

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**13 JULY 2021**

**10**

<b>Report Title</b>	<b>ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2020/2021</b>			
<b>Purpose of Report</b>	To advise on the treasury management activities in 2020/2021, in accordance with the Council's Treasury Policy Statement. To report on actual 2020/2021 Prudential Indicators in accordance with the requirements of the Prudential Code.			
<b>Decision(s)</b>	<b>Audit &amp; Standards Committee RESOLVES to approve the treasury management activity annual report for 2020/2021 and the actual Prudential Indicators.</b>			
<b>Consultation and Feedback</b>	Link Asset Services (LAS).			
<b>Report Author</b>	Graham Bailey, Principal Accountant Tel: 01453 754133 Email: <a href="mailto:graham.bailey@stroud.gov.uk">graham.bailey@stroud.gov.uk</a>			
<b>Options</b>	None			
<b>Background Papers</b>	None			
<b>Appendices</b>	A – Temporary Investments 2020/2021 B – Actual Prudential Indicators 2020/2021 C – Explanation of the Prudential indicators D – The economy and interest rates 2020/2021 E – Borrowing and investment rates in 2020/2021			
<b>Implications (further details at the end of the report)</b>	Financial	Legal	Equality	Environmental
	No	No	No	No

## 1. Background

1. This Council fully complies with the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code for Capital Finance in Local Authorities.
2. For the financial year 2020/21 the minimum reporting requirements were that the full Council should receive the following reports:
  - Annual treasury strategy (Council 20/02/2020)
  - Half year treasury management report (Audit & Standards 17/11/2020)

- Annual treasury review (this report)
3. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Audit & Standards Committee.

## Treasury Activity

4. A summary of treasury management activity for 2020/2021 is shown below:

Treasury Activity 2020-21				
	April 2020	Increase	Decrease	March 2021
	£000	£000	£000	£000
<b>Debt</b>				
<b>Borrowing:</b>				
Long-term	-103,717	-	1,000	-102,717
Short-term	-	-	-	-
<b>Total debt</b>	<b>-103,717</b>	<b>-</b>	<b>1,000</b>	<b>-102,717</b>
<b>Investments</b>				
Externally managed	-	-	-	-
Internally managed - Long term	8,702	1,168	-	9,870
Internally managed - Short term	36,472	11,541	-	48,013
<b>Total investments</b>	<b>45,174</b>	<b>12,709</b>	<b>-</b>	<b>57,883</b>
<b>Net debt</b>	<b>-58,543</b>	<b>12,709</b>	<b>1,000</b>	<b>-44,834</b>

## Investment Strategy

5. Investment strategy for 2020/2021 was to give primary importance to security of capital and liquidity. This was achieved through having regard to government 'Guidance on Local Government Investment' issued in March 2004, and our own investment policy which set out permitted specified and non-specified investments. In addition, the Council received and followed weekly investment advice from Link Asset Services detailing counterparty credit ratings, which were also subjected to a credit default swap overlay. This was supplemented by daily update emails from Link Asset Services, economic briefings and monitoring the financial press.
6. The Council's Investment Strategy, set out in the report to Council in February 2020, stated that in 2020-21 the Council would continue to invest for the longest permitted duration with quality counterparties to maximise return without compromising security. In particular instances the Section 151 Officer would authorise investments in the LAS blue category for a period of up to two years, which was longer than the LAS recommended duration of one year.

Otherwise, the length of investments permitted would vary if necessary in line with LAS advice and subject to the Council's 3-year upper limit.

7. The expectation for interest rates within the strategy for 2020/21 was for Bank Rate to rise to 1% from a forecast 0.75% in March 2020. Actually, the rate had already decreased to 0.10% in March 2020, which is the lowest ever in UK history and it remained at that level throughout the financial year ending March 2021.
8. The Council now has £10m of property fund and multi-asset fund investments comprised of Lothbury property fund £4m, Hermes property fund £2m, Royal London Multi-Asset fund £3m and CCLA £1m. These are non-specified investments and they are intended to be long-term. Capital values are subject to change. The performance of these investments is set out in a table in **Appendix A**.
9. During 2020-21 the Council continued to invest with other local authorities where they were the best option available. These investments were £1m (728 days at 1.45%) with Dudley Metropolitan Council, £3m (364 days at 0.21%) with North Lanarkshire Council, £2m (273 days at 0.25%) with Thurrock District Council and £1m (120 days at .05%) with Stirling Council.
10. **Appendix A** has a summary of all investments during the year.

### **Borrowing Outturn for 2020/21**

11. The Council had total borrowing of £102.717m as at 31 March 2021. No new loans were taken out, but a £1m loan matured and was repaid in February 2021. With a Capital Financing Requirement of £111.330m as at 31 March 2021, the Council has continued and extended an element of internal borrowing during the year to help offset low investment returns. As at 31 March 2021 there is internal borrowing of £8.613m.

Lender	Principal	Type	Interest Rate	Years to Maturity	Maturity Date	New 20-21
PWLB	£2m	Fixed Interest Rate	1.93%	2 years	11/02/2023	
PWLB	£6m	Fixed Interest Rate	3.32%	11 years	31/03/2032	
PWLB	£10m	Fixed Interest Rate	3.45%	16 years	31/03/2037	
PWLB	£7m	Fixed Interest Rate	3.51%	21 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.51%	21 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.53%	26 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.53%	26 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.52%	31 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.52%	31 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.51%	36 years	31/03/2057	
PWLB	£7m	Fixed Interest Rate	3.51%	36 years	31/03/2057	
PWLB	£10m	Fixed Interest Rate	3.48%	40 years	31/03/2061	
PWLB	£9.717m	Fixed Interest Rate	3.48%	40 years	31/03/2061	
PWLB	£1m	Fixed Interest Rate	2.51%	42 years	21/06/2063	
PWLB	£2m	Fixed Interest Rate	3.16%	42 years	20/08/2063	
PWLB	£1m	Fixed Interest Rate	3.55%	44 years	28/11/2064	
PWLB	£2m	Fixed Interest Rate	3.20%	44 years	18/08/2065	
PWLB	£2m	Fixed Interest Rate	2.96%	45 years	11/02/2066	
PWLB	£1m	Fixed Interest Rate	2.65%	45 years	14/06/2066	
<b>Total Loans</b>	<b>£102.717m</b>					

## The Economy and Interest Rates

12. An analysis of UK economic performance and interest rates and the world economic context during 2020/2021 is in **Appendix D**.

## Performance Measurement

13. **Appendix A** has details of the investments made during the year. All of these were 'approved investments' with counterparties included on the Council's lending list, and within permitted limits as regards time and amount, except for the Barclays 95-day notice account which exceeded the £8m limit by £2k during the last quarter of the financial year due to the automatic re-investment of interest.
14. The average level of internally managed investments held was £50.623 million and the average return on these investments was 0.27%, compared with the average un compounded 7-day LIBID rate of -0.071% which is a generally accepted benchmark rate (the 3 month un compounded LIBID rate is given as well for comparative purposes). The interest earned was £137k.
15. The average invested in Property and Multi-Asset Funds was £9.444 million and the average return on these investments was 2.83%. Interest earned was £267k. Capital values had increased as at 31 March by £0.168m, however a statutory override for the accounting treatment for local authorities means the change in capital value is taken to the balance sheet, rather than the 2020-21 revenue account. In addition, the Council has an earmarked investment risk reserve of £0.310m set aside.
16. Budgeted income from investments in 2020-21 was £411k and interest earned was £404k.

	Average Investment	Rate of Return	Benchmark Return 7 day LIBID uncompounded	For comparison 3 month LIBID uncompounded
<b>Internally Managed Specified</b>	£50,623,029	0.27%	-0.071%	0.015%
<b>Property Fund / Multi-Asset</b>	£9,443,836	2.83%	-0.071%	0.015%
<b>Externally Managed</b>	N/A	N/A	N/A	N/A

17. Stroud is a member of a Link Asset Services Benchmarking group. The group is comprised of North Warwickshire Borough Council, Nuneaton and Bedworth Borough Council, Oxford City Council, Oxfordshire County Council, Rugby Borough Council, Stratford-on-Avon District Council, Warwick District Council, Warwickshire County Council, Worcestershire County Council and Wyre Forest District Council. A primary aim of the group is to evaluate and compare return on investment taking into account the level of risk for the investment portfolio. During 2020/21 Stroud has again compared well with the benchmark group in terms of return achieved, whilst maintaining a predominantly low risk portfolio.
18. In line with the budget strategy and the 2020/2021 Treasury and Investment Strategies approved by Council in February 2020 the Council is continuing to target an increase the return on investments through an increased risk appetite and permitting a wider range of investments.

## Prudential Indicators and Compliance with Borrowing Limits

19. The Council is required by the Prudential Code to report actual prudential indicators after the year end. These are shown in **Appendix B**.
20. The Council had maximum loans totalling £103.717m during 2020/2021. This amount of borrowing was well within both the authorised and operational borrowing limits of £135m and £127m respectively.

Borrowing limits 2020/2021	Approved Limit	Actual
Authorised limit for external debt	£135m	£103.7m
Operational boundary for external debt	£127m	£103.7m

## Member Training

21. Training for members would have been scheduled after the local government elections in May 2020, but they were postponed. Further training for Members will now be scheduled later in 2021/2022.

## Local Authority Mortgage Scheme update

22. The Local Authority Mortgage Scheme offered a financial guarantee to enable first time buyers to obtain a mortgage. The maximum value of the guarantee was £1.2m. The Council invested £1m and the county council £200k with Lloyds bank for 5 years at a market rate of 3.8%. Premium interest of 0.7% was payable in return for the financial guarantee. Premium interest was set aside to pay for any liability realised as a result of the financial guarantee. This scheme commenced in April 2012 and closed to new loan applications in 2015. A total of £4.7m of loans to 37 first time buyers were issued which utilised £0.9m of the available £1.2m guarantee. As at March 2021 all liability for the Council under the scheme has expired. There were no arrears cases and there were no repossessions under the scheme since inception.

## 4. IMPLICATIONS

### 4.1 Financial Implications

There are no financial implications arising directly from this report which notes Treasury Management activities throughout the year.

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## **4.2 Legal Implications**

There are no specific legal implications arising from this report.

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## **4.3 Equality Implications**

There are no equality implications as a result of the recommendations made within this report.

## **4.4 Environmental Implications**

There are no environmental implications as a result of the recommendations made within this report.