
TREASURY MANAGEMENT ANNUAL REVIEW 2020/21

1 SUMMARY

- 1.1 This report sets out a summary of the Council's Treasury Management activity for the 2020/21 financial year.
- 1.2 The Council is required by the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities to produce an annual review of its treasury management activities.
- 1.3 The Review Committee is asked to consider the contents of this report and recommend it for approval by Council on 20 July 2021.
- 1.4 The Council's income from treasury management activities in 2020/21 was £68,017 against a budget of £130,000.00.

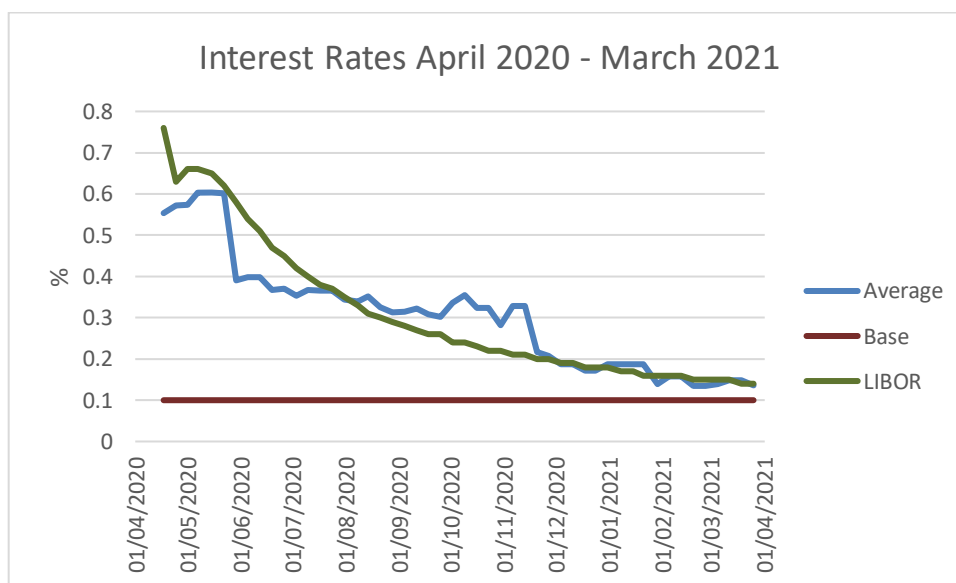
2 INTRODUCTION AND BACKGROUND

- 2.1 Treasury management is defined as "The management of the local authority's investments, 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."
- 2.2 All decisions on borrowing, investment or financing are delegated to the Assistant Director, Resources as the Chief Finance Officer and this delegation is documented in the Financial Regulations.
- 2.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members. Member training on treasury management issues was undertaken during the year on 14/10/2020 in order to support Members' scrutiny role.
- 2.4 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and report on the actual prudential and treasury indicators each year. 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).
- 2.5 The minimum reporting requirements are that Council should receive the following reports:
 - An Annual Treasury Strategy in advance of the year (Council 11/02/2020)
 - A Mid-Year Treasury Update Report (Council 15/12/2020)

- An Annual Review following the end of the year describing how actual activity compares to the Strategy (this report)

3 INVESTMENT PERFORMANCE FOR 2020/21

- 3.1 Investment returns, which were already low during 2019/20, plunged to near zero during 2020/21. The expectation for interest rates within the Council’s Treasury Management Strategy for 2020/21 was that the Bank Rate would start the year at 0.75 % before rising to 1.25% at the end of 2022/23. This forecast was abrogated by the Covid-19 pandemic arriving in March 2020 which caused the Monetary Policy Committee to cut the Bank Rate first to 0.25% and then to 0.10%, to counter the hugely negative impact of the national lockdown on large swathes of the economy.
- 3.2 The Bank of England and the Government also introduced new programmes of supplying the banking system and the wider economy with large amounts of cheap credit to help businesses to survive the lockdown. In addition, the Government supplied a significant amount of finance to local authorities to pass on to businesses in the form of grants. This meant that for most of the year liquidity in the financial markets exceeded demand to borrow, with the consequent effect that investment earnings rates plummeted.
- 3.3 The following graph shows a comparison of average rate of interest earned, Bank base rate and the benchmark (7-day London Interbank Rate); this shows the correlation in average interest rate achieved compared to the Bank of England Base rate.



4 INVESTMENT POSITION

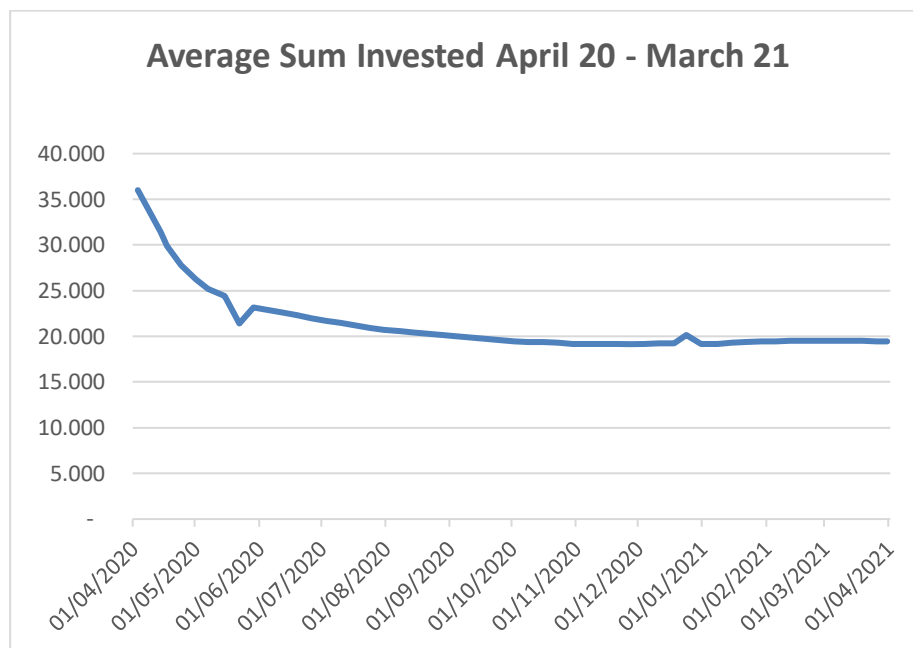
- 4.1 The Council’s investment position at the beginning and the end of the year, as shown on the Council’s Balance Sheet, was as follows:

Balance as at 31 March 2020 £13.8 m

Balance as at 31 March 2021 £17.0 m

4.2 The breakdown of the investments held at 31 March 2021 were three fixed rate investments totalling £6m with Santander and one fixed rate investment of £3m with Lloyds. £6m was placed with Handelsbanken and £2m in the Prime Money Market Fund.

4.3 The graph below shows the Council’s average balances over the year. Balances were unusually high at the beginning of the year when the government paid the Council c£18m to distribute in grants to businesses but reduced as these were paid out.



4.4 Total external interest earned in 2020/21 was £68,017 compared to £147,110 in 2019/20. The decrease was due to the decline in average interest rates paid on investments compared to 2019/20.

4.5 In line with the Treasury Management Strategy agreed by Council the Authority takes advice from its Treasury Management Advisers, Link Asset Services, which uses a combination of credit ratings and market intelligence, in order to decide which banks and financial institutions to deposit funds with.

5 COMPLIANCE WITH TREASURY LIMITS

5.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council’s annual Treasury Management Strategy. The outturn for the Prudential Indicators, compared to the estimates made in February 2020, are shown below.

PRUDENTIAL INDICATOR	2019/20	2020/21	2020/21
	Actual	Original Budget	Actual (subject to audit)
Capital Expenditure £000s	1,125	2,829	1,169
Ratio of Financing Costs to Net Revenue Stream	(1.48%)	(1.26%)	(0.71%)
Capital Financing Requirement as at 31 March £000s	777	777	777
Incremental Impact of Capital Investment Decisions - (Reduction) in Council Tax (band D) per annum £	0.00	0.04	0.00

6 RESOURCE IMPLICATIONS

- 6.1 The Council has not undertaken any external borrowing during the year and therefore no interest costs were incurred. Investment income remains a relatively small overall source of income to the Council; however, the Council continues to seek the best returns available within its agreed risk appetite.
- 6.2 The Council's current Treasury Management Advisers are Link Asset Services (LAS). The contract costs £8,250 per year which represents good value for money via the provision of specialist advice and training to the Council officers and members which enables sound investment decisions to be made.

7 RISK IMPLICATIONS

- 7.1 The Council's agreed Treasury Management Strategy sets out in detail the risks involved in making investments and in particular the risk that a counter party may fail during the duration of an investment. The Authority is responsible for managing the investment of public funds and must adopt a prudent approach.

8 LEGAL IMPLICATIONS

- 8.1 None arising from this report.

9 RECOMMENDATION

- 9.1 It is proposed that the Review Committee **RESOLVES**

To recommend the contents of this report to Council.



Naomi Lucas

Assistant Director, Resources

Background Papers:-

None.

For further information please contact Naomi Lucas on:-

Tel:- 01702 318102

E-Mail:- naomi.lucas@rochford.gov.uk

If you would like this report in large print, Braille or another language please contact 01702 546366.