NORWICH
City Council

Committee Name: Council

Committee Date: 28/09/2021

Report Title: Treasury Management Full Year Review Report 2020/21

Portfolio:	Councillor Kendrick, resources
Report from:	Executive director of corporate and commercial services
Wards:	**All Wards**
OPEN PUBLIC ITEM	

Purpose

This report sets out the Treasury Management performance for the year to 31 March 2021.

Recommendation:

To note the report and the treasury activity for the year to 31 March 2021.

Policy Framework

The Council has three corporate priorities, which are:

- People living well
- Great neighbourhoods, housing and environment
- Inclusive economy

This report meets the Healthy organisation corporate priority

This report helps to meet Treasury management strategy adopted policy of the Council

Report Details

Background

1. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual review of its treasury management activities and the actual prudential and treasury indicators for 2020/21. 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. This report details the results of the council's treasury management activities for the financial year 2020/21. It compares this activity to the Treasury Management Strategy for 2020/21, approved by Full Council on 25 February 2020. It will also detail any issues that have arisen in treasury management during this period.

Introduction

3. Treasury Management relates to the policies, strategies and processes associated with managing the cash and debt of the Council through appropriate borrowing and lending activity. It includes the effective control of the risks associated with the lending and borrowing activity and the pursuit of optimum performance consistent with the risks.

4. For the 2020/21 financial year the minimum reporting requirements were:
    - an annual Treasury Management Strategy in advance of the year (Council 25 February 2020).
    - a mid-year Treasury Management Review report (Council 16 Dec 2021).
    - an annual review following the end of the year describing the activity compared to the strategy (this report).

5. The regulatory environment places responsibility on members to review and scrutinise treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the council's policies which have previously been approved by members. This report summarises the following:

    - Capital activity during the year (paragraphs 6 - 8)
    - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement) (paragraphs 9 - 16)
    - The actual prudential and treasury indicators (paragraphs 17- 21)
    - Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances (paragraphs 22-26)
    - Borrowing strategy and detailed debt activity (paragraphs 27-39)
    - Investment strategy and detailed investment activity (paragraphs 40-44)

The Council's Capital Expenditure and Financing 2020/21

6. The 2020/21 capital programme budgets were approved as part of the budget papers by full Council on 25 February 2020. Subsequent to this there were approved revisions to the 2020/21 capital budgets to include the 2019/20 capital carry forwards and new capital schemes approved during the year. The final capital programme budget is shown in **Table 1** along with the mid-year estimate as reported to Cabinet in December 2020.

7. Actual capital spending was under budget for the year by £66.210m. The actual level of revenue and capital resources needed to finance the expenditure was less than that originally estimated. The actual capital expenditure forms one of the required prudential indicators. **Table 1** shows the estimates and then the actual capital expenditure for 2020/21 and how this was financed in the year:

Table 1: Capital Programme Financing

	2020/21 Original Budget	**2020/21 Final Budget**	**2020/21 Mid-Year Estimate**	**2020/21 Actual Outturn**	**Variance from Final Budget**
Capital Expenditure	**£m**	**£m**	**£m**	**£m**	**£m**
General Fund capital expenditure	30.727	39.311	36.563	5.851	(33.460)
General Fund capital loans	5.700	7.390	6.990	7.390	0
HRA capital expenditure	34.816	51.268	48.348	18.518	(32.750)
Total Expenditure	**71.244**	**97.969**	**91.901**	**31.759**	**(66.210)**
Financed by					
Capital receipts	17.437	29.293	16.905	2.802	(26.491)
Capital grants/contributions	4.421	7.852	5.361	3.190	(4.662)
Capital & earmarked reserves	15.394	15.584	23.864	13.813	(1.771)
Revenue	3.291	12.098	13.733	2.941	(9.157)
Total Financing	**40.544**	**64.827**	**59.863**	**22.746**	**(42.081)**
Borrowing need for the year	**30.700**	**33.142**	**32.037**	**9.013**	**(24.129)**

8. Norwich Regeneration Ltd (NRL) is a private limited company wholly owned by Norwich City Council. In order to finance its housing development, NRL borrows money at commercial interest rates from the Council. As at 31 March 2021 the company had a loan outstanding with the Council of £12.65m (2019/20: £9.40m). The loan balance peaked at £15.65m during the financial year with the company making at repayment of £3m on 31 March 2021. These transactions were in line with the lending facility approved by Council. The impact of the loan movements on the capital financing requirement is shown in Table 2.

9. Norwich City Services Ltd (NCSL) is a private limited company wholly owned by Norwich City Council and incorporated on 9 June 2020. To finance the set-up of the company including the capital works on its depot building, the council has provided NCSL with both loan and equity financing during 2020/21. A 20-year

capital loan of £1.140m was advanced to the company as well as a working capital loan of £0.500m. Cash equity investment was made into the company of £0.370m. The impact of the capital loan movements on the capital financing requirement is shown in Table 2.

10. Capital expenditure may either be:

- Financed immediately through the application of capital or revenue resources (e.g. capital receipts, capital grants, revenue contributions etc.), which has no 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, which will be satisfied by either external or internal borrowing.

Council's overall borrowing need

11. The council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR arises as the Council incurs capital spending and then if it does not apply resources immediately to finance the capital spend, (i.e. capital receipts, capital grants, capital reserves or revenue), a borrowing need arises. The 2020/21 CFR year-end balance is the cumulative total of the 2020/21 unfinanced capital expenditure i.e. £9.013m and prior years' unfinanced capital.

12. Treasury Management includes addressing the funding requirements for this borrowing need; it also includes maintaining a cash position to ensure sufficient cash is available to meet the capital expenditure and cash flow requirements. This may be sourced through borrowing from external bodies, e.g. the Government through the Public Works Loan Board (PWLB) or the money markets, or utilising temporary cash resources within the Council (known as internal borrowing).

13. The council's (non-HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Therefore statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. This requirement is met by making an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR).

14. The total CFR can also be reduced by either:

- the application of additional capital financing resources (such as unapplied capital receipts)
- charging more than the statutory MRP each year through a Voluntary Revenue Provision (VRP).

15. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External borrowing can be taken or repaid at any time, but this does not change the CFR.

16. The Council's CFR for the year is shown below and is a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

Table 2: Capital Financing Requirement

	2020/21 Original Estimate	2020/21 Revised Estimate	2020/21 Outturn (unaudited)
	£000	£000	
Opening General Fund CFR	**125,099**	**115,511**	**115,561**
Prior years adjustment			4,703
Movement in General Fund CFR	37,722	6,027	2,067
Closing General Fund CFR	**162,821**	**121,538**	**122,331**
Movement in CFR represented by:			
Borrowing need (capital programme)	25,000	315	1,623
Borrowing need (NRL lending)	5,700	4,200	6,250
Borrowing need (NCSL lending)		1,140	1,140
Borrowing need (capital ambition)	8,500	0	0
Repayment of NRL lending			(3,000)
Appropriation of Mile Cross site to HRA		(1,800)	(1,800)
Less MRP and other financing adj.	(1,478)	522	(2,146)
Movement in General Fund CFR	**37,722**	**6,027**	**2,067**
Opening HRA Fund CFR	**205,717**	**205,716**	**205,716**
Movement in HRA CFR	7,206	1,800	1,800
Closing HRA CFR	**212,923**	**207,516**	**207,516**
TOTAL CFR	**375,744**	**329,054**	**329,847**

17. A review of the Capital Financing Requirement has been undertaken to reconcile the historic financing requirement amount to the council's balance sheet. This has resulted in an adjustment relating to prior years which increases the CFR carried forward.

18. Borrowing activity is constrained by prudential indicators for borrowing and the CFR, and by the authorised limit.

The actual prudential and treasury indicators

19. **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 does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for

the current (2020/21) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 3: Gross Borrowing

	2020/21 Original Estimate	2020/21 Revised Estimate	2020/21 Actual
	£m	£m	£m
Gross borrowing	219.853	219.853	219.853
CFR	375.744	329.054	329.847
Over Borrowed/(Under Borrowed)	**(155.891)**	**(109.201)**	**(109.994)**

20. **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2020/21 the Council has maintained gross borrowing within its authorised limit.

Table 4: Authorised Limit & Operational Boundary

	2020/21 Original Estimate	2020/21 Revised Estimate	2020/21 Actual
	£m	£m	£m
Authorised Limit for external debt			
Borrowing	404.950	404.950	404.950
Other long-term liabilities	0.794	0.794	0.794
Total Agreed Authorised Limit	**405.744**	**405.744**	**405.744**
Operational boundary for external debt			
Borrowing	374.950	374.950	374.950
Other long-term liabilities	0.794	0.794	0.794
Total Agreed Operational Boundary	**375.744**	**375.744**	**375.744**
External debt (including other long-term liabilities e.g. finance leases)			**220.647**

21. **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 is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream

22. The authority is required to report on the ratio represented by its net financing costs to its net revenue stream. For the general fund net revenue is represented by the amount that is funded by government grants and council tax payers, while for the HRA it is the rental income paid by tenants. This is intended to be a measure of affordability, indicating how much of the authority's revenue is taken up in financing its debt.

23. Table 5 shows that the general outturn is lower than the estimate due lower than budgeted borrowing costs combined with a higher net revenue due to additional covid-19 related grant income. The HRA outturn is slightly higher than estimated as unbudgeted impairment costs have been charged within the year; last year's outturn was at a similar level 44.39% (2019-20).

Table 5: Affordability Ratio

Affordability of financing costs	2020/21 Estimate	2020/21 Actual
General fund - financing costs as a percentage of net revenue	20.3%	6.7%
HRA - financing costs as a percentage of rental income	40.0%	44.0%

Treasury Position as at 31 March 2021

24. The Council's debt and investment position is managed by the in-house treasury management team. All activities are undertaken primarily to ensure security for investments, to ensure that there is adequate liquidity for revenue and capital activities, and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity.

25. The council's actual borrowing position at 31 March 2021 and activity during 2020/21 is detailed in the table below. Borrowing has remained within the authorised limit of £405.744m throughout the year.

Table 6: Borrowing activity 2020/21 (excluding finance leases)

	PWLB loans £m	Market loans £m	Total £m	Average interest rate %
Opening balance (1 April 2020)	214.107	5.000	219.107	
New borrowing taken	-	-	-	
Borrowing matured/repaid	-	-	-	
Closing balance (31 March 2021)	**214.107**	**5.000**	**219.107**	**3.77%**
Authorised limit for external debt			405.744	

26. The maturity structure of the debt portfolio was as follows:

Table 7: Maturity Structure of Fixed Rate Borrowing

	%	31-Mar-21 £m
Under 12 months	1.16%	2.552
Between 12 months and 2 years	23.28%	51.064
Between 2 years and 5 years	27.25%	59.779
Between 5 years and 10 years	30.09%	66.000
Over 10 years	18.21%	39.948
Perpetually irredeemable stock		0.510
Total borrowing		**219.852**

27. Table 8 shows the movement in investments in the year. The movement is a combinations of several factors including: an increase in the Council's internal borrowing (see table 3); repayment of loan agreements; an increase in short term creditors and a reduction in long term debtors. These can be seen on the face of the Council's Balance Sheet, shown in the draft Statement of Accounts.

Table 8: Investment Movements

	31 March 2020	Net movement	31 March 2021
	£m	**£m**	**£m**
Short term			
Banks	4.000	11.000	15.000
Building Societies	0.000	0.000	0.000
Local Authorities	5.000	10.000	15.000
Cash Equivalents			
Banks	11.300	12.450	23.750
Building Societies	0.000	0.000	0.000
Local Authorities	9.000	(9.000)	0.000
Money Market Funds	15.000	6.070	21.070
UK Government	0.000	(6.000)	0.000
Total Internally Managed Funds	**44.300**	**30.520**	**74.820**

28. The maturity structure of the investment portfolio was as follows:

Table 9: Maturity Structure

	31 March 2020 £m	31 March 2021 £m
Under 1 year	44.300	74.820
Over 1 year	0.000	0.000
	44.300	**74.820**

Borrowing Strategy for 2020/21

29. The council maintained an under-borrowed position in 2020/21. This means that the capital borrowing need (the CFR) has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

30. Table 10 below shows the interest rate forecast to March 2024. These forecasts have been provided by the Council's treasury advisor, Link Asset Services and show gradual rises in medium and longer-term fixed borrowing rates over the next two financial years. Variable, or short-term rates, are expected to be the cheaper form of borrowing over the period.

Table 10: Interest Rate View

Link Group Interest Rate View 10.5.21	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	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

Source: Link Treasury 2021 (PWLB rates include adjustments for Certainty rate discounts)

31. Given the under-borrowed position of the council (Table 3) it is likely that the Council will need to undertake fixed rate long-term borrowing within the short to medium term. On 22nd July 2021 the council took out a £5m fixed rate 50-year loan with PWLB at an interest rate of 1.64%. This borrowing was in line with the Treasury Strategy and the interest costs are within the 2021/22 revenue budget provision. Any further decisions to borrow will be reported to Cabinet at the next available opportunity.

PWLB rates

32. PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. HM Treasury imposed two changes in the margins over gilt yields for PWLB rates in 2019-20 without any prior warning. The first took place on 9 October 2019, adding an additional 1% margin over gilts to all PWLB 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.

33. 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.

34. The advice from Link, the Council's Treasury Advisers is that they do not think that the Monetary Policy Committee will increase the Bank Base Rate above 0.50% during the current and next two financial years as they do not expect inflation to return to being sustainably above 2% during this period. Regarding PWLB rates, the general situation is for volatility in bond yields to continue as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e., equities, or the safe haven of government bonds. The overall longer-run trend is for gilt yields and hence PWLB rates to rise by around 0.5% by the end of 2023/24.

35. The Council has previously relied on the PWLB as its main source of funding; however, the council will consider alternative sources of borrowing as appropriate and in line with the treasury management strategy. We will continue to liaise closely with our treasury advisors, monitor the borrowing market and update Members as this area evolves.

36. The Municipal Bond Agency are now offering loans to local authorities. This Authority may make use of this emerging source of borrowing as and when appropriate. This is within the existing approved Treasury Management Strategy.

Forward borrowing considerations to mitigate expected future interest rate increases

37. The Council may look to arrange forward borrowing facilities should the future borrowing risk rise or predictions of a significant rate rise is expected. This would enable the Council to lock into borrowing facilities at current low rates and draw down the cash over a period of up to 3 years subject to cash flow demands. It should be noted that some of these facilities may carry brokerage and arrangement fees that will be factored into value for money assessments. The policy has been complied with in 2020/21.

Debt Rescheduling

38. No debt rescheduling was undertaken during 2020/21.

Borrowing Outturn for 2020/21

39. During 2020/21 there was no long-term borrowing and no PWLB debt was repaid. The council paid £7.997m in interest costs on external loans, this compares to a budget of £10.274m. The reduction against budget was due to the continued use of internal rather than external borrowing as a result of holding sufficient cash balances.

Investment Strategy for 2020/21

40. The TMSS for 2020/21, which includes the Annual Investment Strategy, was approved by the council on 25 February 2020. It sets out the Council's investment priorities as being:
    - Security of capital;
    - Liquidity; and
    - Yield

    No policy changes have been made to the investment strategy, the Council will continue to aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity.

41. This report does not cover the Council's investment strategy in regard to non-financial investments. These investments which include the purchasing of commercial property and lending to third parties are covered under the Non-Financial (Commercial) Investment Strategy published in February 2020 as part of the Budget papers.

Investment Outturn for 2020/21

42. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Reserves

43. The Council's cash balances comprise revenue and capital resources and cash flow monies.

    Within the earmarked reserves, the Business Rates Section 31 reserve has increased by £17.473m. This is the extra grant received in year to compensate the council for additional business rates reliefs awarded as well as the tax loss grant. These amounts are set aside and will be returned to the general fund over the next two years to offset the deficit arising on the collection fund.

    The Council's reserves comprised

Table 11: Balance Sheet Reserves

	31-Mar-20	**31-Mar-21***
	£m	**£m**
General Reserves	43.432	53.348
Earmarked Reserves	17.103	37.191
Useable Capital receipts	51.069	56.875
Capital grants Unapplied	3.462	4.274
Major Repairs Reserve	8.307	10.019
Total	**123.373**	**161.707**

* Unaudited figures

Investments held by the Council

44. The Council's year-end balance of cash and short-term investments was £74.820m. These internally managed funds earned an average rate of return of 0.086%.

45. The Council is part of a benchmarking group (run by our treasury management advisors, Link Asset Services) across Norfolk, Suffolk & Cambridgeshire. The table below shows the performance of the Council's investments when compared with this benchmark group, and also when compared with the non-metropolitan districts and all authorities that use Link's benchmarking group facility.

Table 12: Link benchmarking - position at 31 March 2021

	Norwich	Benchmark Group 7 (11)	Non met districts (87)	All authorities (217)
WARoR[1]	0.10%	0.14%	0.24%	0.21%
WA Risk[2]	3.07	3.66	3.12	2.96
WAM[3]	75	39	73	69
WATT[4]	96	64	134	130

Source: Link Treasury March 2021

[1] **WARoR** Weighted Average Rate of Return This is the average annualised rate of return weighted by the principal amount in each rate.
[2] **WA Risk** Weighted Average Credit Risk Number Each institution is assigned a colour corresponding to a suggested duration using Link Asset Services' Suggested Credit Methodology.
[3] **WAM** Weighted Average Time to Maturity This is the average time, in days, till the portfolio matures, weighted by principal amount.
[4] **WATT** Weighted Average Total Time This is the average time, in days, that deposits are lent out for, weighted by principal amount.

46. The council's average investments return (0.10%) is comparable with that for the benchmark group (0.14%), and slightly lower to the 87 non-met authorities at 0.24% and the population of 217 local authorities at 0.21%. The average investment return in 2020/21 is slightly lower than other authorities however this allowed the authority to keep council funds readily available to pay government Covid-19 grants and make capital programme payments as they fell due. The WATT for Norwich reflects the positive decision to utilise internal resources to support capital investment, therefore Norwich has kept its investments to a shorter maturity profile averaging 3 months.

Consultation

47. The report is the outturn position statement to ensure that council are kept informed of treasury activity.

Implications

Financial and Resources

48. There are no proposals in this report that would reduce or increase resources however it does report on the performance of the council in managing its borrowing and investment resources.

Legal

49. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual review of its treasury management activities and the actual prudential and treasury indicators for 2020/21. 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).

Statutory Considerations

Consideration:	**Details of any implications and proposed measures to address:**
Equality and Diversity	n/a
Health, Social and Economic Impact	n/a
Crime and Disorder	n/a
Children and Adults Safeguarding	n/a
Environmental Impact	Sustainable investment products are an area of growth in the market. These options will be considered where the investments are in line with approved Treasury Management Strategy. Security, liquidity and yield remain the cornerstones of the Treasury Management Strategy, and it is vital that all investments continue to ensure the security of council funds as a priority and remain compatible with the risk appetite of the council and its cash flow requirements.

Risk Management

Risk	Consequence	Controls Required
Future interest rate changes can offer both opportunity and risk.	Future interest rate changes need to be assessed against the cost of borrowing.	To mitigate the risk, we will continue to work closely with the treasury management advisors to review interest rate forecasts to assess when we would look to borrow.

Other Options Considered

50. No other options to be considered. The report is to inform council of the treasury activity for the year to 31 March 2021.

Reasons for the decision/recommendation

51. To ensure that council are kept informed of treasury activity.

Background papers: None

Appendices: None

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