Committee:	Cabinet	**Date:**
Title:	Treasury Management Outturn 2020/21	Thursday, 1 July 2021
Portfolio Holder:	Councillor Neil Hargreaves, Portfolio Holder for Finance and Budget	
Report Author:	Angela Knight, Assistant Director - Resources aknight@uttlesford.gov.uk	**Key decision:** No

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Summary

1. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code).

2. Treasury risk management at the Authority is conducted within the framework of the CIPFA Code, which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. The attached report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3. The Authority's treasury management strategy for 2020/21 was approved at a meeting on 23 February 2020. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remain central to the Authority's treasury management strategy.

4. Treasury Management is the activity of the Council's finance function which manages cash flows, bank accounts, deposits, investments and borrowing. The objective is to manage risk effectively in order to ensure the security of funds, sufficient liquidity to enable commitments to be met, to generate income and minimise cost.

Recommendations

5. The Cabinet is recommended to approve the 2020/21 Treasury Management Outturn attached as Appendix B.

Financial Implications

6. These are included in the body of the report and the associated Appendices.

Background Papers

7. None

Impact

8.

Communication/Consultation	CMT have been consulted
Community Safety	N/A
Equalities	N/A
Health and Safety	N/A
Human Rights/Legal Implications	N/A
Sustainability	N/A
Ward-specific impacts	N/A
Workforce/Workplace	N/A

Situation

9. Treasury management 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.”

10. The Council’s treasury management activity is underpinned by CIPFA’s Code of Practice on Treasury Management (“The Code”), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy on the likely financing and investment activity.

11. The Treasury Management Strategy is approved by the Council as part of the annual budget setting process. Monitoring reports relating to investments are submitted to the Cabinet as part of the quarterly budget monitoring process.

12. The Council is supported in its treasury management activity by our independent financial advisers Arlingclose Limited.

13. All responsibility for decision making rests with the Council. Under the Council’s constitution the Director of Finance and Corporate Services and the Assistant Director of Resources are authorised to make investment and borrowing decisions in line with the Treasury Management Strategy and the Treasury Management Practices – Principles and Schedules approved by the Council.

14. The Treasury Management Outturn Report is attached as Appendix B and provides more detail on the performance of Treasury Management from both the external and internal context. The report also compares actual in year activity to the 2020/21 Strategy set as part of the approved budget in February 2020).

15. Total net borrowing as of 31 March 2021 was £217.70 million, an increase from the previous year of £111.30 million this increase is directly related to the investment activities in line with the approved Commercial Strategy. A breakdown of the borrowing and investments for the current year is set out in the table below and includes a comparison to the previous year.

	31 March 2020 £m	31 March 2021 £m	In year movement £m
Housing Revenue Account	82.40	80.40	-2.00
Pheonix Loan for Aspire (CRP) Ltd Investment	10.00	40.00	30.00
Total Long Term Borrowing	**92.40**	**120.40**	**28.00**
Short Term Borrowing	24.50	109.50	85.00
Total Borrowing	**116.90**	**229.90**	**113.00**
Short Term Investments	10.00	11.00	1.00
Cash and Cash Equivalents	0.50	1.20	0.70
Total Investments	**10.50**	**12.20**	**1.70**
NET BORROWING	**106.40**	**217.70**	**111.30**

16. The commercial properties and the associated capital cost during the 2020/21 financial year have been detailed in the following table.

Commercial Property	**Cost £m**
Skyway House, Parsonage Road, Takeley – Offices	20.81
Deer Park Road, Livingston, Scotland – Veterinarian Practic	5.24
Stane Retail Park, Colchester – Retail Park	8.34
Chorley – Regional Distribution Centre	58.30
Gloucester – Distribution Centre	6.73
Tewkesbury – Offices and warehouse	8.01
Total Capital Cost	**107.43**

17. The following table sets out the Council's investment income and the associated cost of borrowing for 2020/21.

Investment Income and Interest Charges 2020/21	**£m**
General Fund	
Investment Income	
Aspire (CRP)	(2.306)
Commercial Properties	(2.254)
Interest Charges	0.807
Broker Fees	0.167
Net Total - GF	**(3.586)**
Housing Revenue Account	
Investment Income	0.000
Interest charges	2.584
Net Total -HRA	**2.584**

*The Budget Outturn report (paragraph 23) shows net investment income of £3,371, this is due to the inclusion of consultancy and fees associated to the investment purchase, but as these are not related to the treasury activity they are excluded from the above table.

18. The average rate of interest achieved for short term investments was 0. 04% (excluding Money Market Funds) and for short term borrowing was 0.25% for the 2020/21 financial year.

19. A full list of all the short-term investments and borrowing for the year are detailed in appendix B.

20. The council has two long term loans;

- Housing Revenue Account - £80.407million outstanding balance (initial loan £88.407 million) to fund the purchase of the council's housing stock; this is a mix of fixed and variable rate loans. The annual interest payment for 2020/21 was £2.584 million with a current annual principal repayment of £2.000 million.

- General Fund - £37 million forward starting loans with Phoenix Life Limited at a fixed rate of 2.86% over 40 years, with no principal repayments until 5 January 2022 to fund part of the investment of £47.25 million in Aspire (CRP) Ltd. The loan profile was set to be drawn down in three separate stages:

    - £10 million on 3 July 2017
    - £12 million on 3 July 2020
    - £15 million on 3 July 2021

21. The council has continued to support the development of Chesterford Research Park, which it purchased a 50% share of in May 2017 through its wholly owned company, Aspire (CRP). The following table provides details of all the loans to Aspire (CRP) as at 31 March 2021.

22. The repayment basis of the loans are determined by the type of works it will fund. Interest only loans are for new buildings and infrastructure and principal and interest for the refurbishment of existing buildings. The repayment schedules are set to align with the capital life of the asset and/or works.

Drawndown Date	Amount borrowed	Loan Term	Rate %	Repayment Basis
03/05/2017	47.250	50 years	4.0	Interest Only
26/03/2018	0.223	49 years 1 month	4.0	Interest Only
02/01/2019	2.518	48 years 4 month	4.0	Interest Only
20/08/2019	3.000	20 years	4.5	Principal and interest
09/06/2020	1.250	20 years	4.5	Principal and interest
01/07/2020	2.600	20 years	4.5	Principal and interest
15/03/2021	2.975	20 years	4.5	Principal and interest
	59.816			

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Loss of council's funds	1 – minimal risk due to the policy, procedures and guidance in place	4 – significant sums	multi-function/level checking, authorisation and monitoring of all activities

1 = Little or no risk or impact
2 = Some risk or impact – action may be necessary.
3 = Significant risk or impact – action required
4 = Near certainty of risk occurring, catastrophic effect or failure of project

Appendix A

Borrowing – 1 April 2020 – 31 March 2021

Date of borrowing	Institution	Amount (£)	Date of Repayment	Interest Rate %
27/04/2020	Pembrokeshire County Council	5,000,000	27/05/2020	0.50%
01/05/2020	Newport City Council	4,000,000	01/06/2020	0.50%
04/05/2020	Newport City Council	2,000,000	06/07/2020	0.60%
21/05/2020	Northern Ireland Housing Executive	5,500,000	06/07/2020	0.45%
27/05/2020	Pembrokeshire County Council	5,000,000	06/07/2020	0.30%
25/06/2020	Hampshire County Council	5,000,000	25/09/2020	0.15%
25/06/2020	Hampshire Pension Fund	2,500,000	25/09/2020	0.15%
25/06/2020	New Forest District Council	1,500,000	25/09/2020	0.15%
25/06/2020	Hampshire Fire and Rescue Authority	1,000,000	25/09/2020	0.15%
25/06/2020	Medway Council	5,000,000	30/06/2020	0.15%
18/06/2020	Oxfordshire County Council	5,000,000	19/06/2023	1.20%
30/06/2020	Gloucestershire County Council	5,000,000	30/06/2022	0.95%
16/07/2020	Harlow District Council	1,000,000	03/08/2020	0.07%
20/07/2020	Vale of Glamorgan Council	1,000,000	03/08/2020	0.05%
21/07/2020	Hampshire County Council	1,000,000	21/04/2021	0.25%
21/07/2020	Hampshire Police	1,000,000	21/04/2021	0.25%
30/07/2020	Portsmouth City Council	1,000,000	30/04/2021	0.25%
30/07/2020	London Borough of Newham	1,000,000	30/04/2021	0.25%
20/08/2020	Vale of Glamorgan Council	1,000,000	01/09/2020	0.05%
15/09/2020	Lancashire County Council	1,000,000	14/09/2021	0.35%
15/09/2020	Portsmouth City Council	1,000,000	14/09/2021	0.30%
15/09/2020	West of England Combined Authority	1,000,000	09/09/2021	0.30%
15/09/2020	Barnsley, Doncaster, Rotherham and Sheffield Combined Authority	1,000,000	09/09/2021	0.30%
15/09/2020	Lancashire County Council	1,000,000	09/09/2021	0.30%
17/09/2020	Middlesbrough Council	1,000,000	01/10/2020	0.05%
21/09/2020	Middlesbrough Council	1,000,000	01/10/2020	0.05%
25/09/2020	Hampshire County Council	1,000,000	05/07/2021	0.23%
25/09/2020	Hampshire Fire and Rescue Authority	1,000,000	05/07/2021	0.23%
25/09/2020	Western Isles Council	1,000,000	05/07/2021	0.23%
22/09/2020	Middlesbrough Council	1,000,000	01/10/2020	0.05%
28/09/2020	Maldon District Council	1,000,000	02/11/2020	0.04%
20/10/2020	Flintshire County Council	2,000,000	02/11/2020	0.03%
21/12/2020	Flintshire County Council	2,000,000	04/01/2021	0.01%
24/11/2020	Guildford Borough Council	3,000,000	24/05/2022	0.45%
24/11/2020	Spelthorne Borough Council	5,000,000	24/05/2022	0.45%
16/02/2021	Chichester District Council	4,000,000	04/05/2021	0.04%
23/02/2021	West Midlands Combined Authority	10,000,000	13/09/2022	0.20%
16/02/2021	West of England Combined Authority	10,000,000	08/09/2022	0.12%
16/02/2021	Newcastle Upon Tyne, North Tyneside Authority	10,000,000	08/09/2022	0.12%
23/02/2021	Crawley Borough Council	5,000,000	13/09/2022	0.20%
02/03/2021	Liverpool City Region Combined Authority	10,000,000	07/06/2021	0.10%
02/03/2021	Derbyshire County Council	11,500,000	06/06/2022	0.35%
02/03/2021	Ribble Valley Borough Council	1,500,000	07/06/2021	0.10%
02/03/2021	St. Helens M.B.C	5,000,000	01/06/2022	0.25%
02/03/2021	Tameside Metropolitan Borough Council	5,000,000	02/06/2021	0.25%
03/03/2021	East Sussex County Council	5,000,000	13/09/2022	0.25%
11/03/2021	Lancashire County Council	10,000,000	13/09/2022	0.30%
12/03/2021	Western Isles Council	2,000,000	01/04/2021	0.10%
16/03/2021	South Yorkshire Pension Authority	5,500,000	01/06/2021	0.12%
Average interest rate				**0.25%**

Appendix A continued….

Investments – 1 April 2020 – 31 March 2021

Date of Investment	Counterparty	Amount (£)	Date of Repayment	Interest Rate %
01-Apr-20	DMO	21,000,000	06-Apr-20	0.055%
06-Apr-20	DMO	1,000,000	07-Apr-20	0.030%
06-Apr-20	DMO	4,000,000	08-Apr-20	0.035%
06-Apr-20	DMO	16,500,000	09-Apr-20	0.045%
09-Apr-20	DMO	1,800,000	14-Apr-20	0.040%
09-Apr-20	DMO	1,000,000	15-Apr-20	0.075%
09-Apr-20	DMO	12,400,000	16-Apr-20	0.080%
16-Apr-20	DMO	4,000,000	20-Apr-20	0.045%
20-Apr-20	DMO	3,000,000	23-Apr-20	0.055%
27-Apr-20	DMO	2,500,000	30-Apr-20	0.055%
15-May-20	DMO	3,400,000	19-May-20	0.040%
11-Jun-20	Thurrock Borough Council	2,000,000	11-Dec-20	0.600%
05-Jun-20	DMO	2,000,000	08-Jun-20	0.020%
08-Jun-20	DMO	1,000,000	15-Jun-20	0.020%
15-Jun-20	DMO	3,800,000	22-Jun-20	0.020%
16-Jun-20	DMO	2,000,000	24-Jun-20	0.010%
22-Jun-20	DMO	1,800,000	25-Jun-20	0.010%
24-Jun-20	DMO	2,000,000	25-Jun-20	0.010%
30-Jun-20	Monmouthshire County Council	3,000,000	06-Apr-21	0.300%
01-Jul-20	DMO	1,000,000	02-Jul-20	0.010%
02-Jul-20	DMO	1,000,000	06-Jul-20	0.010%
15-Jul-20	DMO	4,000,000	16-Jul-20	0.010%
23-Jul-20	DMO	1,000,000	30-Jul-20	0.010%
31-Jul-20	DMO	1,000,000	03-Aug-20	0.010%
03-Aug-20	DMO	1,500,000	06-Aug-20	0.010%
06-Aug-20	DMO	1,600,000	13-Aug-20	0.010%
13-Aug-20	DMO	1,800,000	20-Aug-20	0.010%
17-Aug-20	DMO	3,800,000	19-Aug-20	0.010%
01-Sep-20	DMO	1,000,000	03-Sep-20	0.010%
15-Sep-20	DMO	1,600,000	17-Sep-20	0.010%
06-Oct-20	DMO	2,000,000	20-Oct-20	0.000%
20-Oct-20	North Lanarkshire Council	3,000,000	20-Apr-21	0.100%
15-Oct-20	DMO	3,000,000	19-Oct-20	-0.015%
16-Nov-20	DMO	4,500,000	19-Nov-20	-0.015%
11-Dec-20	Thurrock Borough Council	2,000,000	11-Mar-21	0.120%
15-Dec-20	DMO	2,700,000	17-Dec-20	-0.020%
15-Jan-21	DMO	8,600,000	19-Jan-21	0.0100%
15-Feb-21	DMO	2,000,000	18-Feb-21	0.0100%
26-Feb-21	DMO	1,400,000	05-Mar-21	0.0000%
01-Mar-21	DMO	1,000,000	08-Mar-21	0.0000%
04-Mar-21	Thurrock Borough Council	2,000,000	11-Jun-21	0.1000%
05-Mar-21	DMO	1,800,000	09-Mar-21	0.0000%
05-Mar-21	DMO	1,500,000	11-Mar-21	0.0000%
08-Mar-21	DMO	1,300,000	18-Mar-21	0.0000%
11-Mar-21	DMO	1,200,000	18-Mar-21	0.0000%
Average interest rate				**0.04%**

Appendix A continued….

Money Market Fund Balances – 1 April 2020 – 31 March 2021

Money Market Fund	Opening Balance (£) 01/04/2020	Closing Balance (£) 31/03/2021	No. of days invested	Average 1 day yield
Aberdeen Standard Liquidity Fund (Lux) - Sterling Fund	0	£500,000.00	191	0.03%
Aviva Investors Sterling Liquidity Fund	0	£400,000.00	210	0.03%
CCLA - The Public Sector Deposit Fund	1,000,000	£1,050,000.00	365	0.15%
Federated Short-Term Sterling Prime Fund	1,000,000	£500,000.00	365	0.11%
Invesco Sterling Liquidity Portfolio (Institutional)	0	£500,000.00	295	0.07%

Appendix B

Treasury Management Outturn Report 2020/21

Introduction

The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2020/21 was approved at a meeting on 23rd February 2021. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 23rd February 2021.

External Context

Economic background: The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

Inflation has remained low over the 12-month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over $5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.
1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

Credit review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

Local Context

On 31st March 2021, the Authority had net borrowing of £217.7m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.20 Actual £m	**2020/21 Movement £m**	**31.3.21 Actual £m**
General Fund CFR	63.2	116.9	180.1
HRA CFR	82.4	-2	80.4
Total CFR	**145.6**	**114.9**	**260.5**
Less: Other debt liabilities *	-4.5	0.2	-4.3
Borrowing CFR	**141.1**	**115.1**	**256.2**
Less: Usable reserves	-26.7	-4.7	-31.4
Less: Working capital	-7.9	0.8	-7.1
Net borrowing	**106.5**	**111.2**	**217.7**

* *PFI liabilities that form part of the Authority's total debt*

Lower official interest rates have reduced the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 31st March 2021 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	31.3.21 Average Rate %
Long-term borrowing	92.4	28	120.4	2.24
Short-term borrowing	24.5	85.0	109.5	0.22
Total borrowing	**116.9**	**113**	**229.9**	
Short-term investments	10	1.0	11.0	0.20
Cash and cash equivalents	0.4	0.8	1.2	0
Total investments	**10.4**	**1.8**	**12.2**	
Net borrowing	**106.5**	**111.2**	**217.7**	

The increase in the level of borrowing supports the Commercial Strategy and the funding of the commercial investments.

Borrowing Update

In November 2020, the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that Authority unwinds problematic transactions, suspending access to the PWLB and the repayment of loans with penalties.

Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

The Council has invested in a number of commercial investments but does not view these as investments for yield, but a necessary function to underpin core services and ensure the financial stability of the Council. The PWLB may consider these investments fail to meet its lending criteria and if that is the case it is unlikely that the Council will be able to secure long-term borrowing from them. To manage this risk the Council are currently applying for a finance credit rating, this will enable access to a wider range of products when considering long-term borrowing.

Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor. A planned third bond issuance by Warrington Borough Council was withdrawn in early December after the reduction in PWLB borrowing rates.
If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

UK Infrastructure Bank: In his March 2021 budget the Chancellor confirmed that a UK Infrastructure Bank will be set up with £4bn in lending earmarked for local authorities from the summer of 2021. Loans will be available at gilt yield plus 0.60%, 0.20% lower than the PWLB certainty rate. A bidding process to access these loans is likely with a preference to projects likely to help the government meet its Net Zero emissions target. However other “high value and complex economic infrastructure projects” may also be considered.

Borrowing strategy

At 31st March 2021 the Authority held £229.9m of loans, an increase of £113m since 31st March 2020, as part of its strategy for funding previous and current years’ capital programmes. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.20 Balance £m	**2020/21 Movement £m**	**31.3.21 Balance £m**	**31.3.21 Weighted Average Rate %**
Public Works Loan Board	82.4	-2	80.4	3.21
Phoenix Life Ltd	10	12	22	2.86
Local authorities (Long-term)	0	18	18	0.80
Local authorities (short-term)	24.5	85	109.5	0.25
Total borrowing	**116.9**	**113**	**229.9**	

The Authority’s chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority’s long-term plans change being a secondary objective.

With short-term interest rates remaining much lower than long-term rates, the Authority considered it more cost effective in the near term to use internal resources or borrowed rolling short-term loans instead. The net movement in short-term loans is shown in table 3 above.

The Authority has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the borrowing need based on realistic projections, it was decided to take a combination of short and medium-term borrowing. The Authority borrowed an additional £18m longer-term fixed rate loans from other local authorities. These loans provide some longer-term certainty and stability to the debt portfolio.

The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing was maintained.
PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

Other Debt Activity

After £0.142 m repayment of prior years' Private Finance Initiative liabilities, total debt other than borrowing stood at £4.345m on 31st March 2021, taking total debt to £234.2m.

Treasury Investment Activity

On 1st April 2020, the Authority received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £20.7m was received and temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds. This was all distributed, with the residual amount of £1.8m paid back to central government in January.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £10 and £32 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.03.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	31.3.21 Weighted Average Rate %	31.3.21 Weighted Average Maturity Days
Government (incl. local authorities)	8	0	8	0.18	196
Money Market Funds	2	1	3	0.08	302
Total Investment	**10**	**1**	**11**		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely around zero.

The net return on Money Market Funds net of fees, which had fallen after Bank Rate was cut to 0.1% in March, are now at or very close to zero; fund management companies have temporarily lowered or waived fees to avoid negative net returns.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure %	Weighted Average Maturity (days)	Rate of Return %
31.03.2020	3.66	AA-	0.23	60	0.79
31.03.2021	4.64	A+	0.34	19	0.12
Similar LAs	4.63	A+	0.65	40	0.13
All LAs	4.63	A+	0.63	14	0.15

Following the cut in Bank rate from 0.75% to 0.10% in March 2020, the Authority had expected to receive significantly lower income from its cash and short-dated money market investments, including money market funds in 2020/21, as rates on cash investments are close to zero percent. Whilst the arrival and approval of vaccines against COVID-19 and the removal of Brexit uncertainty that had weighed on UK equities were encouraging developments, dividend and income distribution was dependent on company earnings in a very challenging and uncertain trading environment as well as enforced cuts or deferral required by regulatory authorities.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government's (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

At 31st March 2021, the Authority held £59.7m of such investments in loans to subsidiaries. This represents an increase of £6.8m on the previous year due to additional investment in Aspire CRP Ltd.

These investments generated £2.3m of investment income for the Authority after taking account of direct costs, representing a rate of return of 4%.

Compliance

The Director of Finance and Corporate Services reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6. Compliance with specific investment limits is demonstrated in table 7 below.

Table 6: Debt Limits

	2020/21 Maximum £m	**31.3.21 Actual £m**	**2020/21 Operational Boundary £m**	**2020/21 Authorised Limit £m**	**Complied**
Borrowing	231.9	229.9	295	295	✓
PFI	4.3	4.3	5	5	✓
TOTAL	**236.2**	**234.2**	**300**	**300**	✓

Table 7: Investment Limits

	2020/21 Maximum £m	31.3.21 Actual £m	2020/21 Limit £m	Complied
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard and Poor's is A- and above except the UK Central Government	0	0	2	✓
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard and Poor's is BBB+ except the UK Central Government	0	0	2	✓
UK Central Government	21	0	Unlimited	✓
UK Local Authorities including Police and Fire per authority	3	3	3	✓
UK Building Societies without credit ratings	0	0	2	✓
Saffron Building Society	0	0	0.5	✓
Money Market Funds, per fund	2	1	2	✓

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.21 Actual	2020/21 Target	Complied
Portfolio average credit rating	A+	A	✓

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period.

	31.3.21 Actual £m	2020/21 Target	Complied
Total cash available within 3 months	3	2	✓

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

	31.3.21 Actual £'000	2020/21 Limit £'000	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	189	250	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	189	250	✓

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.3.21 Actual	Upper Limit %	Complied
Under 12 months	49	50	✓
12 months and within 24 months	1	50	✓
24 months and within 5 years	5	50	✓
5 years and within 10 years	9	80	✓
10 years and within 20 years	24	80	✓
20 years and above	12	100	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£10m	£10m	£10m
Complied	✓	✓	✓

Other

CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.
In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e. recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.