REPORT TO: **MORAY COUNCIL ON 15 SEPTEMBER 2021**

SUBJECT: **TREASURY MANAGEMENT PERFORMANCE AND TREASURY AND CAPITAL INVESTMENT PRUDENTIAL INDICATORS FOR 2020/21**

BY: **DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)**

1. REASON FOR REPORT

1.1 To provide Council with the annual outturn report on Treasury Management and details of the Council’s Prudential Indicators for Treasury Management and Capital Investment for the year ended 31 March 2021.

1.2 This report is submitted to Committee in terms of Sections III B (3) of the Council's Scheme of Administration relating to Treasury Management and the Capital Plan.

2. RECOMMENDATION

2.1 It is recommended that the Council consider and note the Treasury Management Performance and the Council’s Treasury Management and Capital Investment Prudential Indicators for 2020/21 as set out in the attached APPENDIX 2.

3. BACKGROUND

3.1 Members have agreed that reports on Treasury Management Performance are submitted twice annually. One report to agree the Treasury Management and Investment Strategies with relevant Performance Indicators and the second report to submit the annual review and actual performance of Treasury Management activities. Quarterly Treasury Management monitoring reports are posted on the Members Portal throughout the year.

3.2 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector 2017 (the Code) and the Local Government Investment (Scotland) Regulations 2010. All treasury management activities are carried out in accordance with the Code and regulations.

3.3 The primary requirements of the Code are as follows:

- An approved Treasury Management Policy, which sets out the policies and objectives of the Council's treasury management activities.

- Approved Treasury Management Practices, which set out the manner in which the Council will seek to achieve those policies and objectives.

- An annual treasury management strategy report to Council for the year ahead and an annual review report to Council of the previous year.

3.4 The Local Government (Scotland) Act 2003 requires the Council to adopt the CIPFA Prudential Code for Capital Finance in Local Authorities and to produce the prudential indicators set out in the Prudential Code. These indicators are designed to support and record affordable and sustainable capital investment and treasury management.

4. TREASURY PERFORMANCE 2020/21

4.1 This annual Treasury Management performance report covers:

- The Economy and Interest Rates 2020/21
- Treasury Management Strategy for 2020/21
- Annual Investment Strategy 2020/21
- Investment Outturn for 2020/21
- Long Term Borrowing and Debt Rescheduling
- Short Term Borrowing
- Prudential Code for Capital Finance in Local Authorities

The Economy and Interest Rates 2020/21

4.2 The start of 2020/21 saw a slump in oil prices down to $18.38 a barrel in April 2020 as the Covid-19 pandemic spread across the world. Since then prices have seen a steady increase and in March 2021 saw the price exceed pre-pandemic levels at $65.41 a barrel (January 2020 $63.65). The rollout of the vaccination programme and the easing of restrictions have seen this increase continue at the start of 2021/22.

4.3 UK Consumer Price Inflation (CPI) for March 2021 was up 0.7% year-on-year, which was weaker than expected due to the lasting impact of the lockdowns on the economy. The Bank of England are currently forecasting that CPI could reach a peak of 4.0% in quarter 4 of 2020/21 but will then ease back towards the 2.0% target. The labour market data for the three months to March 2021 showed that the employment rate was 75.2%, 0.2% higher than the previous quarter but still 1.4% lower than pre-pandemic levels. The unemployment rate was 4.8%. Average pay growth for the public sector was 5.6%, but was only 3.7% for the private sector. This is being impacted by the levels of lower paid jobs compared with pre-pandemic levels and is seeing this move upwards. It should be noted however that, that with the extension of government support in the form of the Coronavirus Job Retention Scheme, the impact on employment rates might not be seen until later in the year.

4.4 Gross Domestic Product (GDP) in the quarter to March 2021 fell by 1.5% compared with the previous quarter and 6.1% when compared with the same quarter of the previous year. This was to be expected due to the lockdown introduced by the Government in response to the steep rise in Covid-19 cases over the winter. All areas of the economy bar one saw a decrease in output during the quarter. The exception to this was construction which saw a 2.6% quarter on quarter increase. This is mainly because the sector saw a 5.8% increase in March due to new work on private housing. It is expected that GDP will rise in the second quarter as the vaccine rollout progresses and restrictions are lifted, and it is estimated that this recovery will continue through the rest of 2021 as we move towards the elimination of the majority of restrictions.

4.5 In response to the pandemic, in March 2020 bank interest rates were cut to 0.10% and they have remained at the level since then. The Bank of England has said that although there are positive signs and the UK economy has performed better than anticipated, there is still a need for caution and that they would continue to monitor the situation closely.

4.6 Both globally and domestically, the Covid-19 pandemic has had a major impact on countries around the world. However, with the rollout of vaccinations across the world there are signs of that economies may be recovering. The IMF is forecasting that the global economy will grow by 6% in 2021. However they note that this prediction presents some challenges and there will be differences in the outlook across countries, for example due to the pace of vaccine rollouts. Another factor that will have an impact on any economic recovery will be how different industries react to increased demand as a result of economic activity re-starting. Issues have already been seen in the construction industry with cost and supply of materials and it is anticipated that this will be the case for the rest of 2021.

2020/21 Treasury Management Strategy

4.7 The Treasury Management Strategy, incorporating the Annual Investment Strategy, was approved by the Council at its meeting on 3 March 2020 (paragraph 4 of the minute refers).

4.8 The Council's main objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which the funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.9 Given the significant real reduction in local government funding in recent years and the impact of the pandemic, the Council's borrowing strategy continued to address the key issues of affordability without compromising the longer term stability of the debt portfolio. With short-term interest rates much lower than long-term rates, it was more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By adopting this approach, the Council was able to reduce net borrowing costs and reduce overall treasury risk.

4.10 The Public Loans Works Board (PWLB) is the Council's preferred source of long-term borrowing given the transparency and control that its facilities continue to provide.

Annual Investment Strategy

4.11 The Council's primary principle when investing is the security of capital and liquidity of investments. As a secondary aim the Council will also aim to achieve the optimum return on its investments, commensurate with proper levels of security and liquidity. It is considered prudent to only invest with highly credited UK financial institutions that have a long-term credit rating of BBB+ or higher.

4.12 The Council's creditworthiness policy has been formulated after consultation with Arlingclose, the Council's treasury advisers. The Chief Financial Officer maintains a counterparty list in compliance with the minimum criteria approved by Full Council on 3 March 2020 (paragraph 4 of the minute refers) and any revision to the criteria is submitted to Council for approval as necessary.

4.13 All credit ratings are monitored daily and the Counterparty list is amended to reflect any changes.

Investment Outturn for 2020/21

4.14 The Council manages its investments in-house and invests with the institutions listed on the Council's approved Counterparty list.

4.15 The table below shows the overall investment undertaken by the Council during 2020/21:

	Total Sum Deposited (£m)	**Average Rate (%)**
Approved Financial Institutions	1,106.272	0.09
Council's Bankers	36.370	0.05
TOTAL	**1,142.642**	**0.07**

The above figures are cumulative and the actual amounts invested at any one time ranged from £10.28 million to £62.715 million.

4.16 The average rate of interest earned on investments during the year was 0.07%, compared to the average 7 day London Inter Bank Bid Rate (LIBID) of 0.0544%.

4.17 As at 31 March 2021, the following balance was invested:

Counterparty	**Investment**	**Amount (£m)**	**Interest Rate (%)**
Bank of Scotland	Call Account	10.000	0.05
Aberdeen Standard	Money Market Fund	5.000	0.01
Federated	Money Market Fund	5.000	0.01
Blackrock	Money Market Fund	5.000	0.00
Insight	Money Market Fund	2.120	0.00
CCLA	Money Market Fund	5.000	0.04
		32.120	**0.02**

Long Term Borrowing and Debt Rescheduling

4.18 The Council's long term external debt position at 31 March 2021 compared with the position at the end of the last financial year was as follows:

	31 March 2020			31 March 2021		
	Actual (£000)	**Rate (%)**	**Average Life (years)**	**Actual (£000)**	**Rate (%)**	**Average Life (years)**
Fixed Rate Funding – PWLB	145,062	4.82	18.27	142,758	4.70	17.34
Fixed Rate Funding – Market	33,400	4.68	53.82	33,400	4.68	52.82
TOTAL DEBT	**178,462**	**4.75**		**176,158**	**4.69**	

There was no variable rate borrowing in the year.

4.19 The Council has been maintaining an under borrowed position which means that the capital borrowing need (Capital Financing Requirement) has not been fully funded with loan debt. Cash supporting the Council's reserves, balances and cash flows have been used as temporary measures to offset the need to borrow.

4.20 The strategy of effectively delaying new long term borrowing by utilising internal and temporary borrowing has served well at a time when comparatively cheaper temporary borrowing from other local authorities is readily available, and historically low investment returns give rise to potentially significant carrying costs for new long-term borrowing.

4.21 The Council cannot continue to rely on short-term borrowing so advantage was taken of historically low interest rates to borrow the following long term loans for the Public Works Loans Board (PWLB):

Amount (£)	Rate (%)	Term (years)	Repayment Type
7,000,000	0.95	10	EIP*

*The loan will be paid by equal annual instalments (EIP) over the period of the loan.

4.22 No debt rescheduling was undertaken during the year as the differential between PWLB new borrowing rates and PWLB premature repayment rates made rescheduling unviable.

Short Term Borrowing

4.23 During the year, nineteen new temporary loans totalling £76.5m were borrowed from other UK local authorities. A table detailing the short term loans outstanding at 31 March 2021 can be found at **APPENDIX 1.**

The Prudential Code for Capital Finance in Local Authorities

4.24 The Local Government (Scotland) Act 2003 requires the Council to undertake its treasury activities with regard to the Prudential Code for Capital Finance in Local Authorities.

4.25 The Code requires the Council to produce mandatory indicators aimed at assisting members in ensuring that proposed capital investment levels and treasury management decisions satisfy the key requirements of affordability, prudence and sustainability. The Prudential Indicators for 2020/21 were approved at Full Council on 3 March 2020 (paragraph 4 of the minute refers). There were no breaches of these indicators during 2020/21. Performance against key indicators is shown in the **APPENDIX 2.**

5. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))
None arising specifically from this report.

(b) Policy and Legal
The Local Government (Scotland) Act 2003 provides the power to borrow and invest as well as providing controls and limits on these activities.

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector which details best practice The Local Government Investment (Scotland) Regulations 2010.

All Treasury Management activities are carried out in accordance with the Code and Regulations.

(c) Financial implications
The financial implications are highlighted within the report and the attached **APPENDIX 2**.

(d) Risk Implications
The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council’s treasury advisers, will proactively manage its investments and debt over the year.

(e) Staffing Implications
There are no staffing implications arising directly from this report

(f) Property
There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact
There are no equalities issues arising from this report

(h) Consultations
This report has been produced in consultation with Arlingclose Limited, the Council's Treasury Advisers.

6. CONCLUSION

6.1 The Council's requirements for funds continues to be managed in accordance with the agreed Treasury Management Strategy Statement. All treasury management and capital investment activities have been undertaken with the limits set by the Prudential Code Performance Indicators for 2020/21.

Author of Report:	Laurie Milne, Senior Accountant
Background Papers:	Various working papers held within Financial Services.
Ref:	