2.30	2.78
31 March 2021	0.99	1.91	2.39
Highest Rate in 2020/21	2.14	2.48	3.06
Lowest Rate in 2020/21	0.85	1.20	1.73
Span of Rates	1.29	1.28	1.33

### 3. LONG TERM FUNDING

3.1 The Prudential Code on local authority borrowing came into operation on 1 April 2004. The principal effect of the Code was to abolish most central government control of local authority borrowing, a principle that has been a cornerstone of local government finance for over a century. Instead, authorities must follow the guidance laid down in the Code and they will be expected to comply with its requirements. These cover not just borrowing but any decision that determines whether the capital investment plans of an authority are affordable, prudent and sustainable. The Code is discussed in more detail in **Appendix A3**.

3.2 The City Council did not draw down any external long-term loans in 2020/21. The capital programme was funded internally from borrowing undertaken in 2019/20, by drawing from the authority's own resources, and from external grants and contributions.

### 4. DEBT RESCHEDULING

4.1 The City Council's long-term loans portfolio at the end of March 2021 consisted of two PWLB loans taken out at £9m and £5m (both taken out in 2019/20). Principal on both loans will be repaid each year with final repayments due in 2059 & 2039 respectively.

### 5. LOANS OUTSTANDING

5.1 Set out below is a schedule of outstanding external loans as at 31 March 2021.

	£
Public Works Loans Board (PWLB)	13,287,500
Short Term Loans	<u>12,800</u>
Total Loans Outstanding	<u>£13,300,300</u>

## 6. INVESTMENT TRANSACTIONS

- 6.1 As is apparent from the regular 'Treasury Transactions' reports, the City Council continues to be a frequent investor in the short-term money market and the interest earned from these transactions makes a valuable contribution to the overall level of the Council's revenue budget. Investments are placed only with the institutions that fall within the guidelines of the Council's approved Investment Strategy and a full schedule of investments at 31 March 2021 is set out in **Appendix B3**.
- 6.2 The total at that date (£14.289m) can be compared with an average figure in 2020/21 of over £23.884m and a peak amount of over £34.403m. The closing balance in 2019/20 was £30.403m (due to receipt of COVID related grants).
- 6.3 The Investment Strategy for 2020/21 embraced a mixture of longer-term investments and monies lent out for shorter periods to meet anticipated cash flow needs e.g. grant and precept payment dates. There were no changes made to counter party limits in 2020/21.
- 6.4 Investment income in 2020/21 at £236,918 was below the original estimate of £265,200. Actual investment rates obtained from banks and building society investments in 2020/21 were generally below expectations when the budget was set. The average yield on the Council's investments held including the property fund in 2020/21 was 1.15%. This is still a favourable return considering the position of bank base rates and compares well against other local authorities. This performance was assisted by a significant proportion of investments being placed for longer terms of up to a year and the use of deposit accounts for shorter dated cash requirements.
- 6.5 At 31 March the investment in the CCLA Property Fund was yielding a return of 4.30%. Dividends received in 2020/21 totalled £144,536.59. The investment has also grown in capital value since the investment was placed in July 2014 from £2,836,893 (after entry costs of £163,107) to £3,289,358 (an increase of £476,465). The capital value for 2020/21 decreased by £23,637. The overall increase in value offsets the initial entry costs but is still subject to fluctuations in the overall performance of the fund. However, the fund is continuing to grow with more local authorities taking the decision to invest.

## 7. INVESTMENT STRATEGY 2021/22

- 7.1 The Investment Strategy must be agreed before the start of each financial year and the 2021/22 Strategy was approved by Council on 2 February 2021. While the principles of the Strategy remain fundamentally sound, any amendments to the current schedule of investments, if agreed by the Executive, must be approved by Council.

## 8. PERFORMANCE MANAGEMENT

8.1 The CIPFA Code places an increased emphasis on performance monitoring in an attempt to measure the efficiency of the treasury function. With treasury management, the difficulty in assessing performance arises from the very different circumstances of each authority and the fact that, for example, a long-term borrowing decision can affect an authority's measured performance for many years to come. Borrowing decisions invariably impact on investment decisions since, in cash flow terms, one can be the mirror image of the other.

8.2 **Appendix A2** sets out some performance indicators in respect of both loans and investments outturn for 2020/21 and 2019/20.

## 9. TREASURY CONSULTANCY SERVICE (TCS)

9.1 The City Council continues to employ Link Asset Services as its treasury management consultants. Link provide daily bulletins on both borrowing and investment issues and this helps advise both the investment and funding decisions that are taken by the Council.

## 10 CONCLUSIONS

10.1 At the end of March 2021, the City Council has substantial long-term PWLB borrowing of £13.287m. The loans will be paid back in equal instalments of principal over the lifetime of the loan. The Medium-Term Financial Plan anticipates external borrowing to support the Council's capital programme in 2021/22 and this will be further assessed during future planning of the MTFP during the course of this year. The focus of the authority's treasury management activities also remains very much on the investment aspect of the function.

10.2 Investment conditions were very similar to as they were in 2019/20. The City Council's investment interest was significantly lower than the previous year, however the performance achieved was slightly better than bank base rate levels. For this authority, as indeed for most others, reduction in investment income poses a very significant financial challenge. This has been alleviated somewhat by the decision to invest in the CCLA property fund which has performed well since initial investment.

10.3 The outlook for interest rates in the UK remains uncertain but there is a general expectation that bank base rates will not start to rise again until 2022.



CITY OF CARLISLEPERFORMANCE MEASUREMENT STATISTICS1. LOANS MANAGEMENT

	2020/21 %	2019/20 %
Average External Debt Rate - Carlisle	2.64	6.17

Comment

Average loan debt statistics tend to reflect borrowing decisions taken over a period of many years.

2. INVESTMENT MANAGEMENT (Inc. Property Fund)

	2020/21 %	2019/20 %
Average Return in Year - Carlisle	1.15	1.31
Average Bank Base Rate in Year	0.10	0.72

Comment

The City Council's rate of return in 2020/21 on its investments was below that obtained in 2019/20; this was in line with expectations when the budget was originally set.

## THE PRUDENTIAL CODE AND PRUDENTIAL BORROWING

### 1. Introduction

- 1.1 The Local Government Act 2003 brought about a new borrowing system for local authorities known as the Prudential Code (the Code). This gives to Councils much greater freedom and flexibility to borrow without government consent so long as they can afford to repay the amount borrowed.
- 1.2 The aim of the Code is to support local authorities when making capital investment decisions. These decisions should also be in line with the objectives and priorities as set out in the Council's Corporate Plan.
- 1.3 The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable, or if appropriate to demonstrate that they may not be. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. These objectives are consistent with and support local strategic planning, local asset management planning and proper option appraisal. They also encourage sound treasury management decisions.

### 2. Prudential Indicators

- 2.1 To demonstrate that the Council has fulfilled these objectives, the Code sets out indicators that must be used. It is for the Council itself to set any indicative limits or ratios. It is also important to note that these indicators are not designed to be comparative performance figures indicators but to support and record the Council's decision-making process.
- 2.2 The final performance indicators for the current year, as compared to those reported in during the budget cycle are set out below. The compilation and monitoring of these indicators is central to the operation of the Code.

### 3 Supported and Unsupported (or Prudential) Borrowing

- 3.1 Local authorities have always funded a substantial element of their capital programme via borrowing. This continues to be the case but until the introduction of the Prudential Code any local authority borrowing was essentially based upon a government 'permission to borrow'. This was deemed to be supported borrowing as credit limits were supported through funding from Revenue Support Grant. Following the introduction of the Prudential Code in 2003, the permission to borrow was essentially withdrawn and Councils were given greater freedom to borrow so long as they can demonstrate that the revenue

consequences of such borrowing (i.e. the cost of the debt) are sustainable, affordable and prudent in the medium to long term.

	2020/21 Provisional Outturn £	2020/21 Revised Estimate £
<b>(i) Capital Expenditure</b>	14,172,212	18,651,300
<b>(ii) Financing Costs</b>		
Interest Payable - Re Borrowing	410,476	1,036,100
Investment Income	(236,917)	(265,200)
<b>Total Financing Costs</b>	<b>173,559</b>	<b>770,900</b>
<b>(iii) Net Revenue Stream</b>		
Funding from Govt Grants/Local Taxpayers*	14,074,100	14,074,100
<b>(iv) Ratio of Financing Costs to Net Revenue Stream</b>	1.23%	5.48%
The figures monitor financing costs as a proportion of the total revenue stream from government grants and local taxpayers. The increase in the ratio of financing costs is mainly attributable to the forecast reduction in investment income.		
<b>(v) Incremental Impact on Council Tax</b>	0.00	0.00
This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.		
<b>(vi) Authorised Borrowing Limit</b>	44,100,000	44,100,000
Maximum Level of Borrowing and Other Long term Liabilities	13,300,300	13,300,300
The authorised borrowing limit is determined by Council prior to the start of the financial year. The limit must not be altered without agreement by Council and should not be exceeded under any foreseeable circumstances.		

\* Business Rates Outturn still to be confirmed

	2020/21 Provisional Outturn £	2020/21 Revised Estimate £
<b>(vii) Operational Borrowing Limit</b> Maximum Level of Borrowing and Other Long term Liabilities The operational borrowing limit is also determined by Council prior to the start of the financial year. Unlike the authorised limit, it may be breached temporarily due to cashflow variations but it should not be exceeded on a regular basis.	39,100,000 13,300,300	39,100,000 13,300,300
<b>(viii) Capital Financing Requirement (CFR)</b> As at 31 March The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.	21,151,091	24,676,000

**(a) Prudence and Sustainability**

	2020/21 £
<b>(i) Target New Borrowing to Date</b> Long Term Borrowing taken in 2020/21	7,000,000 0
<b>(ii) Target Percentage of Fixed Rate Long Term Borrowing</b> Actual as at 31 March 2021	100% 100%
<b>(iii) Target Percentage of Variable Rate Long Term Borrowing</b> Actual as at 31 March 2021 Prudent limits for both fixed and variable rate exposure have been set at 100%. This is due to the limited flexibility available to the authority in the context of its overall outstanding borrowing requirement.	100% 0%
<b>(iv) Target Minimum Level of Investments Classified as Specified</b> Actual Level of Specified Investments as at 31 March 2021  As part of the Investment Strategy for 2020/21, the Council set a minimum level of 50% for its specified as opposed to non specified investments. The two categories of investment were defined as part of the Strategy but for the City Council non specified investments will presently refer mainly to either investments of over one year in duration or investments placed with building societies that do not possess an appropriate credit rating. These tend to be the smaller building societies.	50.00% 100.00%

TREASURY TRANSACTIONS  
1 JANUARY 2021 TO 31 MARCH 2021

1. LOANS (DEBT)

1.1 Transactions 1 January 2021 to 31 March 2021

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0	0	112,500	1.80
P.W.L.B	0	0	125,000	1.33
Short Term Loans	0	0	0	0
Overnight Borrowing	0	0	0	0
	<b>0</b>		<b>237,500</b>	

This provides a summary of loans that have been raised or repaid, analysed by type, since the previous report.

1.2 Loans (Debt) Outstanding at 31 March 2021

	£
P.W.L.B	13,287,500
Short Term Loans	12,800
	<b>13,300,300</b>

1.3 Loans Due for Repayment

	PWLB £	Total £
Short Term Debt at 31 March 2021	475,000	475,000
		<b>475,000</b>

1.4 Interest Rates

Both Link Group and Capital Economics have made no change to their interest rate forecasts. Bank Rate is forecast to remain unchanged at 0.10% throughout 2021.

## 2. INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	5,000,000	0.01-0.01	13,000,000	0.01-0.1
	<b>5,000,000</b>		<b>13,000,000</b>	

A full schedule of investment transactions is set out in **Appendix B2**. **Appendix B3** shows outstanding investments at 31 March 2021.

## 3. REVENUES COLLECTED

	Collected £	% of Amount Collectable %
Council Tax	63,686,663	95.67
NNDR	20,375,547	94.34
<b>2020/21</b>	<b>84,062,210</b>	<b>95.34</b>
Council Tax	62,143,990	97.12
NNDR	43,138,152	97.38
<b>2019/20</b>	<b>105,282,142</b>	<b>97.22</b>
Council Tax	58,790,993	97.36
NNDR	43,904,416	98.42
<b>2018/19</b>	<b>102,695,410</b>	<b>97.80</b>

Final collection levels were very similar to those of the previous two years.

## 4. BANK BALANCE

At 31 March 2021 the bank balance was £441,907 in credit.

This simply records the Council's bank balance at the end of the last day covered by the report.

5. OUTTURN ON TREASURY MANAGEMENT IN 2020/21

	Revised Estimate £000	Actual £000	Variance £000
Interest Receivable	(265)	(237)	28
Interest Payable	1,036	410	(626)
Less Rechargeable	(18)	(3)	15
	<b>1,018</b>	<b>407</b>	<b>(611)</b>
Debt Management	12	23	11
<b>NET BALANCE</b>	<b>765</b>	<b>193</b>	<b>(572)</b>

# APPENDIX B2

## INVESTMENT TRANSACTIONS 1 JANUARY 2021 TO 31 MARCH 2021

INVESTMENTS MADE			INVESTMENTS REPAYED	
	£			£
HSBC	3,000,000.00		HSBC	9,000,000.00
HSBC	2,000,000.00		Federated	4,000,000.00
<b>TOTAL</b>	<b>5,000,000</b>			<b>13,000,000</b>
			Bfwd	22,221,135
			Paid	5,000,000
			Repaid	13,000,000
			CCLAdedcrease	68,223
				.
			<b>Total</b>	<b>14,289,358</b>



## Outstanding Investments as at 31 March 2021

Appendix B3

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
	HSBC	6,000,000	0.01%		Call1			0
	Bank of Scotland PLC	5,000,000	0.58%		Call180			0
	<b>Total Investments</b>	<b>£11,000,000</b>	<b>0.27%</b>					<b>£0</b>
	CCLA Property Fund	3,289,358	4.30%	31/07/2014	3,000,000	(163,107)	2,836,893	289,358

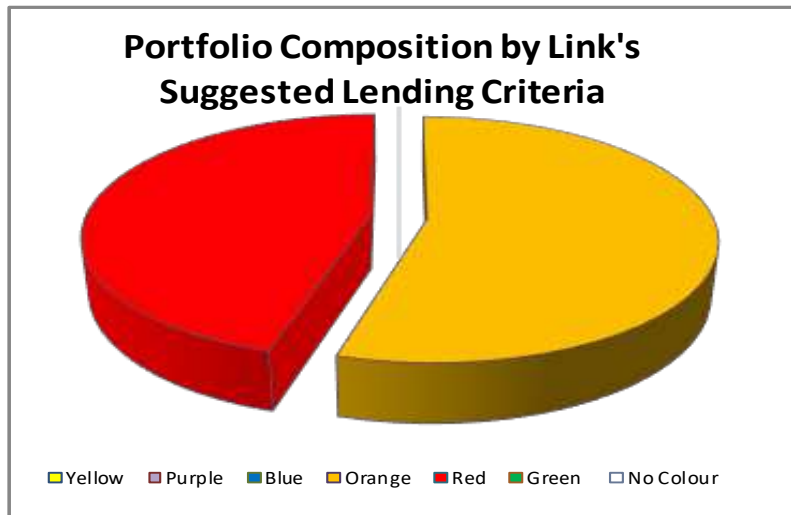
1. Entry Costs were charged against Treasury Management Budget in 2014/15

N.B Interest is recognised in the appropriate financial year in which it is due. The category colour represents the duration of investment recommended by Link Asset Services, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

## Investments Summary Sheet

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	Weighted Average Rate of Return WARoR	Weighted Average Days to Maturity WAM	Weighted Average Days to Maturity from Execution WAM at Execution
Yellow	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Blue	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Orange	54.55%	6,000,000	100.00%	6,000,000	54.55%	0.01%	0	0
Red	45.45%	5,000,000	100.00%	5,000,000	45.45%	0.58%	180	180
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0
	<b>100.00%</b>	<b>11,000,000</b>	<b>100.00%</b>	<b>11,000,000</b>	<b>100.00%</b>	<b>0.27%</b>	<b>82</b>	<b>82</b>

Weighted Average Risk				
Risk Score for Colour (1 = Low, 7 = High)	Mar 2021	Dec 2020	Sep 2020	Jun 2020
1	0.0	0.2	0.2	0.04
2	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0
4	2.2	2.1	1.9	2.7
5	2.3	1.3	1.5	1.4
6	0.0	0.0	0.0	0.0
7	0.0	0.0	0.0	0.0
	<b>4.5</b>	<b>3.6</b>	<b>3.6</b>	<b>4.1</b>



	Link's Suggested Criteria
Y	Up to 5 Years
P	Up to 2 Years
B	Up to 1 Year
O	Up to 1 Year
R	Up to 6 months
G	Up to 3 months
N/C	No Colour

Normal' Risk Score	3.5	3.5	3.5	3.5
--------------------	-----	-----	-----	-----

---

## EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 2 JUNE 2021

---

### **EX.48/21 TREASURY MANAGEMENT OUTTURN 2020/21** (Key Decision – KD.09/21)

**Portfolio** Finance, Governance and Resources

**Relevant Scrutiny Panel** Business and Transformation  
**Subject Matter**

The Deputy Leader submitted report RD.07/21 providing the annual report on Treasury Management, as required under both the Financial Procedure Rules and the CIPFA Code of Practice on Treasury Management. Also included was the regular report on Treasury Transactions for the period 1 January 2021 to 31 March 2021.

The Deputy Leader moved the recommendation set out.

The Leader duly seconded the recommendation.

**Summary of options rejected** that the report should not be recommended to Council for approval

### **DECISION**

That Report RD.07/21 be received and recommended to the City Council for approval on 20 July 2021.

### **Reasons for Decision**

To receive the annual report on Treasury Management