Annual Treasury Management Review 2020-21

Governance & Audit Committee	28 July 2021
Report Author	Tim Willis, Deputy Chief Executive and Section 151 Officer
Portfolio Holder	Councillor David Saunders, Cabinet Member for Finance
Status	For Decision
Classification	Unrestricted
Previously Considered by	N/A
Ward	Thanet Wide

Executive Summary:

This report summarises treasury management activity and prudential/ treasury indicators for 2020-21. However, the council's 2020-21 accounts have not yet been audited and hence the figures in this report are subject to change.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's borrowing, 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."*

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the 2020-21 year-end position for treasury activities.

Key reporting items to consider include:

- 2020-21 capital expenditure on long term assets was £23.5m (2019-20: £17.5m), against a budget of £43.8m.
- The council's gross debt, also called the borrowing position, at 31 March 2021 was £24.4m (31 March 2020: £25.0m).
- The council's underlying need to borrow to finance its capital expenditure, also called the Capital Financing Requirement (CFR), was £56.7m at 31 March 2021 (31 March 2020: £54.6m).
- Therefore it can be reported the council has complied with the requirement to hold less gross debt than its CFR.
- The maximum debt held by the council during 2020-21 was £25.0m, which was well within the statutory authorised limit of £109.0m

- At 31 March 2021 the council's investment balance was £31.3m (31 March 2020: £33.9m).

Recommendation(s):

That the Governance & Audit Committee:

1. Notes the actual 2020-21 prudential and treasury indicators in this report;
2. Makes comments as appropriate on this Annual Treasury Management Report for 2020-21;
3. Recommends this report to council for approval.

Corporate Implications

Financial and Value for Money

The financial implications are highlighted in this report.

Legal

Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Deputy Chief Executive, and this report is helping to carry out that function.

Corporate

Failure to undertake this process will impact on the council's compliance with the Treasury Management Code of Practice.

Equalities Act 2010 & Public Sector Equality Duty

There are no equity and equalities implications arising directly from this report, but the council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

It is important to be aware of the council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by council.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -
- Growth
- Environment
- Communities.

1. Introduction and Background

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's borrowing, 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."

1.2. The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3. The second main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer-term cash flow planning, to ensure that the council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any existing debt may also be restructured to meet council risk or cost objectives.

2. Reporting Requirements

2.1. This council is required by regulations issued under the Local Government Finance Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020-21. This report meets the requirements of both the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.2. During 2020-21 the minimum reporting requirements were that the full council should receive the following reports:

- an annual treasury strategy in advance of the year (council 06-02-2020): https://democracy.thanet.gov.uk/documents/s67348/TMSS%202020-21.pdf
- a mid-year treasury update report (council 10-12-2020): https://democracy.thanet.gov.uk/documents/s70687/Mid%20Year%20Report%20Council%202020-21.pdf
- an annual review following the end of the year describing the activity compared to the strategy (this report).

2.3. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the 2020-21 year-end position for treasury activities and highlights compliance with the council's policies previously approved by members.

2.4. This council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee before they were reported to the full council. Member training on treasury management issues was last undertaken on 31-10-2019 in order to support members' scrutiny role, and further training will be arranged as required. The council's external treasury management advisor is Link Group, Treasury Solutions (Link).

2.5. The council's 2020-21 accounts have not yet been audited and hence the figures in this report are subject to change

3. The Council's Capital Expenditure and Financing

3.1. The council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure for the General Fund (GF) and the Housing Revenue Account (HRA) and how this was financed.

	2019-20 Actual £'000	2020-21 Budget £'000	2020-21 Provisional Actual £'000
Capital expenditure - GF	6,887	21,389	12,376
Capital expenditure - HRA	10,586	22,418	11,118
Capital expenditure - Total	**17,473**	**43,807**	**23,494**
Financed by:			
Capital receipts	2,964	8,665	3,259
Capital grants	5,954	8,427	4,169
Revenue and reserves	3,760	17,082	5,730
Borrowing	4,795	9,633	10,336
Total	**17,473**	**43,807**	**23,494**

3.2. Full details of capital expenditure and explanations of variances from budget will be reported within the Financial and Performance Monitoring Year-End Report to Cabinet in September. The council is committed to tackling the significant level of slippage in the capital programme as per the following extract from section 5 of the council's Capital Strategy document:

"Slippage will not be the acceptable norm - capital schemes will be at risk of having their council funding re-directed should there be delays that cannot be substantiated (schemes that are externally funded may require more flexibility however)."

4. The Council's Overall Borrowing Need

4.1. The council's underlying need to borrow to fund its capital expenditure is termed the Capital Financing Requirement (CFR). The CFR can be thought of as the outstanding debt that still needs to be repaid in relation to the capital assets (buildings, vehicles etc) that the council has purchased or invested in. It can also be helpful to compare it to the outstanding balance that is still payable on a loan or a mortgage, in this case we are considering how much of the council's debt still needs to be paid for.

4.2. **Gross borrowing and the CFR -** in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the council should ensure that its gross external borrowing (borrowing undertaken with financial institutions or external organisations) does not, except in the short term, exceed the total of the CFR in the preceding year (2020-21) plus the estimates of any additional capital financing requirement for the current (2021-22) and next two financial years.

4.3. This essentially means that the council is only borrowing to fund capital expenditure and is not borrowing to support revenue expenditure. Under statutory requirements councils are not allowed to borrow to fund their revenue budget activities.

4.4. By assessing this indicator over four years it allows the council some flexibility to borrow in advance of its immediate capital needs in 2020-21. The table below highlights the Council's gross borrowing position against the CFR and shows that the council has complied with this prudential indicator, as the council's gross debt of **£24.4m** is less than the **£56.7m** CFR at 31 March 2021.

	31 March 2020 Actual £'000	31 March 2021 Budget £'000	31 March 2021 Provisional Actual £'000
CFR GF	30,422	29,076	28,449
CFR HRA	24,200	29,362	28,236
Total CFR	**54,622**	**58,438**	**56,685**
Gross borrowing position	(25,025)	(43,463)	(24,394)
Underfunding of CFR	29,597	14,975	32,291

4.5. **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the council does not have the power to borrow above this level.

4.6. **The operational boundary** – the operational boundary is the expected borrowing position of the council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

4.7. The table below shows that during 2020-21 the Council's maximum gross debt position was **£25.025m** and therefore it has maintained gross borrowing within its authorised limit and operational boundary.

	2020-21 £000
Authorised limit	109,000
Maximum gross borrowing position during the year	25,025
Operational boundary	99,000
Average gross borrowing position	24,650

4.8. **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2020-21 %
Financing costs as a proportion of net revenue stream - GF	5.7%
Financing costs as a proportion of net revenue stream -HRA	4.8%

5. Treasury Position as at 31 March 2021

5.1. Table 1 presents the council's treasury position (excluding finance leases) at the beginning and the end of 2020-21.

Table 1 - Overall Treasury Position as at 31 March 2021

	31 March 2020 Principal £'000	Rate/ Return %	Average Life Years	31 March 2021 Principal £'000	Rate/ Return %	Average Life Years
Gross Debt Position						
GF debt	9,125	3.28%	14.8	8,495	3.36%	14.9
HRA debt	15,900	4.08%	8.3	15,899	4.14%	7.6
Total debt (all fixed rate)	**25,025**	**3.80%**	**10.7**	**24,394**	**3.86%**	**10.1**
CFR compared to Gross Debt						
GF CFR	30,422			28,449		
HRA CFR	24,200			28,236		
Total CFR	**54,622**			**56,685**		
Under-borrowing	**29,597**			**32,291**		
Net Debt / Investment						
Total debt	25,025	3.80%	10.7	24,394	3.86%	10.1
Total investments	(33,904)	0.79%		(31,325)	0.23%	
Net debt / (investment)	**(8,879)**			**(6,931)**		

5.2. Table 1 shows that, as previously stated, gross debt was £24.394m and the CFR was £56.685m at the end of 2020-21. This means the Council is in an under borrowed position of £32.291m, as external gross debt is less than the CFR.

5.3. Table 1 also shows that the council's investments totalled £31.325m at the 2020-21 year end and therefore was in a net investment position, as investments held exceeded gross debt by £6.931m.

5.4. All of the debt is from the Public Works Loan Board (PWLB), which is a facility operated by the UK Debt Management Office on behalf of HM Treasury and provides loans to local authorities, apart from the following two GF loans (as at 31 March 2021):

- Market: £4.5m principal at 4.19% with an average life of 0.5 years.
- Salix: £13k principal at 0.00% with an average life of 0.5 years.

5.5. The maturity structure of the debt portfolio, or the timeline of when the council's debt is repayable, was as follows:

	31 March 2020 actual £000	2020-21 upper limits £000	31 March 2021 actual £000
Under 1 year	5,131	12,197	8,679
1 year to under 2 years	4,179	12,197	334
2 years to under 5 years	3,080	12,197	2,833
5 years to under 10 years	2,356	12,197	2,356
10 years to under 20 years	7,359	12,197	7,272
20 years to under 30 years	1,920	12,197	1,920
30 years to under 40 years	0	12,197	0
40 years to under 50 years	1,000	12,197	1,000
50 years and above	0	12,197	0
Total debt	**25,025**		**24,394**

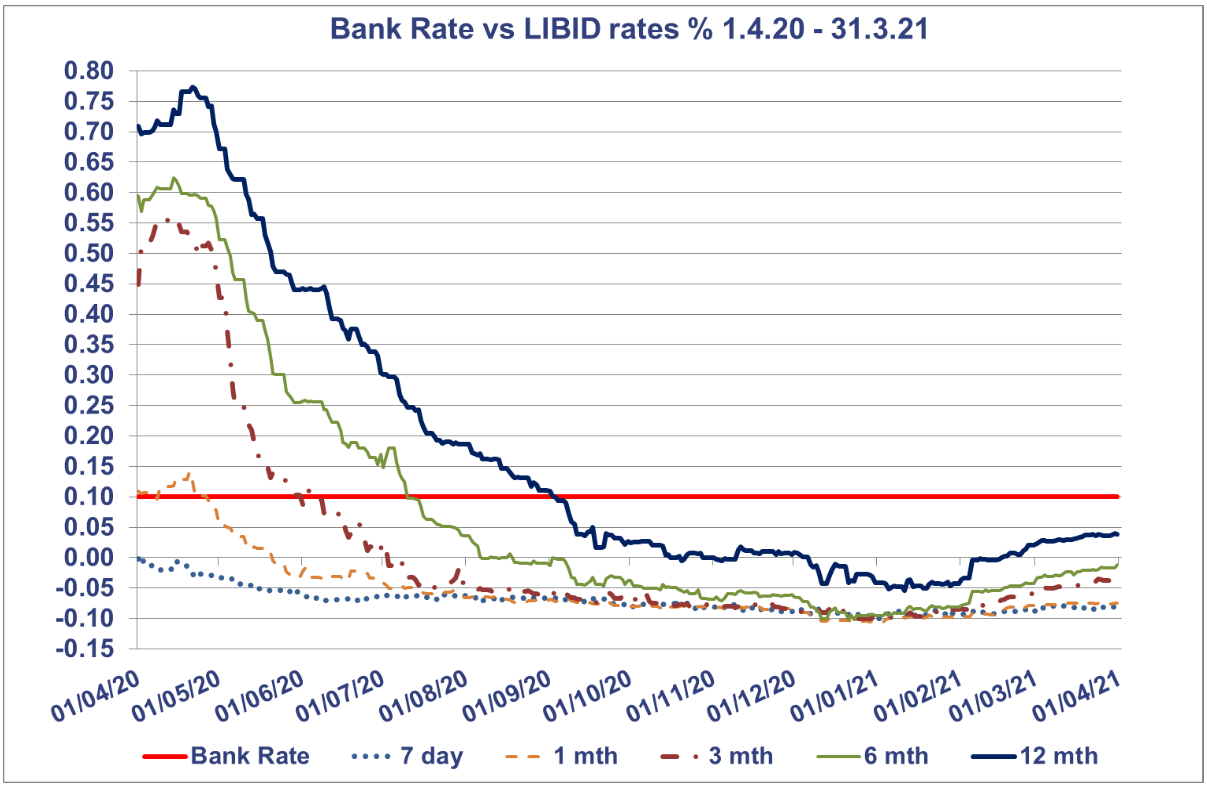
5.6. The following table shows the value of the type of investments the council was holding at year-end. All investments at the 2020-21 year-end were for under one year. Investments at the 2019-20 year-end for longer than 365 days were £0.6m.

	31 March 2020 actual £000	31 March 2020 actual %	31 March 2021 actual £000	31 March 2021 actual %
Banks - Instant Access	3	0.01	29	0.09
Banks - Notice Accounts	4,453	13.13	8,154	26.03
Banks - Fixed Term Deposits	13,483	39.77	3,200	10.22
Money Market Funds	15,965	47.09	19,942	63.66
Total Treasury Investments	**33,904**	**100.00**	**31,325**	**100.00**

6. The Strategy for 2020-21

6.1. Investment strategy and control of interest rate risk

6.1.1. The following chart tracks the Bank of England base rate of interest and the London Interbank Bid Rates (LIBID) during 2020-21.



6.1.2 Investment returns which had been low during 2019-20, plunged during 2020-21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020-21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

6.1.3 While the council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

6.1.4 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts/graphs shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

6.2. Borrowing strategy and control of interest rate risk

6.2.1. During 2020-21, the council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

6.2.2. A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

6.2.3. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

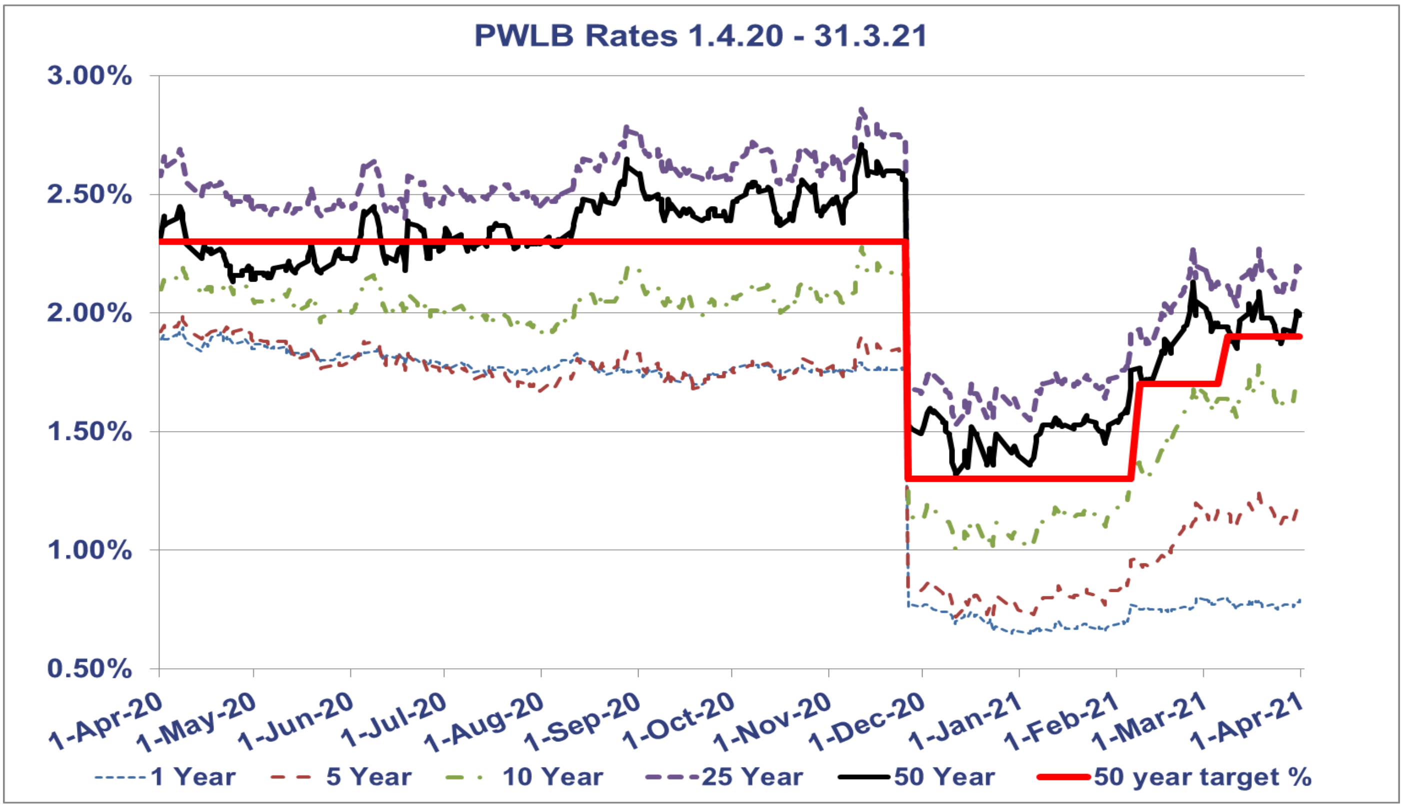
6.2.4. Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected (e.g. perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks), then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

6.2.5. Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020-21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Group Interest Rate View	8.3.21												
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30



6.2.6. PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.

6.2.7. Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020-21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.

6.2.8. At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

6.2.9. HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019-20** without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and **on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates;** the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

6.2.10. The new margins over gilt yields are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

6.2.11 There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 (as per Link's forecast of 8 March 2021 in section 6.2.5 above) as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

6.3. **Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2020-21 (approved by the council on 06-02-20) was revised during 2020-21 in the mid-year treasury update report (approved by the council on 10-12-20).

7. Borrowing Outturn for 2020-21

7.1. **Borrowing** – Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

7.2. **Borrowing in advance of need -** The council has not borrowed more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.

7.3. **Rescheduling** – No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7.4. **Repayments** – The council repaid £0.631m of maturing debt using investment balances, as below:

Lender	Principal £'000	Interest Rate	Repayment Date
Salix	4	0.00%	01-04-20
PWLB	43	3.08%	23-04-20
PWLB	50	2.48%	27-05-20
PWLB	146	1.97%	27-05-20
PWLB	72	1.28%	20-06-20
Salix	4	0.00%	01-10-20
PWLB	43	3.08%	23-10-20
PWLB	50	2.48%	27-11-20
PWLB	147	1.97%	27-11-20
PWLB	72	1.28%	20-12-20
Total	**631**		

7.5. **Summary of debt transactions** – The average interest rate on the debt portfolio increased from 3.80% to 3.86% during the year. This was due to the repayment of maturing debt as shown above.

8. Investment Outturn for 2020-21

8.1. **Investment Policy** – the council's investment policy is governed by the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the council on

6 February 2020. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

8.2. The investment activity during the year conformed to the approved strategy.

8.3. During the year the council's treasury adviser, Link Group Treasury Solutions, reduced its suggested maximum duration from 1 year to 6 months for a bank that the council had a number of fixed term deposits with; even though the maximum duration as per the council's investment policy (set out in the Treasury Management Strategy Report) remained at 370 days given the bank's credit rating. As at 31 March 2021 the remaining terms on deposits with this bank were all under 6 months.

8.4. From 1 April 2020 to 15 April 2020 inclusive, the council maintained balances with its own banker which exceeded the £7m investment limit stipulated in the council's investment policy; the highest daily deposit account balance being £26.764m. However, these balances were for operational/transactional purposes (to help deal with the coronavirus pandemic) rather than for investment. The council received an exceptional amount of coronavirus related grant funding (£40m) from the Government on 1 April 2020 and (given the very short notice) was unable to fully absorb this within its various money market funds (MMFs), given MMF facility limits and MMFs available at that time.

8.5. **Resources** - the council's cash balances comprise revenue and capital resources and cash flow monies. The council's core cash resources comprised as follows:

Balance Sheet Resources	**31 March 2020 £000**	**31 March 2021 Provisional £000**
GF Balance	2,011	2,011
Earmarked Reserves	13,528	25,400
HRA Balance	8,645	8,020
Capital Receipts Reserve	8,544	6,316
Major Repairs Reserve	15,469	15,425
Capital Grants Unapplied	43	43
Total Usable Reserves	**48,240**	**57,215**

8.6. **Investments held by the council**

- The council maintained an average balance of £50.198m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.23%.
- The comparable performance indicator is the average 7-day London Interbank Bid Rate (LIBID) rate, which was minus 0.07%.

- This compares with an original budget assumption of £33m investment balances earning an average rate of 1.00%.
- Total investment income was £115k compared to a budget of £330k.

8.7. **Investments held by fund managers** – the council does not use external fund managers on a discretionary basis for any part of its investment portfolio.

9. Investment risk benchmarking

9.1. The following investment benchmarks were set in the council's 2020-21 annual treasury strategy:

9.1.1. **Security** - The council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio (excluding unrated investments).

9.1.2. **Liquidity** – in respect of this area the council seeks to maintain:

- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be in the range of 0 to 1 years, with a maximum of 5 years.

9.1.3. **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate.

9.1.4. The council kept to the above benchmarks during 2020-21.

10. International Financial Reporting Standard 16 (IFRS 16)

10.1. The implementation of IFRS16 (bringing almost all lease liabilities on to the balance sheet together with the corresponding 'right of use' assets) has been delayed for a further year from 2021-22 to 2022-23 accounts closedown, due to pressures on council finance teams as a result of the Covid-19 pandemic.

11. Prudential and Treasury Codes

11.1 Following consultation, CIPFA intends publishing revised Prudential and Treasury Codes in December 2021. (The Prudential Code aims to ensure that the financial plans of local authorities are affordable, prudent and sustainable).

11.2 Key changes to the Codes are due to include:

a) Clarification of commercial activity/investment and prudent borrowing activity.
b) The inclusion of proportionality as an objective (assessing risks against resource levels).
c) Introduction of the Liability Benchmark as a treasury management indicator.

d) Integration of environmental, social and governance risks into the treasury policy framework.
e) Guidance on treasury development, knowledge retention, skills and training.

12. Options

12.1 The recommended option (to ensure regulatory compliance as set out in section 1 of this report) is that the Governance & Audit Committee:

- Notes the actual 2020-21 prudential and treasury indicators in this report.
- Makes comments as appropriate on this Annual Treasury Management Report for 2020-21.
- Recommends this report to council for approval.

12.2 Alternatively, the Governance & Audit Committee may decide not to do this and provide reason(s) why.

13. Next Steps

13.1 This report is to go to Cabinet, and then council for approval. Cabinet and council meetings are on 29 July 2021 and 9 September 2021 respectively.

14. Disclaimer

14.1 This report is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

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Annex List

Annex 1: Report Guidance
Annex 2: Abbreviations and Definitions
Annex 3: Capital Financing Charts

Corporate Consultation Undertaken

Finance: Chris Blundell, Director of Finance and Deputy Section 151 Officer
Legal: Estelle Culligan, Director of Law and Democracy