REPORT TO:	**CABINET**
DATE:	**9 SEPTEMBER 2021**
TITLE:	**ANNUAL TREASURY MANAGEMENT REPORT 2020/21**
PORTFOLIO HOLDER:	**COUNCILLOR RUSSELL PERRIN, PORTFOLIO HOLDER FOR FINANCE AND GOVERNANCE**
LEAD OFFICER:	**SIMON FREEMAN, HEAD OF FINANCE AND PROPERTY AND DEPUTY TO THE CHIEF EXECUTIVE (01279) 446228**

This is not a Key Decision
It is on the Forward Plan as Decision Number I012611
The decision is not subject to Call-in Procedures for the following reason:
The decision stands as a recommendation to Full Council
This decision will affect no ward specifically.

RECOMMENDED that:

A Cabinet noted the annual Treasury Management Report for 2020/21 (Appendix A to the report), including that the Council operated within the Treasury Management Strategy Statement during 2020/21, and that the report is recommended to Full Council for approval.

REASON FOR DECISION

A In complying with latest Codes of Practice, Full Council is required to receive an annual report on the prior year's treasury management functions of the Council, which should also receive review by Cabinet in advance of its presentation to Full Council.

B The Prudential Indicators are also required to be reported to Full Council. These are included within the annual Treasury Management report.

BACKGROUND

1. Treasury management is defined as: "The management of the Council'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."

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

   a) An annual treasury strategy in advance of the year (Full Council, 30 January 2020);

   b) A mid-year treasury update report (Full Council, 10 December 2020);

   c) An annual review following the end of the year describing the activity compared to the strategy (this report).

3. The annual report for 2020/21 has been produced in compliance with the Code and is set out in Appendix A to this report. The regulatory environment governing treasury management places onus on Councillors for the review and scrutiny of treasury management policies and activities. This report is 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 Councillors.

ISSUES/PROPOSALS

4. As stewards of public funds, the Council continues to take all practical steps to protect its investment portfolio. In this respect, emphasis remains in this order of priority: security, liquidity and yield.

5. Security is defined as "reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments". In practice this means placing investments with organisations which have a high quality credit rating, i.e. banks and other bodies which have a Fitch rating of A(-) and above. Local authorities do not, usually, have credit ratings but are generally inherently safe havens for investment. However, in recent years there have been exceptions to this role, for example Northamptonshire County Council and Croydon Borough Council. In these circumstances the Council would continue to follow advice received from the Treasury Management advisors Arlingclose.

6. Liquidity means "ensuring that investments are not committed for excessive time-periods in order to facilitate the Council's cashflow requirements and to reflect the risk of not having immediate access to funds". Councils are discouraged from investing disproportionate sums of money for long periods of time at what seem attractive rates of return.

7. Yield is "obtaining a reasonable return on investments". The ongoing impact of the Covid-19 pandemic and the effect it had on the economy resulted in the Bank of England maintaining the base rate at 0.10 percent during 2020/21. Despite this, the Council has attempted to gain the best yields without compromising security and liquidity.

8. The advice from Arlingclose is that the Council must aim towards a good investment spread as this is the best defence against a possible capital loss. As a result, and within the overarching powers given by Councillors in the Treasury Management Strategy, the Council held investments with the CCLA (the Local Authority property fund), the Royal London Cash-Plus

Fund, Money Market Funds, local authorities, and the Treasury's DMO. It does not currently have any investments with Banks and Building Societies other than funds held overnight with its own banker, Barclays Bank plc.

IMPLICATIONS

Environment and Planning (Includes Sustainability)
None specific.
Author: Andrew Bramidge, Head of Environment and Planning

Finance (Includes ICT, and Property and Facilities)
As contained in the report.
Author: Simon Freeman, Head of Finance and Property and Deputy to the Chief Executive

Housing
None specific.
Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)
None specific.
Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)
None specific.
Author: Simon Hill, Head of Governance

Appendices

Appendix A – Annual Treasury Management Report 2020-21

Background Papers

Treasury Management Strategy 2020/21

Glossary of terms/abbreviations used

None.

APPENDIX A

HARLOW COUNCIL

ANNUAL TREASURY MANAGEMENT REPORT 2020/21

Introduction

1. This Report sets out the Council's Treasury Management outturn position in accordance with recommended practice.

2. It provides a review of external economic conditions impacting on the Council and focuses on the major issues affecting its borrowing and investments.

3. The Council uses specialist treasury management advisors to support its decision making, keep officers up to date with economic and more specifically market developments and providing specialist training and support.

4. As predicted, the falling & historically low interest rates have led to reduced rates of return in 2020/21. The impact of the coronavirus pandemic and the external context, as provided by the Council's Treasury Advisors, Arlingclose, is given in paragraphs 22 to 29 of this Appendix.

5. As a steward of public finance, the Council continues to take all practical steps to protect its investment portfolio. In this respect emphasis remains in this order of priority:

Security: some of the following might appear contradictory or elusive in this challenging economic environment

- Reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments
- The repayment of the sum invested; and / or,
- A return equal to or higher than the prevailing rate of inflation.

Liquidity: availability of cash when needed (adequate but not excessive liquidity)

Yield: a return commensurate with the level of risk.

6. The Council invests 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 Council's treasury management strategy.

7. Treasury management activity is guided by the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code). The Code requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a mid-year and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

8. The Council's Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Full Council on 30 January 2020, and was superseded by the TMSS 2021/22, contained within the Capital and Treasury Report 2021/22, approved by Council on 28 January 2021.

9. On 31 March 2021, the Council had net investments of £12.103m arising from its revenue and capital income. 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

	31.3.21 Actual £m
General Fund CFR	71.756
HRA CFR	196.269
Total CFR	**268.025**
External borrowing	(-)214.837
Internal borrowing	**53.188**
Less: Usable reserves	(-)78.730
Add: Working	13.439
Net investments	**(-)12.103**

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

Table 2: Treasury Management Summary

	31.3.20 Balance £m	Movement £m	31.3.21 Balance £m	31.3.21 Rate %
Long-term borrowing	211.837	-	211.837	3.492%
Short-term borrowing	-	3.000	214.837	0.070%
Total borrowing	**211.837**	3.000	**214.837**	
Long-term investments	(-)4.000	-	(-)4.000	2.304%
Short-term investments	-	-	-	n/a
Cash and cash equivalents	(-)22.100	13.929	(-)8.171	0.088%
Total investments	**(-)26.100**	**13.929**	**(-)12.171**	
Net borrowing	**185.737**	**16.929**	**202.666**	

Borrowing Strategy during the year

11. At 31 March 2021 the Council held £211.837m of long term loans from the Public Works Loan Board. The Council also undertook short-term borrowing from a local authority for the period 29 March 2021 to 29 June 2021.

Treasury Investment Activity

12. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £11.16m and £41.99m due to timing differences between income and expenditure. The investment position is shown in table 3 below.

Table 3: Treasury Investment Position

	31.3.20 Balance £m	Net Movement £m	31.3.21 Balance £m	31.3.21 Income Return %
Banks and building societies (unsecured)	3.480	(-)1.985	1.495	0.050%
Government	-	-	-	n/a
Local Authorities	5.000	(-)5.000	-	n/a
Money Market Funds	13.620	(-)6.945	6.675	0.127%
Other Pooled Funds				
Cash Plus Fund Royal London	2.000	-	2.000	0.412%
Property Fund (CCLA)	2.000	-	2.000	4.196%
Total Investments	**26.100**	**(-) 13.930**	**12.170**	

13. Both the CIPFA Code and government guidance require the Council 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 Council'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.

14. In furtherance of these objectives Officers have preferred to invest with local authorities rather than individual banks or building societies which carry bail-in risk. Whilst investments in Money Market Funds (MMF) carry risk of bail-in, the Funds themselves are large and diversified and hence the exposure is significantly reduced.

15. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 4 below.

Table 4: Investment Benchmarking – Treasury investments managed in-house

	Credit Score (where 1 is low risk)	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Total Rate of Return %**
31.03.2019	4.16	AA-	48%	86	1.09%
31.03.2020	4.19	AA-	77%	31	0.45%
31.03.2021	5.05	A+	100%	1	0.83%
Similar LAs	4.63	A+	65%	40	3.93%
All LAs	4.63	A+	65%	14	2.26%

Non-Treasury Investments

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

17. The Council has lent money to its subsidiary and a local business, to support local public services and stimulate local economic growth.

18. HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council which began trading on 1 February 2017. The Council provided a start-up loan to the business of £1.209m repayable over sixty two months and approved on 21 July 2016. The balance outstanding at 31 March 2021 was £0.234m.

19. In addition £0.670m was loaned to HTS for the purchase of vehicles and plant and machinery. The balance outstanding at 31 March 2021, for principal and interest, was £0.525m.

20. As part of a property scheme the Council loaned HTS £1.011m for the purchase of five houses. At 31 March 2021 the balance outstanding, for principal and interest, was £0.957m. Interest is charged at 4% over 40 years. This scheme also involved an equity share investment of £0.450m by the Council.

21. Harlow Property Limited was provided with two loans to support its developments within the Harlow Enterprise Zone, approved on 23 January 2014. The advances made were £1m on 15 March 2016 and a further £1.5m on 3 March 2017. Interest accrues on these loans. The total outstanding as at 31 March 2021 was £3.074m with security held against the increase in the property values. This investment generated £139,331 of investment income for the Council, representing a rate of return of 4.64%.

Compliance

22. The Deputy to the Chief Executive and Head of Finance and Property Services reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Economic Background

23. 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.

24. 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.

25. 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.

26. 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.

27. 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.

28. 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.

29. 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).

30. 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.

Annex A
Prudential Indicators 2020/21

Capital Expenditure: The Council's capital expenditure and financing may be summarised and is consistent with the draft statement of accounts, as follows.

Capital Expenditure and Financing	2020/21 Estimate £m	2020/21 Actual £m	Difference £m
General Fund	11.048	11.504	0.456
HRA	27.739	21.556	(-)6.183
Total Expenditure	**38.787**	**33.060**	**(-)5.727**
Capital Receipts	1.772	1.018	(-)0.754
Retained Right to Buy Receipts	3.549	3.814	0.265
Earmarked Reserves	0.020	0.020	0.000
Revenue Contributions (GF)	0.392	0.290	(-)0.102
Grants and Contributions	0.540	0.563	0.023
Major Repairs Reserve	10.229	8.842	(-)1.387
Direct Revenue Contribution (HRA)	2.198	-	(-)2.198
Borrowing	3.339	2.111	(-)1.228
MRP/Loans Fund Principal	-	0.513	0.513
Borrowing: Enterprise Zone (Modus)	5.363	6.927	1.564
Borrowing: Elm Hatch	1.185	0.063	(-)1.122
Borrowing: New Builds/House Purchases	10.200	8.899	(-)1.301
Total Financing	**38.787**	**33.060**	**(-)5.727**

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.21 Estimate £m	31.03.21 Actual £m	Difference £m
General Fund	75.785	71.756	(-)4.029
HRA	198.426	196.269	(-)2.157
Total CFR	**274.211**	**268.025**	**(-)6.186**

Actual Debt: The Council's actual debt at 31 March 2021 was as follows:

Debt	31.03.21 Estimate £m	31.03.21 Actual £m	Difference £m
Borrowing	211.837	**214.837**	3.000
Finance leases	-	**1.512**	1.512
Total Debt	**211.837**	216.349	**4.512**

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt and CFR	31.03.21 Estimate £m	31.03.21 Actual £m	Difference £m
Total debt	211.837	**216.349**	4.512
Capital financing requirement	274.211	**268.025**	(-)6.186
Headroom	**62.374**	**51.676**	**(-)10.698**

Total debt remained below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities are not borrowing but form part of the Council's debt.

Operational Boundary and Total Debt	31.03.21 Boundary £m	31.03.21 Actual Debt £m	Complied
Borrowing	291.000	**216.349**	✓
Total Debt	**291.000**	**216.349**	✓

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit and Total Debt	**31.03.21 Boundary £m**	**31.03.21 Actual Debt £m**	**Complied**
Borrowing	301.000	**216.349**	✓
Total Debt	**301.000**	**216.349**	✓

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**31.03.21 Estimate %**	**31.03.21 Actual %**	**Difference %**
General Fund	3.29%	**3.30%**	0.01%
HRA	15.16%	**13.99%**	(-)1.17%