



COUNCIL: 21 July 2021

Report of: Head of Finance, Procurement and Commercial Services.

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SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR PERFORMANCE 2020-21

Borough wide interest

1.0 PURPOSE OF THE REPORT

1.1 To inform Members of the Treasury Management performance and Prudential Indicators for the year ended 31 March 2021.

2.0 RECOMMENDATION

2.1 That the performance for the 2020-21 financial year be noted.

3.0 BACKGROUND

3.1 Treasury Management covers the management of the Council's cash flows, banking, investments and borrowing. Given the large sums of money involved it is an important area of the Council's finances and is subject to a specific set of rules and regulations.

3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, which has been adopted by the Council, requires a number of reports to be made to Council on Treasury Management activities. This includes details of performance during the year and the exercise of powers delegated to the Head of Finance, Procurement and Commercial Services.

3.3 The introduction of the Prudential Code for Capital Finance has allowed Councils to determine their own level of borrowing, taking account of a set of prudential

indicators. The general principle is that borrowing is to be affordable, prudent and by conclusion sustainable.

4.0 INVESTMENT PERFORMANCE

4.1 The Council's investment activity during the year continued to be influenced by external factors, most significantly the effects of the global pandemic. The Bank of England base rate held at 0.10% for the entirety of the year which had a detrimental effect on investment returns. The Council's cashflow was also negatively impacted by the pandemic with income levels significantly reduced. The main priority therefore was to ensure there were sufficient cash balances available to ensure the Council could meet its liabilities. The average amount out on investment during 2020-21 was £24.7m compared to £30.7m in 2019-20.

4.2 The following table provides details on investment activity over the last 2 years.

	<u>2020-21</u>	<u>2019-20</u>
External Investment Interest earned	£129,916	£258,577
Annual Turnover	£94 million	£238 million
Number of individual investments	6	41
Average Interest Rate earned	0.34%	0.723%
<u>Number & type of organisations invested in</u>		
Local Authorities	1	2
Building Societies	1	4
Banks	4	4
Other	1	1

4.3 As part of the ongoing exercise to achieve best value in treasury management, we continue to monitor performance of the Council's investment activities against a benchmark of the average 3-month LIBID interest rate. The average interest rate earned by the Council on its investments was 0.34%, which exceeded the benchmark rate of 0.02%.

4.4 At its meeting in February 2020 the Council approved the use of Property Funds, Corporate Bonds, Infrastructure Investments and longer term borrowing with local authorities and UK based banks and building societies with high credit ratings. However investments of this type have not yet been pursued due to the disruption caused by the coronavirus.

5.0 COUNCIL BORROWING

5.1 At the start of the financial year the Council had outstanding long term borrowing of £88.212m, from the Public Works Loan Board which was related to HRA self-financing.

- 5.2 By the end of the financial year the position had remained unchanged. Total interest payments of £3.06m were made in 2020-21 in order to service the HRA self-financing debt.
- 5.3 The funding resources for the Council's capital works for 2020-21 did not include any element of external borrowing in order to achieve the programme. Instead a combination of mainly internally generated resources and capital grants was utilised in order to fund the different schemes detailed in the plan. However, going forward several large capital projects will at some point necessitate external borrowing. These schemes include Skelmersdale town centre redevelopment, the proposed construction of new leisure centres and the HRA business plan whereby the development company, TvD, is building affordable homes for the HRA to purchase. They will require external borrowing to be taken out and this position has been reflected in the business cases previously agreed by Council.

6.0 EXERCISE OF DELEGATED POWERS

- 6.1 The current counterparties list is set out in Appendix A. This shows the types of organisations that have been approved for investment purposes, and the maximum amount and loan period for investing with a single organisation. This is in accord with the previously agreed treasury management protocol which has been reported to Members.
- 6.2 The Head of Finance, Procurement and Commercial Services has delegated powers to take out new debt and repay existing debt. These powers ensure that the Council can obtain the best possible deals in a market where conditions can change rapidly. However this facility was not utilised during the year.

7.0 PRUDENTIAL CODE PERFORMANCE

- 7.1 Appendix B details the actual Prudential Indicators for the financial year 2020-21. The overall information that this conveys is one of a steady financial position.
- 7.2 The purpose of the Indicators is to ensure that financing costs associated with capital activities are managed in a prudent, affordable and by definition, sustainable manner.
- 7.3 The Council aims to ensure this position in a number of ways. One of the main areas in which it achieves this objective is by a robust budget setting cycle. During this process Managers must detail the revenue implications of any capital decisions, while the capital process identifies the resources available to fund the capital programme. This ensures that strategic resource planning and option appraisal of bids are fully reviewed prior to setting the programme.
- 7.4 In specific reference to the Prudential Indicator performance for 2020-21 it is worth pointing out that the net revenue stream for the GRA is in a small negative position. This is due to the fact that investment returns have increased as a result of a prepayment of pensions which has afforded a favourable financial position which has been reflected in the indicator.

- 7.5 The HRA net revenue position is at the level detailed primarily due to the interest payments of £3.057m on the self-financing debt. However, it must be borne in mind that the Council does not now have to pay housing subsidy to the Government, which was some £6m p.a. and consequently is in a much better financial position.
- 7.6 As a result of the self financing payment, there is now another relevant indicator that requires reporting, that being the maturity structure of borrowing. This details the differing amounts of debt, the dates of maturity and the associated interest costs relating to the payment of £88.212m. It can be seen that by structuring the debt on a long term basis that the Council benefits from the low interest charges that were available at that specific time. This enables the HRA to develop a business plan with the backdrop of a clear financial picture relating to its debt.
- 7.7 Figures on the occupation levels of our commercial properties are now reported within the treasury management strategy and the actual occupancy rates are detailed in appendix B to this annual report. The figures show an encouraging picture considering the effects on the pandemic on the economy. Broadly the demand for industrial units remains encouraging whilst the demand on the retail units has also remained relatively upbeat.

8.0 SUSTAINABILITY IMPLICATIONS

- 8.1 There are no significant sustainability implications associated with this report and in particular no significant impact on Crime and Disorder.

9.0 RISK ASSESSMENT

- 9.1 The formal reporting to Council of Treasury Management performance and Prudential Indicators for Capital Finance is part of the overall framework set out in the Code of Practice to ensure that the risks associated with this activity are effectively controlled.

Background Documents

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report.

<u>Date</u>	<u>Document</u>	<u>File Ref</u>
2003	CIPFA Prudential Code for Capital Finance in Local Authorities	Accountancy Office
2009	CIPFA Revised Treasury Management Code of Practice	Accountancy Office

Equality Impact assessment

The decision does not have any direct impact on members of the public, employees or elected members and/or stakeholders. Therefore, no Equality Impact Assessment is required.

Appendices

Appendix A – Approved Counterparties for External Investments

Appendix B – Outturn Prudential Indicators

APPROVED COUNTERPARTIES FOR EXTERNAL INVESTMENTS –

Type of Counterparty	Maximum loan by Council	Maximum Period
Major British Based Banks and Subsidiaries with at least A- credit rating.	£5m	Up to £5m 364 days Up to £3m 3 years
British Based Building Societies. – Only those with at least A- credit rating as advised by Link (our TM advisors)	£5m	Up to £5m 364 days Up to £3m 3 years
Other Local Authorities, where agreed.	£5m	Up to 5 years
Property Funds, Corporate Bonds, Infrastructure Investments	£3m	Up to 3 years corporate and, 5 years property and infrastructure.
Money Market Funds	£3m	N/A Callable deposits

Appendix B:

PRUDENTIAL INDICATORS OUTTURN 2020-21

Net Revenue Stream:

	<u>2020/21</u>	<u>2019/20</u>
General Revenue Account -	-0.10%	2.23%
Housing Revenue Account -	12.31%	11.69%

This is a measure of the interest paid on borrowing / debt taking account of the interest earned on investments as a percentage of the overall Council tax or HRA expenditure requirement.

Capital Expenditure:

£ '000

	<u>Budget</u>	<u>Actual</u>
General Revenue Account -	£10,968	£8,352
Housing Revenue Account -	<u>£7,697</u>	<u>£4,738</u>
Total	<u>£18,665</u>	<u>£13,090</u>

This Indicator is reported upon to demonstrate that there is effective control of the capital programme and that expenditure is incurred in line with resources approved. In addition, on the HRA there has been capital expenditure of £3,658m for affordable builds by the TvD and 1-4-1 purchases of £380k.

Authorised Limit for External Debt:

£ '000

Operational Boundary:

Borrowing	120,500	107,500
Other long term liabilities	<u>500</u>	<u>0</u>
Total	<u>121,000</u>	<u>107,500</u>

The Head of Finance, Procurement and Commercial Services has delegated authority to borrow up to the limits detailed above and to effect movement to these figures for borrowing and other long term liabilities. Such changes will be reported to Council at its next meeting following the change. The Council undertook borrowing of £88.212m on 28th March 2012 and had no other long term liabilities at the end of financial year 2020-21. Hence, the Authority is comfortably within the parameters detailed.

Capital Financing Requirement
£ '000

2019/20

General Revenue Account	£22,474
Housing Revenue Account	<u>£81,903</u>
Total	<u>£104,377</u>

The capital financing requirement measures the Authority's underlying need to borrow for a capital purpose. The 2020-21 figures can only be reported when the statement of accounts and balance sheet has been finalised, hence these will now be reported within the mid year report to Council.

Maturity Structure of Borrowing

All fixed rate loans:

<u>£</u> <u>Value</u>	<u>%</u> <u>Interest Rate</u>	<u>Period</u>	<u>Maturity date</u>	<u>£</u> <u>Int p.a.</u>
4,410,600	3.01	15	28/3/27	132,759
4,410,600	3.30	20	28/3/32	145,549
8,821,200	3.44	25	28/3/37	303,449
8,821,200	3.50	30	28/3/42	308,742
8,821,200	3.52	35	28/3/47	310,506
8,821,200	3.53	37	28/3/49	311,388
8,821,200	3.52	40	28/3/52	310,506
8,821,200	3.51	42	28/3/54	309,624
8,821,200	3.50	45	28/3/57	308,742
8,821,200	3.50	47	28/3/59	308,742
8,821,200	3.48	50	28/3/62	306,977

Weighted average interest rate is 3.47%

Total interest charge p.a. is £3,056,986

Note: The capital outturn and capital financing figures may be subject to small variations as the year end accounts have not been completed at the time of writing.

Commercial Occupation

Percentage occupied %	%
Industrial	98.98
Office	89.86
Retail	93.10
Other – Meeting rooms, ground lease etc	100.00