

## TRAFFORD COUNCIL

**Report to:** Accounts & Audit Committee 22<sup>nd</sup> July 2021  
Executive 26th July 2021  
Council Meeting 28th July 2021

**Report for:** Information

**Report of:** The Executive Member for Finance and Governance  
and the Director of Finance and Systems

### Treasury Management Annual Performance 2020/21 Report

#### Summary

This report outlines the key treasury management activities undertaken during 2020/21 as follows:

- All legislative and regulatory requirements, including all treasury management prudential indicators have been complied with;
- The average level of external debt and interest rate payable for 2020/21 was £385.5m and 2.57% and this compares to £296.2m & 2.90% in 2019/20;
- The average level of treasury investments for 2020/21 was £76.9m with a rate of return of 0.76% compared with 2019/20 when the equivalent figures was £98.2m and 1.12% respectively;
- A £5.142m adverse variance on the Treasury Management budget was incurred. This was due to the impact of COVID-19 had on the economy resulting in the MAG Dividend of £5.597m not being received. In addition lower interest rates reduced investment income by £169k however additional income from strategic investments of £624k helped to reduce the impact.

#### Recommendations

That the Accounts & Audit Committee note the treasury management activities undertaken in 2020/21 and recommend that both Executive and Council also note the report.

Contact person for background papers:  
Graham Perkins – Senior Accountant - Extension: 4017

Background papers: None

Relationship Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	The net outturn for treasury management was an adverse movement of £5.1m and details of this are provided at paragraph 10.1.
Legal Implications:	Treasury Management activities are subject to requirements detailed in legislation, MHCLG guidance, CIPFA Prudential Code and Treasury Management Code of Practice. The report sets out details of compliance in respect of these requirements.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour.
Sustainability Implications	The Council, when undertaking any treasury management investment fully supports the ethos of socially responsible investments and will avoid direct investment in institutions with material links to environmentally harmful activities. Opportunities to invest monies in products which both supports sustainable assets and complies with the Council's investment strategy will continue to be explored as and when they become available.
Carbon Reduction	Not directly applicable – See above
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. No Treasury Management activity is without risk and the Council's in-house team continually monitor risks to ensure that security of capital sums is maintained at all times and adverse fluctuations in interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

## **Executive Summary**

During 2020/21, the Council achieved compliance of its legislative and regulatory requirements via the following activities:

### **Economic position (Section 2)**

- Worldwide economic growth shrank and all governments debt increased substantially in order to keep their respective economies afloat in response to the COVID-19 pandemic.
- The MPC maintained Bank Rate at 0.10% and provided a further £450bn of QE taking this to £895bn since 2008.
- A Brexit trade deal was finally agreed in December 2020.
- Huge financial support to businesses was given by Government in the form of cheap loans, grants, rate reliefs and furlough payments.

### **Debt (Section 5)**

- Total loan debt rose from £377.3m as at 31.03.2020 to £380.1m by 31.03.2021 a minor increase of £2.8m comprising of:
  - New loans totalling £111.4m - £9.7m taken from the PWLB and £101.7m from Local Authorities – loans taken to fund the capital programme - details of these can be found at paragraph 5.13,
  - Repayment of loans totalling £108.6m.
  - Statutory borrowing limit (the authorised limit), was not breached.
- Loan interest totalling £9.9m was paid of which £4.6m was wholly funded from rental income received from the Council's regeneration programme.
- Average rate of interest payable was 2.57% in 2020/21 and compared to 2.90% in 2019/20 a fall of 0.33%.
- Level of under-borrowing was £43.4m at 31.03.2021 which represents an increase of £3.4m from the 31.03.20 closing position of £40.0m.

### **Investments (Section 6)**

- 2020/21 continued the challenging investment environment of previous years, namely low investment returns. The prospect of negative interest rates does appear to be fading.
- Total level of investments fell from £106.0m 31.03.2020 to £97.3m at 31.03.2021 a movement of £8.6m due to monies being used to fund spend.
- The Rate of Return for all investments in 2020/21 was 0.76% which is £0.1m below budget and 0.83% or £0.62m above the recognised performance indicator of 7-day LIBID which was -0.07%.
- Weighted average life of investments at 31.03.21 was 45 days or 1.25 months excluding all long term investments.
- All investments were repaid on time without issue and undertaken in accordance with the approved strategy.

### **Prudential Indicators and limits (Section 8 and Appendix E)**

- No breaches to any of these limits occurred.

## **1. BACKGROUND**

- 1.1 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).
- 1.2 For the financial year 2020/21, the Accounts & Audit Committee together with the Executive and Council received the following three reports:
  - annual treasury management strategy for the year ahead (issued February 2020);
  - mid-year update report (issued November / December 2020);
  - annual outturn report describing the activity undertaken (July 2021 this report).
- 1.3 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
- 1.4 It is confirmed that in accordance with the requirement of the Code, prior scrutiny of all the above treasury management reports has been undertaken by the Accounts & Audit Committee before they were reported to the Executive and Council.
- 1.5 Figures in this report are based on the actual amounts borrowed and invested and as such will differ from those stated in the final accounts which are shown in compliance with International Financial Reporting Standards.
- 1.6 For reference a list of abbreviations used within the report has been provided and can be found in Appendix F.
- 1.7 This report comprises of the following sections:
  - Major Economic Headlines (Section 2);
  - Interest Rates (Section 3);
  - Treasury Position (Section 4);
  - Borrowing Position (Section 5);
  - Investment Position (Section 6);
  - Related Treasury Issues (Section 7);
  - Prudential and Performance indicators (Section 8);
  - Outlook 2021/22(Section 9)
  - 2020/21 Summary Outturn position (Section 10)
  - Appendices including details of abbreviations used in the report.

## **2. MAJOR ECONOMIC HEADLINES**

- 2.1 A brief summary of the main events which occurred during 2020/21 are highlighted below for reference;

### **General**

- During 2020 and as a result of the COVID-19 pandemic world growth went into a sharp recession due to reduced demand for goods. Throughout the pandemic, big increases in most governments debt levels have been incurred as a result of massive fiscal support being provided to their respective economies. It remains therefore very important that bond yields (interest rates)

stay low while debt to GDP ratios slowly subside under the impact of economic growth thereby ensuring that debt servicing costs remain manageable.

## UK

- The first national lockdown in late March 2020 did huge damage to the economy, far worse than the financial crisis of 2008/09. Whilst a short second lockdown in November did relatively little damage, by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways so less damage to the economy was incurred.
- The arrival of vaccines in November 2020 and the way in which the UK has implemented a fast programme of vaccination promises a potential return to a new normal life during the second half of 2021.
- During the pandemic the Government undertook swift action to provide huge financial support to businesses by way of cheap loans and grants, rate relief for properties in the retail sector as well as paying for workers to be placed on furlough. This support however has resulted in the Government's budget deficit escalating with the Debt to GDP ratio reaching around 100%. The Budget on 3rd March 2021 implemented substantial corporation tax rises from 19% to 23% to take effect in 2023 for the following three years. As a result of this action the government's debt is now more sensitive to interest rate rises and there is more incentive for it to promote the Bank Rate staying low.
- The MPC maintained Bank Rate at 0.10%, the lowest level it has been recorded at since being introduced. Financial markets were concerned that the Bank Rate could go to a negative rate however this was firmly discounted at the MPC meeting in February 2021 as a result of commercial banks being unable to implement negative rates (mortgage and saving rates) for at least six months. As it is expected that the economy will be making a strong recovery by this time negative rates would no longer be needed. In addition to this, the Bank of England provided a £200bn programme of QE in March 2020 with further increases to this being provided in June of £100bn and £150bn during November taking the total of QE provided since 2008 to £895bn. It is currently forecasted that no movements in Bank Rate are expected to occur during the next couple of years.
- The UK economy saw its GDP fall by 9.9% or £216bn in 2020 however it is currently expected to reverse this loss and recover to its pre-pandemic level of economic activity during quarter 1 of 2022.
- Inflation has been well under 2% during 2020/21 and whilst it is expected to briefly peak at just over 2% towards the end of 2021 this is seen as a temporary short lived factor and so is not a concern to the MPC.
- A Brexit Trade deal was finally agreed on 24th December 2020 which eliminated a significant downside risk for the UK economy however in January there was much disruption to trade as form filling proved to be a formidable barrier to trade however this seems to have eased somewhat since then.
- Unemployment rate was estimated at 4.9% in March 2021, 0.9 percentage points higher than a year earlier but 0.1 percentage points lower than the previous quarter

## **USA**

- The US economy fell by 3.5% or \$500.6bn in 2020 as a result of the pandemic, the largest fall in 74 years.
- Democrats won the presidential election in November 2020 and now have control of both the Congress and Senate, although power is more limited in the latter. A stimulus package of \$1.9trn was passed in March 2021 on top of the previous \$900bn fiscal deal in late December. These financial rescue packages together with the vaccine rollout proceeding swiftly will promote a rapid easing of restrictions and strong economic recovery during 2021. In addition a further \$2trn fiscal stimulus package aimed at renewing infrastructure over the next decade is likely to be approved in 2021.

## **EU**

- Both the roll out and take up of the COVID-19 vaccines has been disappointingly slow at a time when many countries are experiencing a sharp rise in cases leading to severe restrictions or lockdowns being implemented during March 2021. As a consequence of this the economic recovery will now be pro-longed and a return to pre-pandemic levels is expected in the second half of 2022.
- GDP fell in 2020 by 7.4% with inflation being well under 2% during 2020/21. The ECB did not cut its main bank rate of -0.5% further into negative territory and embarked on a major expansion of its PEPP operations (QE) of providing cheap loans to banks in March and December 2020 which currently total €1,850bn.

## **Japan**

- In response to 3 rounds of government fiscal support, 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 that a strong recovery will take place in 2021 and get it back to pre-virus levels by Q3.

## **China**

- After a rigorous effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year and this has enabled China to recover all of its losses. 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.

### **3. INTEREST RATES**

- 3.1 Within the 2020/21 Treasury Management Strategy, a forecast for interest rates was provided which indicated that minor increases in rates would occur during the year. As a result of the COVID-19 pandemic these increases did not occur with interest rates instead falling to their lowest levels since records began as highlighted in the table below.

	2020/21	1 April 2020	31 March 2021	2020/21
	Forecast Average	Actual	Actual	Actual Average
	%	%	%	%
Bank Rate	0.81	0.10	0.10	0.10
Investment Rates				
3 month	0.85	0.45	0.03	0.02
1 Year	1.15	0.71	0.12	0.17
Loan Rates				
5 Year	2.50	1.93	1.18	1.50
25 Year	3.48	2.57	2.19	2.32
50 Year	3.30	2.32	1.99	2.13

- 3.2 Loan interest rates, primarily PWLB rates are determined by using the corresponding gilt yield (UK Government bonds) with H.M. Treasury then adding a specified margin. H.M. Treasury imposed without any prior warning on 9th October 2019, an additional 1% margin over gilts to all PWLB period rates which saw the cost of borrowing go up overnight by £10k for every £m borrowed. In 2020/21 the PWLB undertook a consultation with local authorities and on 25th November 2020, the Chancellor announced that in response to this exercise the 1% margin imposed on 9th October 2019 was to be reversed.
- 3.3 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%.
- 3.4 Investment returns which had been low during 2019/20, plunged further during 2020/21 to near zero or even into negative territory as a result of the Covid-19 pandemic. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would start the year at 0.75% before rising to end 2020/21 at 1.00%. This forecast was invalidated by the Covid-19 pandemic resulting in the M.P.C. cutting Bank Rate in March 2020 first to 0.25% and then to 0.10%. A more detailed analysis detailing how investment rates moved during the course of 2020/21 is provided for reference at Appendix A;

#### 4. TREASURY POSITION

- 4.1 The Council's Treasury Management in-house team actively ensure that:
- All transactions are carried out in accordance with the current Scheme of Delegation,
  - All borrowing has been carried out in accordance with the Council's current Debt Strategy and Prudential Indicators (Authorised Limits and Operational boundary),
  - All investments placed have been done so in accordance with the criteria stipulated within the current Investment strategy,
  - Security for investments and the management of risks within all treasury management activities is maintained,
  - Access to funds is available at all times enabling all payments to be made on time preserving the Council's reputation and
  - Procedures and controls to achieve these objectives are in place and that these are reported to members as detailed in the background section and through officer activity as highlighted in the annual Audit and Assurance report.
- 4.2 The table below shows the loan and investment positions at the beginning and end of 2020/21 for reference:

	31 March 2021		31 March 2020	
	Principal (£m)	Avg. Int. Rate %	Principal (£m)	Avg. Int. Rate %
<b>DEBT</b>				
-PWLB	316.6	2.51	322.1	2.55
-Government Loans - Salix	0.8	0.0	2.2	0.0
-Market	62.7	2.65	53.0	3.58
<b>Total debt</b>	<b>380.1</b>	<b>2.53</b>	<b>377.3</b>	<b>2.68</b>
<b>CFR</b> (to finance past capital expenditure)	423.5		417.3	
<b>Over/ (under) borrowing</b>	<b>(43.4)</b>		<b>(40.0)</b>	
<b>INVESTMENTS</b>				
- Instant access	25.0	0.03	32.8	0.52
- Call account	10.4	0.03	2.5	0.10
- Term deposit	39.5	0.17	48.3	1.03
- CCLA	4.8	4.51	4.8	4.90
- Asset Investment programme (AIP)	17.6	n/a	17.6	n/a
<b>Total investments</b>	<b>97.3</b>	<b>0.99</b>	<b>106.0</b>	<b>1.48</b>

- 4.3 Whilst the table at paragraph 4.2 details the position as at the beginning and end of 2020/21 the average position for 2020/21 & 2019/20 was as follows:

	2020/21		2019/20	
	Principal	Interest Rate	Principal	Interest Rate
<b>Average Debt</b>	£385.5m	2.57%	£296.2m	2.90%
<b>Average Investment *</b>	£76.9m	0.76%	£98.2m	1.12%

\* Excludes Asset Investments

## 5. BORROWING POSITION

- 5.1 As highlighted in paragraph 4.1 above, part of the Council's treasury management remit is to address any potential borrowing needed to be taken in order to fund the capital expenditure programme. This may result in funds being borrowed by the in-house treasury management team from external bodies, such as the Government, through the PWLB, the money markets or utilising temporary cash resources which the Council may have.
- 5.2 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This represents capital spend, not yet paid for by revenue or other capital resources, incurred from current and prior years' activities reflecting the level of the Council's indebtedness.
- 5.3 During 2020-21, the Council maintained an under-borrowed position as highlighted in the table at paragraph 4.2 which means that the capital borrowing needed was not fully funded with new 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 fell to historically low levels and minimising counterparty risk on placing investments also needed to be considered.

- 5.4 To safeguard the Council's finances, the level of CFR is not allowed to rise indefinitely and statutory controls are in place to ensure that any borrowing costs incurred are charged to revenue over the useful life of the asset. The Council is required to make an annual revenue charge called the Minimum Revenue Provision (MRP) and this reduces the CFR and effectively is a repayment of borrowing. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
- 5.5 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 Repayment Provision (VRP).
- 5.6 The Council's 2020/21 MRP Policy, (as required by MHCLG Guidance), was approved by Members as part of the Treasury Management Strategy report for 2020/21 in February 2020.
- 5.7 The Council's CFR includes PFI and any leasing schemes held on the balance sheet, which increase the overall borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.
- 5.8 During 2020/21 the Council borrowed £9.67m from the PWLB to fund new long term capital expenditure incurred in the year and this was taken in conjunction with the information obtained from the Council's advisors LG. This borrowing was taken at competitive rates of interest thereby ensuring value for money to the local taxpayers was achieved and details of this loan is provided at paragraph 5.13 below for reference.
- 5.9 In addition to this long-term borrowing the Council also undertook additional borrowing (up to 1 year) to fund its short term capital funding requirements with loans being obtained from other local authorities via the money market. Funding of this nature was undertaken on 15 separate occasions totalling £101.7m at a total cost of £0.16m. As at 31<sup>st</sup> March 2021 £26.7m of this debt was outstanding and this will be fully repaid by the due date of 30<sup>th</sup> September 2021. Whilst the use of an overdraft facility provided by the Council's bank is available this is an expensive form of borrowing at 4% over bank rate and would have resulted in interest costs of £1.18m, an increase of £1.02m, had this option been used instead of short term borrowing.
- 5.10 As a result of the action outlined in paragraphs 5.8 and 5.9, the policy adopted in previous years of applying cash supporting the Council's reserves, balances and cash flow was also applied in 2020/21 and as a consequence of this, the level of under borrowing rose marginally from £40.0m as at 31<sup>st</sup> March 2020 to £43.4m at 31 March 2021. This action was undertaken in conjunction with advice obtained from LG and offers a prudent approach due to the low level of investment returns available when compared to borrowing rates.
- 5.11 The Director of Finance and Systems can confirm that during 2020/21 the Council's level of gross external borrowing did not exceed its CFR thereby ensuring its long term borrowing levels are prudent, only taken for capital purposes and not used to support revenue expenditure.
- 5.12 During the year no rescheduling of the Council's existing debt was carried out due to the unfavourable breakage costs (premium) involved.

5.13 From the table at paragraph 4.2 it can be seen that the level of external debt increased during 2020/21 from the opening position of £377.3m to close at £380.1m and this was as a result of the following transactions;

<b>Lender</b>	<b>Principal – New</b>	<b>Principal – (Repayment)</b>	<b>Average Interest rate</b>	<b>Notes</b>
<b>Long Term</b>				
PWLB (July 20)	£9.7m (40yrs)		2.34%	Loans taken to fund capital programme scheme
PWLB		£(15.2)m	3.33%	Natural maturity.
SALIX Finance		£(1.4)m	0.000%	Loan used to part fund the LED Street Lighting Programme.
<b>Sub total</b>	<b>£9.7m</b>	<b>£(16.6)m</b>		
<b>Short Term</b>				
Various Local Authorities	£101.7m (under 1 yr)		0.33%	Loans taken to fund capital investment in regeneration activities
Various Local Authorities		£(92.0)m	0.66%	Natural maturity
<b>Sub total</b>	<b>£101.7m</b>	<b>£(92.0)m</b>		
<b>Grand total</b>	<b>£111.4m</b>	<b>£(108.6)m</b>		

5.14 From the total debt outstanding of £380.1m, £0.6m is administered on behalf of Greater Manchester Probation Service which leaves £379.5m in respect of the Council's own long term requirement and a maturity profile of the Council's debt can be found at Appendix B & C for reference.

5.15 Gross loan interest paid during 2020/21 totalled £9.904m and of this £4.602m was funded from applying a proportion of the Council's regeneration programme rental income. The balance of £5.302m was incurred within the MTFP budget provision

5.16 During 2020/21 the Director of Finance and Systems continued to monitor interest rate movements in the financial markets and caution was adopted with the treasury operations.

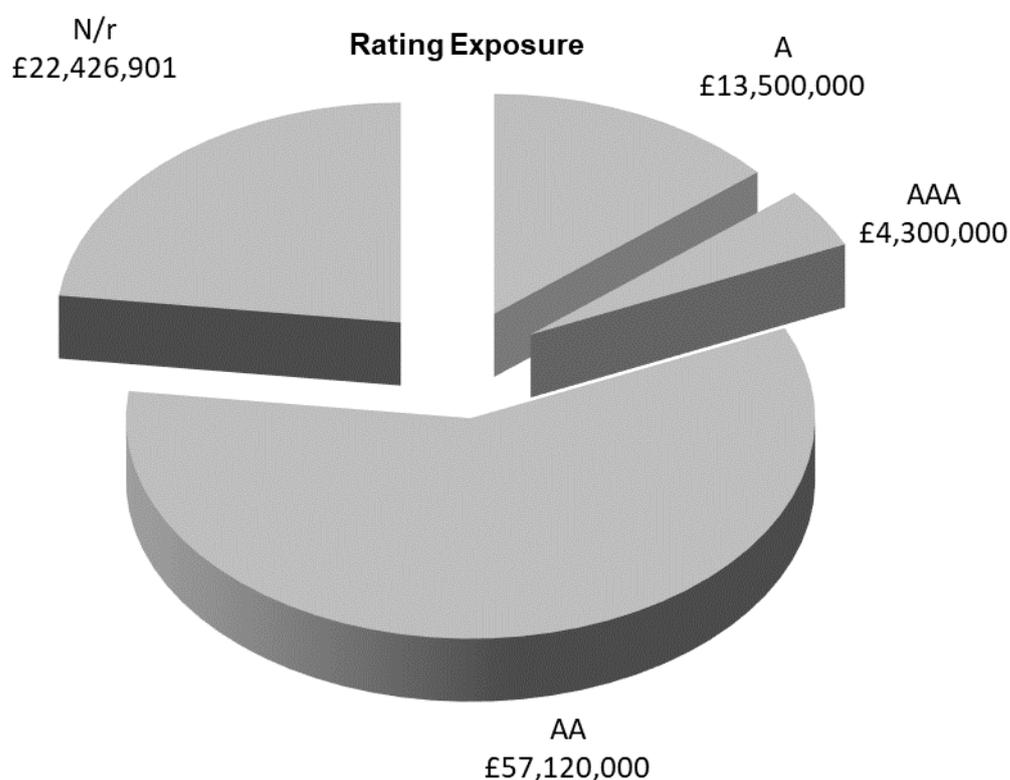
5.17 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure and whilst this would have caused a temporary increase in cash balances it would have incurred a revenue cost due to the difference between higher borrowing costs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

5.18 In March 2020 the Government announced there was to be a consultation exercise involving all Councils looking at how the PWLB operated. Responses to this were issued to the Government by the Council and in addition to the point described at paragraph 3.2 with regards to interest rates it also announced that any local authority which had intended to purchase assets for yield in its three year capital programme would not be eligible to borrow funds from PWLB.

## 6. INVESTMENT POSITION

- 6.1 The Council's investment policy is governed by the MHCLG guidance which has been implemented within the annual investment strategy approved by Council in 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.).
- 6.2 Using this information the Council's in-house treasury management team is able to produce an approved lending list in order to ensure investments are only placed with low risk institutions. Funds are invested for a range of periods reflecting cash flow requirements together with counterparty limits as set out in the approved investment strategy ensuring that an excessive level of funds are not placed in a single counterparty.
- 6.3 The Director of Finance and Systems can confirm that;
- during the year all investment activity conformed to the approved strategy,
  - the approved limits within the Annual Investment Strategy were not breached,
  - the Council had no liquidity difficulties and
  - in-line with previous years, security and liquidity of its investments remained the overall priorities followed by optimum return (yield) consummate with this approach.
- 6.4 In 2020/21 the Council maintained an average balance of £71.9m of internally managed funds (this figure excludes £5m placed in the Property Fund managed externally by CCLA group) earning an average rate of return of 0.46% which generated £331k in investment interest. This return was £97k below the agreed budget figure of £428k and 0.53% or £375k above the performance indicator of the average 7-day LIBID rate of -0.07%.
- 6.5 With regards to the Council's long term investments, in 2015, £5m was placed into the CCLA Property Fund for a minimum period of 5 years which after entry costs had been deducted of £0.3m, enabled 1,643,872 units to be purchased in the fund. At 31 March 2020 the value of these units, were £4.86m but due to the impact COVID-19 had on the UK commercial property market fell to £4.65m in August before recovering to end the year £4.83m at 31 March 2021, a minor decrease of £0.03m.
- 6.6 The outlook for this fund is currently that the steady growth incurred from August 2020 is set to continue in 2021/22 and beyond.
- 6.7 In response to the implementation in 2018/19 of IFRS 9 into the CIPFA Code of Practice on Local Authority Accounting, any movement in valuation would normally have to be taken and reflected in full to the Council's revenue account. As a consequence of this change to the CIPFA Code of Practice the MHCLG put in place a 5 year statutory override effective from 1 April 2018. The Council will use this override facility to account for any changes in the value of this investment during this period thereby avoiding any adverse movements being taken to the revenue account in full during the year they occurred.
- 6.8 After the expiry of this override any future potential adverse movements to the Council's revenue account arising from this investment will be offset from a corresponding contribution from the Investment Smoothing Reserve.
- 6.9 Annualised returns generated from the CCLA property fund in 2020/21 (gross of fees on the original value invested) were 4.71% and this compares with that achieved in 2019/20 of 4.90%.

- 6.10 When the rates of return for both short and long term investments are combined, this produces an average level invested of £76.9m, generating a rate of return of 0.76% worth £0.57m which is £0.1m below budget and 0.83% or £0.62m above the performance indicator of the average 7-day LIBID rate of -0.07%.
- 6.11 In addition to the £5m CCLA investment, the Council in August 2019 undertook a further long term investment when it entered into a £17.6m 5 year loan facility agreement with Queens Holding Limited secured on 4 prominent income producing properties known as Albert Estate within Manchester City Centre. Due to the coronavirus outbreak, rental turnover temporarily reduced, however, the borrower has continued to pay interest in full every quarter. Refurbishment work of one the buildings was completed during 2020/21, with the borrower investing £1.7m into the asset. This refurbishment work has increased the value cover, and security, of the Council's loan.
- 6.12 During the climate of extremely low investment interest rates the ability to generate a significant level of return without exposing the Council's funds to high levels of risk remains challenging. Whenever new opportunities to generate additional investment income become known, these are thoroughly investigated in order to ensure that they will be suitable for the Council to pursue without committing it to any unnecessary risk.
- 6.13 The Council's main bank account with Barclays, is non-interest bearing and consequently if no investments were undertaken by the in-house team, the Council would lose the opportunity to generate £0.33m of income.
- 6.14 Levels of funds available to be invested on a daily temporary basis are subject to a number of factors such as timing in the form of monies being received ahead of spend requirements and progress on the Capital Programme.
- 6.15 The graph below provides a breakdown of the Council's investments placed as at 31 March 2021 by long term credit rating and further information detailing the make-up of this can be found at Appendix C & D



## **7. RELATED TREASURY ISSUES**

- 7.1 Member training – In accordance with the Code, Members are responsible for ensuring effective scrutiny of the treasury management strategy and policies takes place. In order to be able to do so effectively a Member training session was provided by the Council's advisors LG and in-house staff to Members of the Accounts and Audit Committee on 21<sup>st</sup> January 2021 via the Teams facility.
- 7.2 Greater Manchester Pension Fund (GMPF) - During April 2020, the Council along with several other Greater Manchester councils paid over to GMPF a discounted advance equivalent to 3 years' of employer pension contributions in order to take advantage of the pension fund's wider investment powers. This initial payment will have run its course by 31<sup>st</sup> March 2023.
- 7.3 Asset Investment Strategy - During 2017/18 the Council introduced a programme to acquire and invest in suitable assets which will help deliver corporate objectives and priorities. Any transactions made under this strategy are made to support policy related activities. These transactions are therefore considered outside the treasury management of purely financial investments however their implementation will have an impact on the Council's cash flow.

## **8. PRUDENTIAL AND PERFORMANCE INDICATORS**

- 8.1 It is a statutory duty for the Council to determine and keep under review the Council's Prudential Indicators as approved within the Treasury Management Strategy for 2020/21.
- 8.2 During the year ended 31 March 2021, the Council operated within these indicators and these are shown in Appendix E for reference.

## **9. OUTLOOK 2021/22**

- 9.1 The economic impact of the COVID-19 pandemic will continue to be felt for a while throughout the world however signs are now emerging that recovery back to pre-pandemic levels is starting to take place.
- 9.2 In response to the successful rollout of the UK's COVID-19 vaccine inoculation programme, the OECD forecasts that its economy will grow by 7.2% in 2021, the fastest rate since 1941, after a 9.8% contraction in 2020 – the worst in almost 300 years. This rate of growth compares to 0.3% for the euro area and 6.5% for US and the outlook for global economic growth is currently expected to hit 5.6% taking back to pre-pandemic levels by the end of 2021.
- 9.3 For 2022 the OECD has also upgraded the UK's growth forecast to 4.7%, however there remains significant risks on this including a slower vaccine roll-out and the possibility of the emergence of new more dangerous variants of COVID-19.
- 9.4 The UK government's fiscal watchdog, the OBR, forecasts that unemployment will peak at 6.5% (2.2 million) at the end of 2021 instead of the 11.9% predicted July 2020.
- 9.5 During 2020 CPI inflation fell well below the Government's target rate of 2.0%, (0.5% in the fourth quarter of 2020) as a result of Covid-19. Whilst it is still too early to say if last year's low inflation scenario was as a result of lower levels of consumer expenditure, it is likely that this year's higher inflation figures are just a correction to this situation.
- 9.6 As a result of these forecasts, financial implications for Treasury Management will continue to exist primarily as a result of lower investment returns due to historical low levels of interest rates. Continual monitoring of the Council's cash flow

requirements with any remedial action being undertaken if required as soon as possible will ensure that any potential adverse impact is kept to a minimum.

- 9.7 The Council's revenue returns from properties bought through its Strategic Asset Investment Fund have generated a net benefit to the revenue budget in 2020/21 of £6.37m and contributions have been made to the Investment Strategy Risk Reserve of £2.08m. Net investment returns have come under pressure over the course of the last twelve months as a result of the economic impact of Covid-19 and returns were £1.06m less than those budgeted.
- 9.8 Forecasting with any certainty what the annual outturn is likely to be in 2021/22 will continue to be a challenge however a forecast of what the outturn is expected to be will continue to be provided to Members as part of the bi-monthly revenue monitoring updates. To mitigate any negative effect the Council's revenue account may encounter during the year the Treasury Management Smoothing Reserve will be applied.

## 10. 2020/21 SUMMARY OUTTURN POSITION

- 10.1 Activities undertaken as part of the treasury management function are subject to many factors beyond the control of the Council impacting on actual performance e.g. worldwide economic, political and health (COVID-19) events and interest rate movements. The table below reflects the summarised outturn position compared to that originally forecasted for reference;

Treasury	Budget £000	Outturn £000	Variance £000
<b>DEBT</b>			
Loan Interest	5,087	5,211	124
MRP	5,283	5,326	43
PFI Interest & Premium	961	928	(33)
Sub-total	<b>11,331</b>	<b>11,465</b>	<b>134</b>
<b>INVESTMENTS</b>			
Investment Interest & other net interest receipts	(1,395)	(1,317)	78
MAH Ltd – Share dividend	(5,597)	0	5,597
Loan income	(2,168)	(2,953)	(785)
Sub-total	<b>(9,160)</b>	<b>(4,270)</b>	<b>4,890</b>
<b>RESERVES</b>			
Contribution to / (from) Interest Smoothing Reserve	(553)	(481)	72
Sub-total	<b>(553)</b>	<b>(481)</b>	<b>72</b>
<b>TOTAL</b>	<b>1,618</b>	<b>6,714</b>	<b>5,096</b>

<b>Non-Treasury items</b>	<b>Budget £000</b>	<b>Outturn £000</b>	<b>Variance £000</b>
<b>EXPENDITURE</b>			
Loan Interest	4,476	4,602	126
Loss of Investment interest	791	790	(1)
MRP	2,156	2,241	85
Sub-total	<b>7,423</b>	<b>7,633</b>	<b>210</b>
<b>RECHARGES</b>			
Sub-total	<b>(7,423)</b>	<b>(7,633)</b>	<b>(210)</b>
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>

Note: The above figures reflect;

- All associated debt servicing costs in respect to the Councils Asset Investment Programme are self-financing i.e. paid for from the income stream generated from the investment;
- Restrictions placed on the aviation sector due to the COVID-19 virus has resulted in the planned share dividend not being received.

10.2 The application of the Interest Smoothing Reserve will, should it be needed over the forthcoming years, be applied to finance future cash implications arising from:-

- Potential adverse changes in investment interest rates,
- Short term temporary borrowing funding requirements and
- Non-treasury management activities which have an impact on cash flows.

### **Other Options**

This report is a mandatory report which has been produced in order to comply with Financial Regulations and relevant legislation and provides an overview of transactions undertaken during 2020/21. There are no other options to consider.

### **Consultation**

There are no consultation requirements in respect of this report.

### **Reasons for Recommendation**

The report is a mandatory report which has been produced in order to comply with the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code for Capital Finance and the CIPFA Code of Practice on Treasury Management.

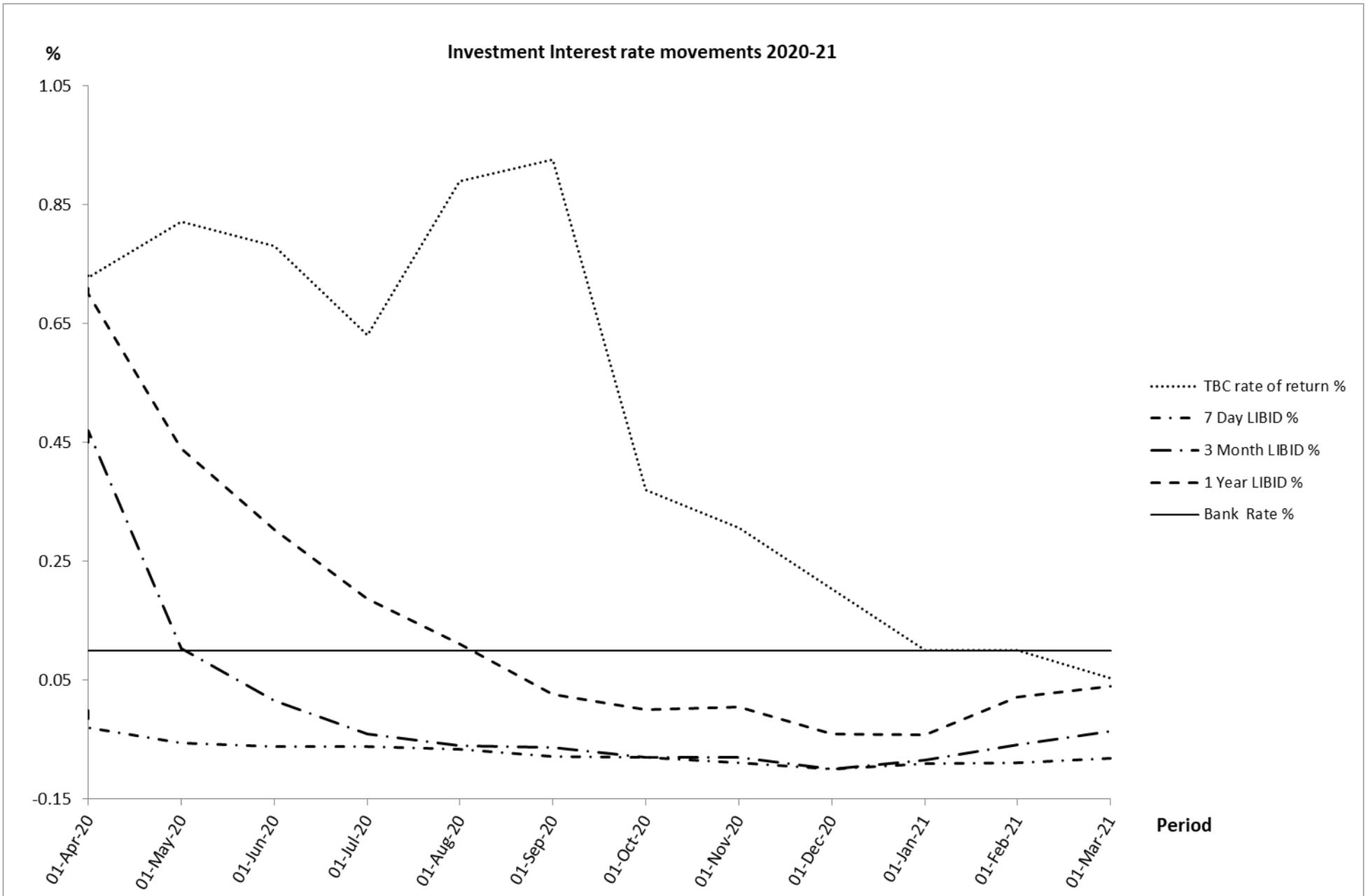
**Finance Officer Clearance      PC**

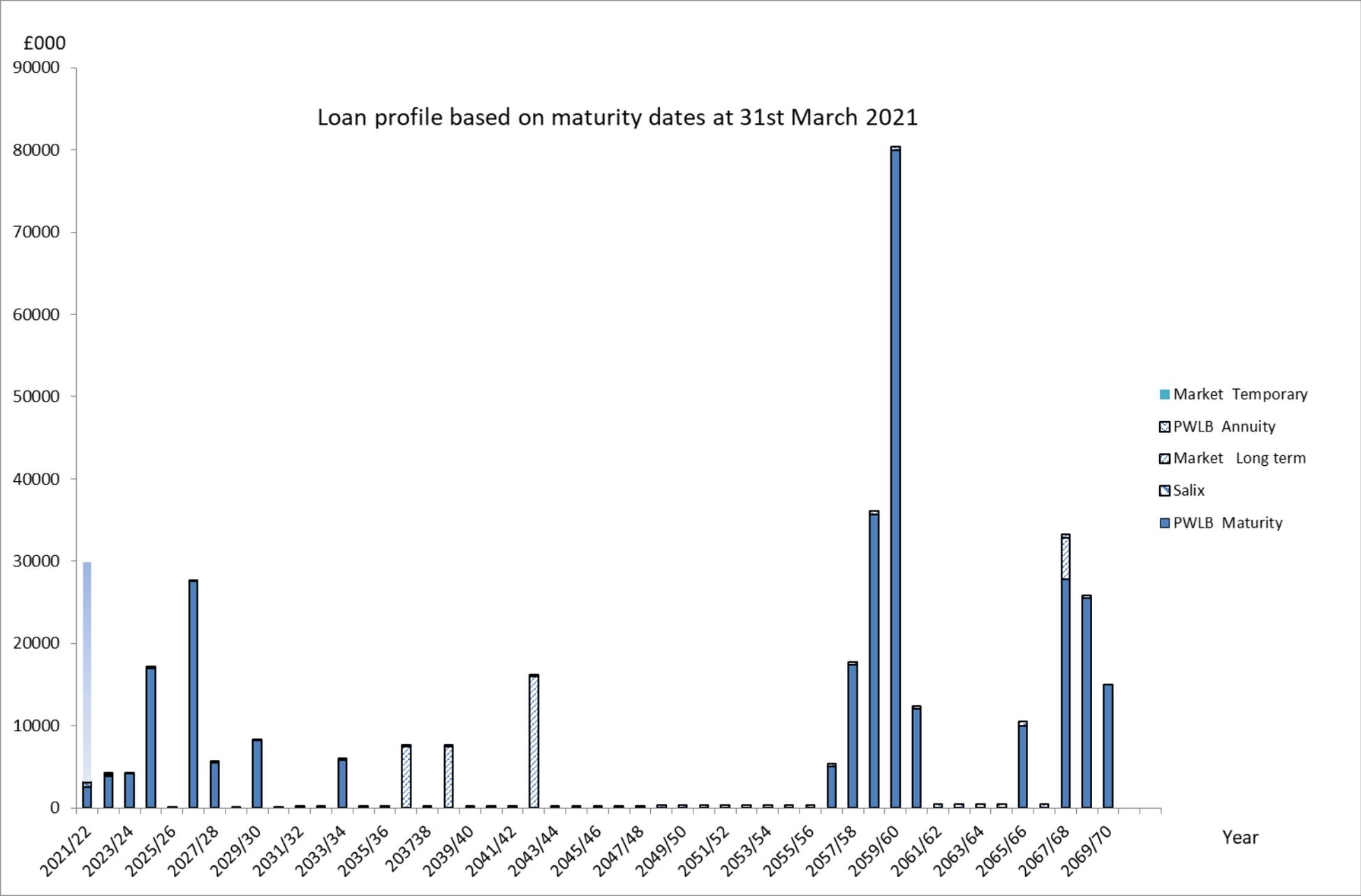
**Legal Officer Clearance      DS**

**CORPORATE DIRECTOR'S SIGNATURE**

A handwritten signature in black ink that reads "G. Bentley". The signature is written in a cursive style with a large, looping 'G' and a trailing flourish.

To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.





## Maturity Profile

## Debt portfolio:

	31 March 2021 (£m)	31 March 2020 (£m)
Under 12 months	29.9	33.5
12 months and within 24 months	4.3	3.2
24 months and within 5 years	21.6	25.7
5 years and within 10 years	42.1	42.1
10 years and above	282.2	272.8
<b>Total</b>	<b>380.1</b>	<b>377.3</b>

## Investment portfolio:

	31 March 2021 (£m)	31 March 2020 (£m)
Instant Access	25.0	32.8
Up to 3 Months	31.5	22.8
3 to 6 Months	13.4	15.5
6 to 9 Months	0	7.5
9 to 12 months	5.0	5.0
Over 1 year	22.4	22.4
<b>Total</b>	<b>97.3</b>	<b>106.0</b>

## Breakdown of Investments

Counterparty	Amount (30 Sept 2020) £	Amount (31 March 2021) £	Long Term Credit Rating
<i>Money Market Fund</i>			
Aberdeen	6,860,000	2,000,000	AAA
CCLA	0	8,250,000	AAA
Federated Investors	3,050,000	14,100,000	AAA
Invesco Aim	0	700,000	AAA
<i>Sub total</i>	<i>9,910,000</i>	<i>25,050,000</i>	
<i>Notice Accounts</i>			
Lloyds 32	0	10,000,000	A
Lloyds 95	2,370,000	370,000	A
<i>Sub total</i>	<i>2,370,000</i>	<i>10,370,000</i>	
<i>Term Deposit</i>			
Ashford Borough Council	0	2,500,000	AA
Australia and New Zealand Bank	0	5,500,000	AA
Brentwood Council	2,000,000	5,000,000	AA
Close Brothers Bank	8,000,000	2,500,000	A
Eastleigh Borough Council	0	10,000,000	AA
Flintshire County Council	0	6,000,000	AA
Medway Council	3,000,000	0	AA
Moray Council	5,000,000	0	AA
North Lanarkshire Council	0	3,000,000	AA
South Ayrshire Council	5,000,000	0	AA
Stockport Borough Council	5,000,000	0	AA
Warrington Borough Council	0	5,000,000	AA
<i>Sub total</i>	<i>28,000,000</i>	<i>39,500,000</i>	
<i>Property Funds</i>			
Church Commissioners Local Authority	4,659,226	4,826,901	Not rated
<i>Sub total</i>	<i>4,659,226</i>	<i>4,826,901</i>	
<i>Other</i>			
Asset Investment Programme	17,600,000	17,600,000	Not rated
<i>Sub total</i>	<i>17,600,000</i>	<i>17,600,000</i>	
<b>Total</b>	<b>62,539,226</b>	<b>97,346,901</b>	

The above table shows the level of investments placed as at 31 March 2021 and 30 September 2020, the last time Members were provided with this information.

## Prudential Indicators for 2020/21

Indicator	Indicator set by Council	Actual
<p align="center"><b>Authorised Borrowing Limit</b></p> <p>Maximum level of external debt, including other long term liabilities (PFI &amp; leases) undertaken by the authority including any temporary borrowing - this is a statutory limit under Section 3(1) of the Local Government Act 2003.</p>	£690.0m	£384.6m
<p align="center"><b>Operational Boundary</b></p> <p>Calculated on a similar basis as the authorised limit but represents the expected level of external debt &amp; other long term liabilities (PFI &amp; leases) excluding any temporary borrowing – this is not a limit.</p>	£675.5m	£384.6m
<p align="center"><b>Upper limits on fixed interest rates</b></p> <p><b>Maximum</b> limit of net fixed interest rate exposure - debt less investment</p>	£12.3m	£8.7m
<p align="center"><b>Upper limits on variable interest rates</b></p> <p><b>Maximum</b> limit of net variable interest rate exposure – debt less investment</p>	£2.0m	£0.6m
<p><b>Gross Debt and the Capital Financing Requirement</b> – this reflects that over the medium term, debt will only be taken for capital purposes. During 2020/21 the Director of Finance and Systems can confirm that this indicator was complied with.</p>		
<p align="center"><b>Maturity structure of fixed rate borrowing</b></p> <p>These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.</p>		
Under 1 year (this includes the next call date for Market loans)	40%	12%
1 year to 2 years	40%	1%
2 years to 5 years	40%	6%
5 years to 10 years	40%	11%
10 years to 20 years	40%	2%
20 years to 30 years	40%	5%
30 years to 40 years	70%	40%
40 years and above	90%	23%
<p><b>Upper Limit for sums invested for over 1 year</b> – these limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment.</p>	£110m	£54.4m

### Performance Indicators for 2020/21

Indicator	Target	Actual
<b>Security</b> – potential default rate of the Council’s investment portfolio based on default rates from the 3 main credit rating agencies – inclusion is recommended by CIPFA.	Max 0.05%	Max 0.006% (31 March 2021)
<b>Liquidity</b> – investments available within 1 week notice	£5m min.	Achieved
<b>Liquidity</b> – Weighted Average Life of investments	6 months	1.25 months (31 March 2021)
<b>Yield</b> – Investment interest return to exceed 7 day London Interbank <b>BID</b> rate (exclude CCLA)	Average 7 day LIBID -0.07%	Average rate of return for 2020/21 was 0.46%
<b>Origin of investments placed</b> - maximum investments to be directly placed with non-UK counterparties.	UK institutions 100% Non UK institutions 40%	Min 96% Max 4%

### ABBREVIATIONS USED IN THIS REPORT

**CFR:** capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

**CCLA:** Church Commissioners Local Authority - manage investments for charities, religious organisations and the public sector

**CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

**CPI:** consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

**ECB:** European Central Bank - the central bank for the Eurozone

**EU:** European Union

**Fed:** the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

**GDP:** gross domestic product – a measure of the growth and total size of the economy.

**G7:** the group of seven countries that form an informal bloc of industrialised democracies which meet annually to discuss issues such as global economic governance, international security and energy policy consisting of United States, Canada, France, Germany, Italy, Japan and the United Kingdom.

**Gilts:** gilts are bonds issued by the UK Government to borrow money on the financial markets.

**IFRS 9:** is an International Financial Reporting Standard (**IFRS**) published by the International Accounting Standards Board (IASB). It addresses the accounting for financial instruments and contains three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

**LG: Link Group** – independent organisation which provides advice and guidance on all treasury matters including government legislation.

**LIBID:** the London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

**MAH Ltd:** Manchester Airport Holdings Limited - is a holding company which is owned by the ten metropolitan borough councils of Greater Manchester and an Australian investment fund IFM Investors.

**MHCLG:** the Ministry of Housing, Communities and Local Government -the Government department that directs local authorities in England.

**MPC:** the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting

the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

**MRP:** minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

**MTFP:** A Medium Term Financial Plan is a key part of the Council's Policy and Budget Framework and sets out the strategic approach to the management of its finances.

**OBR:** Office for Budget Responsibility is a non-departmental public body funded by the UK Treasury that the UK government established to provide independent economic forecasts and independent analysis of the public finances

**OECD:** Organisation for Economic Co-operation and Development is an intergovernmental economic organisation with 37 member countries, founded in 1961 to stimulate economic progress and world trade

**PEPP:** Pandemic emergency purchase programme is the ECB's monetary policy measure initiated in March 2020 which is a temporary asset purchase programme of private and public sector securities.

**PFI:** Private Finance Initiative is a way of financing public sector projects through the private sector.

**PWLB:** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

**QE:** Quantitative Easing - is a monetary policy whereby a central bank (e.g. Bank of England) buys government bonds or other financial assets in order to inject money into the economy to expand economic activity.

**UK:** United Kingdom.

**US:** United States of America.

**VRP:** a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition)