



SOUTH
KESTEVEN
DISTRICT
COUNCIL

Governance and Audit Committee

21 July 2021

Report of: Councillor Adam Stokes, Cabinet
Member for Finance and Resources



2020/21 Treasury Management Annual Report

This report provides Governance and Audit Committee with the details of the Council's treasury management activity for the financial year 2020/21.

Report Author

Alison Hall-Wright, Head of Finance



01476 406208



alison.hall-wright@southkesteven.gov.uk

Corporate Priority:	Decision type:	Wards:
Administrative	Administrative	All Wards

Reviewed by:	Claire Morgan, Senior Accountant	8 July 2021
Approved by:	Richard Wyles, Interim Director of Finance	8 July 2021
Signed off by:	Cllr Adam Stokes, Cabinet Member for Finance and Resources	9 July 2021

Recommendation (s) to the decision maker (s)

1. It is recommended that the Governance and Audit Committee:

Note and approve the content of the annual report on the Treasury Management Activity for 2020/21.

1 The Background to the Report

- 1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and performance against 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 Consultation and Feedback Received, Including Overview and Scrutiny

- 2.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and performance against 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).
- 2.2 For the financial year 2020/21 the Council adhered to the suggested minimum reporting requirements and members received the following reports:
- An annual treasury management strategy in advance of the year which was approved by Council on 2 March 2020
 - A mid-year treasury update report which was approved by Governance and Audit Committee on 19 November 2020
 - An annual review following the end of the year describing the activity compared to the strategy (this report)
- 2.3 Governance and Audit Committee has delegated powers from Council to deal with matters relating to the Council's treasury management activities. Specifically, it has the responsibility to monitor, review and amend as appropriate the Council approved Treasury Management Strategy during the financial year. The regulatory environment places a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

Treasury Position at 31 March 2021

The Strategy for 2020/21 was approved by Council on 2 March 2020. A key element of daily operations focuses on comparing current market conditions in conjunction with the Link credit rating list, using this as a tool for guidance, with the option to deviate from this guidance only when there are clear alternative options available to the Council. Any decision of this nature is clearly documented for audit purposes. The aim of the Strategy is to generate a list of highly creditworthy counterparties which enables diversification of investments and thus avoidance of risk whilst providing security. A summary of the Council's treasury position at 31 March 2021 is as follows:

Actual Debt Management activity during 2020/21

Actual Borrowing Position	31 March 2020		31 March 2021	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt	£95.878m	2.45%	£92.656m	2.33%
Capital Financing Requirement	£111.232m		£107.868m	
Over/(Under) Borrowing	(£15.354m)		(£15.211m)	
Investment position	31 March 2020		31 March 2021	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Investments	£17.000m	1.09%	£18.500m	0.31%
Variable Interest Investments	£38.150m	0.74%	£49.761m	0.48%
Total Investments	£55.150m	0.99%	£68.261m	0.40%
Net borrowing position	£40.728m		£24.395m	

2.4 The £92.656m is split between short term and long term borrowing as follows:

- Short term - £3.222m which is repayable within the next 12 months
- Long term - £89.434m

Actual Investment management Activity during 2020/21

2.5 The Council's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) guidance, which was implemented in the annual investment strategy approved by Council on 2 March 2020. The investment activity during the year complied with the approved strategy throughout the whole of the year. During the year the Council had no liquidity difficulties.

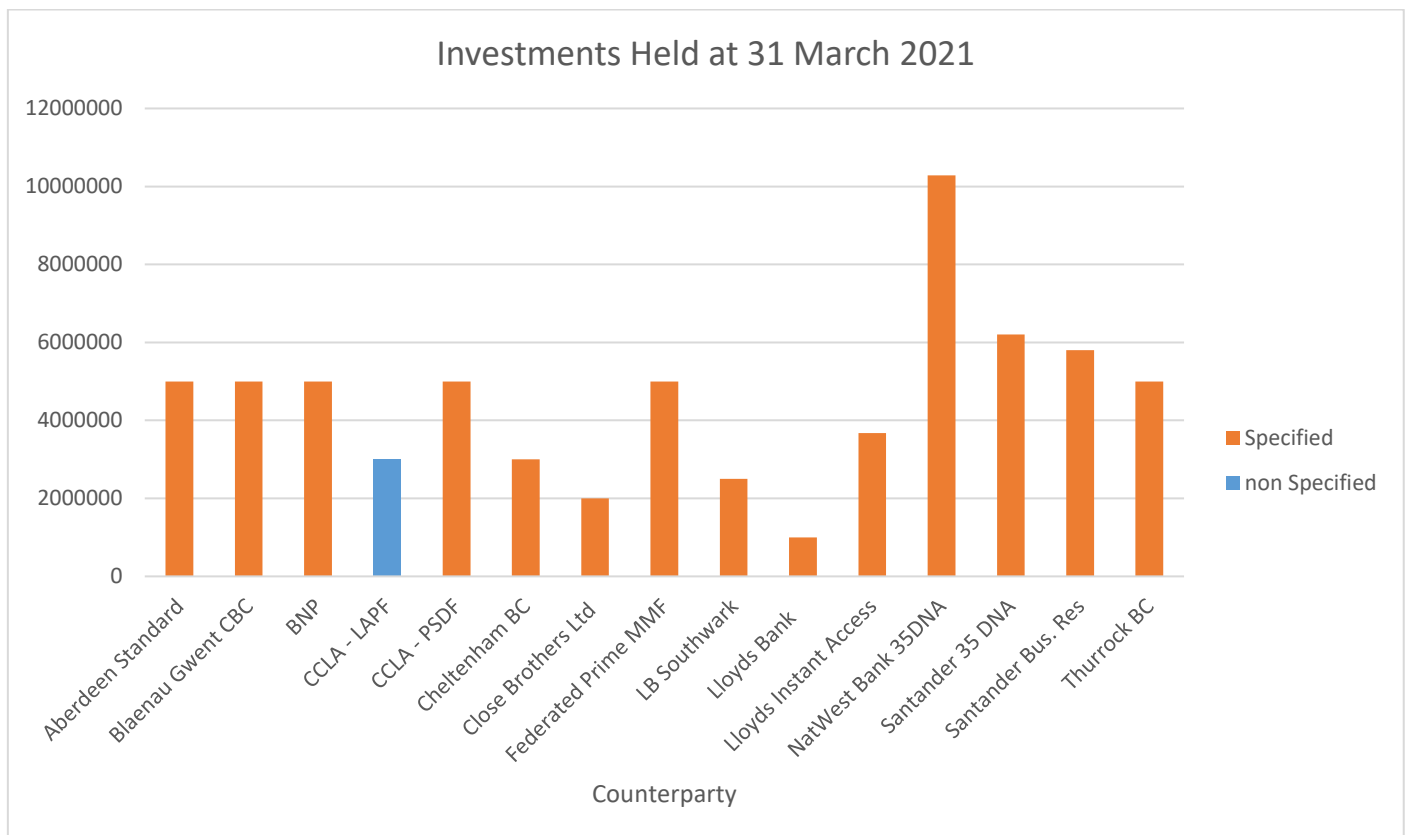
2.6 At 31 March 2021 the Council held short and long-term investments of £68.261m and was compliant with the Council's policy to hold not more than 35% of investments as long term. This total includes a £1.12m investment in Gravitass and a £3m investment in the CCLA Property Fund.

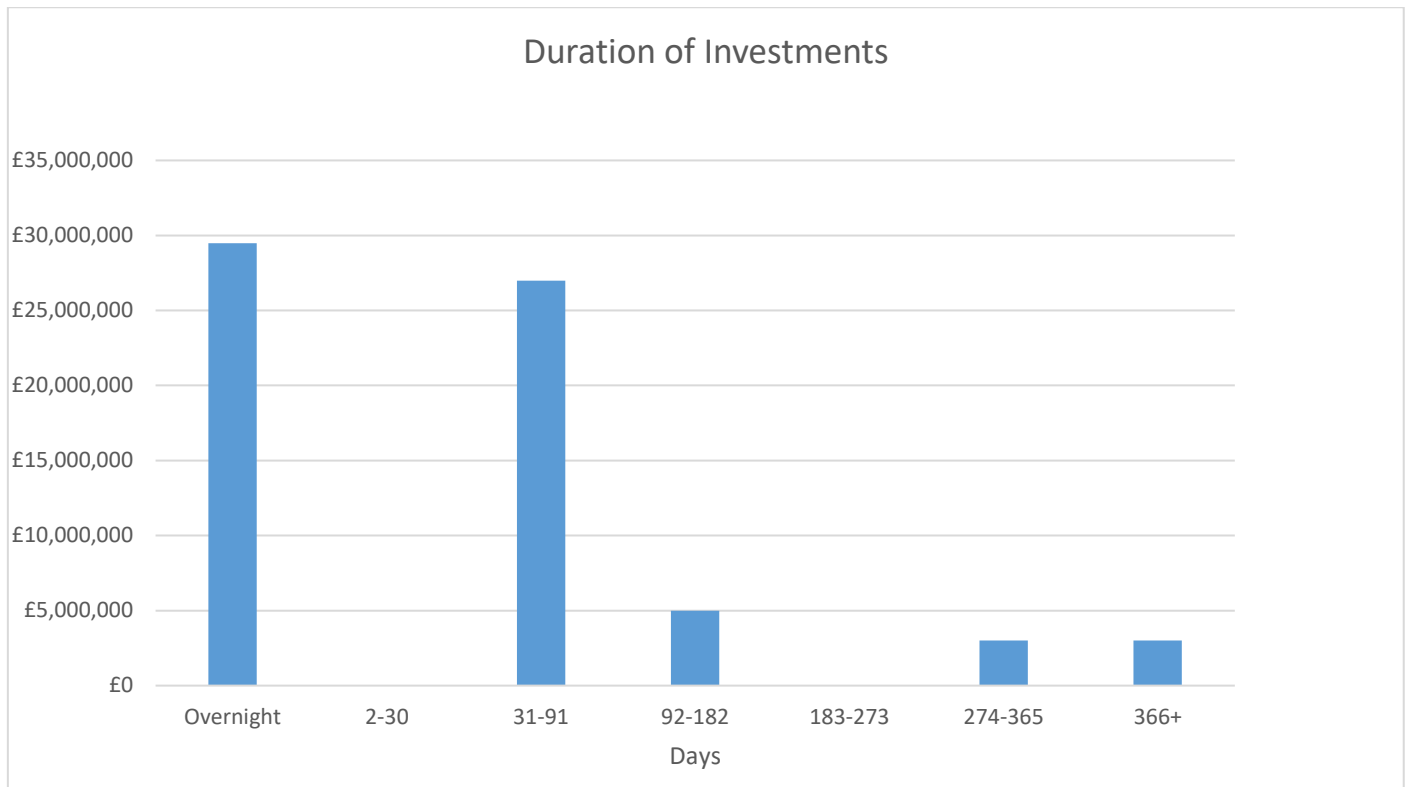
2.7 The CCLA Property Fund invests in property so the value of any investment in the fund can fluctuate as the value of property fluctuates and a quarterly dividend payment is received. The council views this as a long-term investment that it has entered into for a minimum of five years as this manages the risk of fluctuations in the value of the investment which was £2.7m at 31 March 2021. The primary reason for investing in the fund was for the quarterly dividend payment as the return is significantly higher than the

return on other investments. The dividend payable for the year was 117k which is a 3.90% return on investment.

2.8 The total amount of variable rate investments has increased between 31 March 2020 and 31 March 2021 from £38.150m to £49.761m respectively as the interest rates achievable on notice accounts and MMF was comparable to fixed rate investments. This decision was made to ensure that the Council was able to achieve a return on investments and also meant that the Council has not had any cashflow issues during the financial difficulties of 2020/21.

2.9 The duration and counterparties of investments at 31 March 2021 are shown in the following graphs. When investments are placed the duration is determined by taking into consideration the treasury advice received from Link and the cash flow for the Council. A number of counterparties are used as the Council has recommended investment limits that can be placed with each institution which assists with risk management.





2.10 As part of the role performed by our treasury advisers, we are also provided with benchmarking comparative information across all their clients which helps the Council understand how its investment portfolio is performing in relation to others.

2.11 The table below shows for each quarter analysis our average rate of return was only marginally lower whilst managing the risk, when compared to other District Councils within the comparative group. This reflects the prudent approach to managing risk and return in order to maximise our investment returns whilst balancing our exposure to risk.

Quarter ending	SK WARoR*	District WARoR*	SK WARR**	District WARR**
Q1 – June 2020	0.37%	0.39%	2.61	2.37
Q2 – Sept 2020	0.19%	0.28%	2.88	2.75
Q3 – Dec 2020	0.16%	0.21%	2.98	2.90
Q4 – Mar 2021	0.13%	0.18%	2.48	2.92

*WARoR – weighted average rate of return

**WARR – weighted average rate of risk

2.12 As part of the prudential code the Council sets a number of prudential and treasury indicators as part of the treasury strategy, the estimated performance against these indicators was provided in the treasury strategy approved on 2 March 2020 and the actual the performance against these indicators is detailed in Appendix 1.

Summary

2.13 The Council's treasury management functions have operated effectively during 2020/21 and have successfully achieved the following:

- Repayment of principal has been secured in all deposits.
- The Council's cash liquidity requirement has been met throughout the financial year.

- Investment income levels have exceeded the amended budget as investment levels were higher than originally estimated.
- Robust management of the Council's debt position.
- Performance indicators set for 2020/21 have been achieved.

3 Available Options Considered

3.1 None

4 Preferred Option

4.1 As set out in the recommendations

5 Reasons for the Recommendation (s)

5.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and performance against prudential and treasury indicators for 2019/20.

6 Next Steps – Communication and Implementation of the Decision

6.1 Not applicable

7 Financial Implications

7.1 These are included in the report.

Financial Implications reviewed by: Richard Wyles, Interim Director of Finance

8 Legal and Governance Implications

8.1 The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to its borrowing and lending strategy. A wide range of local authority financial activities, including borrowing, lending, financial management and the approval of types of investment vehicle are governed by legislation and various regulations.

8.2 This report provides details of the Council's performance in respect of Treasury management against policy set out as part of the Budget and policy framework. Members should note the performance and scrutinise any elements to assist the role of the Governance and Audit Committee in its review of the Treasury Management Strategy.

Legal Implications reviewed by: Mandy Braithwaite, Legal Executive

9 Equality and Safeguarding Implications

9.1 none

10 Risk and Mitigation

10.1 Risk has been considered as part of this report and no exceptional/high risks have been identified.

11 Community Safety Implications

11.1 None

12 How will the recommendations support South Kesteven District Council's declaration of a climate emergency?

12.1 The report has a neutral carbon impact.

13 Other Implications (where significant)

13.1 Not applicable

14 Background Papers

14.1 Treasury Management Strategy

<http://moderngovsvr/documents/s25014/Appendix%20E%20-%20TM%20Strategy%202020-21.pdf>

14.2 Treasury Management Mid-year Review 2020/21

<http://moderngovsvr/documents/s28295/Treasury%20Management%20Mid-Year%20Review.pdf>

15 Appendices

15.1 Appendix A – 2020/21 Prudential and Treasury Indicators

Report Timeline:	Date of Publication on Forward Plan (if required)	n/a
	Previously Considered by:	n/a
	Final Decision date	21 July 2021