Annual Report 2020/21
Treasury Management and Actual Prudential Indicators

1. Introduction

1.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government in Scotland Act 2003 (the Act), provides the powers to borrow and invest as well as providing controls and limits on this activity. The Act permits the Scottish Ministers to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2020/21);

- Statutory Instrument (SSI) 29 of 2004, requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, and therefore to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services; and the treasury activity with regard to the CIPFA Code of Practice for Treasury Management in Local Authorities; and

- Statutory Instrument (SI) 2016 No 123 requires the Council to document its policy on the prudent repayment of loans fund advances.

1.2 This Council has adopted both the CIPFA Code of Practice for Treasury Management in the Public Sector and the Prudential Code and operates its treasury management service and capital programme in compliance with these Codes and the above requirements. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis.

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and a revised Prudential Code.

A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments. For 2020/21, a Capital Strategy was reported and approved by Council on 4 March 2020.

1.3 During 2020/21 the minimum reporting requirements were that the Council should receive the following reports:

- an annual treasury strategy in advance of the new financial year (Council 4 March 2020);
- a mid-year treasury update report (Council 16 December 2020); and
- an annual report following the financial year-end describing the activity compared to the strategy (this report).

1.4 This report sets out:

- A summary of the strategy agreed for 2020/21;
- The Council's treasury position at 31 March 2021;
- The main Prudential Indicators and compliance with limits;
- A summary of the economic factors affecting the strategy over 2020/21;
- The Treasury activity during 2020/21;
- Performance indicators set for 2020/21;
- Disclosure regarding the repayment of loan Fund advances for 2020/21; and
- Risk and Performance.

2. A Summary of the Strategy for 2020/21

2.1 **Borrowing** - keeping note of the slightly over-borrowed position of the Council as at 31 March 2020 and the risk within the economic forecast at that time, caution was adopted with the 2020/21 treasury operations. The Section 95 Officer planned to monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

2.2 **Investments -** with the economic background at the time, the investment climate had one over-riding risk consideration - counterparty security risk. As a result of the underlying concerns, officers maintained an operational investment strategy which tightened the controls already in place in the approved investment strategy. The Council's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective.

2.3 Based on the above, the treasury strategy was to postpone borrowing (by not borrowing in advance of need) and in particular minimise longer term borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

3. The Council's Treasury Position at 31 March 2021

3.1 During 2020/21, the Chief Officer – Resources, in line with the Treasury Strategy, managed the debt position with the use of internal funds as well as a mix of short term and long term external borrowing, and the treasury position at 31 March 2021 compared with the previous year was:

Table 1

Treasury position – excluding PPP	**31 March 2021**		**31 March 2020**	
	Principal	**Average Rate**	**Principal**	**Average Rate**
Fixed Interest Rate Debt	£544.813m	1.92%	£509.678m	2.36%
Variable Interest Rate Debt	£0.000m	0.00%	£0.000m	0.00%
Total Debt	**£544.813m**	**1.92%**	**£509.678m**	**2.36%**
Total Investments	**£17.475m**	**0.02%**	**£21.246m**	**0.74%**
Net borrowing position	**£527.338m**		**£488.432m**	

3.2 From the above table, it can be seen that the average interest rate on the debt held as at 31 March has reduced from 2.36% in 2020 to 1.92% in 2021. At the same time the average interest rate has reduced on the investments held as at 31 March from 0.74% in 2020 to 0.02% in 2021.

3.3 The external debt figure included within Table 1 includes both short term and long term debt. The low average interest rate is due to a strategy of using short term borrowing to fund long term capital investment enabling the Council to take advantage of lower interest rates.

3.4 There are four treasury prudential indicators which cover the activity of the treasury function. Complying with these indicators reduces the risk of an adverse movement in interest rates impacting negatively on the Council's overall position:

- Upper limits on variable rate exposure;
- Upper limits on fixed rate exposure;
- Maturity structures of borrowing; and
- Total principal funds invested for greater than 365 days.

3.5 Table 2 shows the actual upper limits set per debt type and maturity as at 31 March 2021.

Table 2

	2020/21 Actual	**2020/21 Indicator**	
Upper limits on variable interest rates	0%	50%	
Upper limits on fixed interest rates	100%	100%	
Maturity structure fixed rate borrowing *(%)*	**Year end**	**Max**	**Min**
Under 12 months	48.0%	50%	0%
12 months to 2 years	2.0%	50%	0%
2 years to 5 years	5.6%	50%	0%
5 years to 10 years	4.6%	50%	0%
10 years to 20 years	3.6%	50%	0%
20 years to 30 years	5.4%	50%	0%
30 years to 40 years	4.2%	50%	0%
40 years to 50 years	20.9%	100%	0%
50 years to 60 years	5.7%	100%	0%
60 years to 70 years	0.0%	100%	0%
Maximum principal funds invested *>365 days*	£0.495m	£7m	Nil

4. The Main Prudential Indicators and Compliance with Limits

4.1 The Council is required by the Prudential Code to report the actual prudential indicators after the year end.

4.1.1 Capital Expenditure and its Financing

This indicator shows total capital expenditure for the year and how this was financed. The decrease in capital expenditure between revised estimate and actual as noted below in Table 3 is due to expenditure which slipped from 2020/21 into the 2021/22 capital programme, together with resources. The indicators for 2021/22 will be revised in line with this.

Table 3

	2020/21 Actual	2020/21 Revised Estimate*
Capital expenditure:	£92.184m	£97.902m
Resourced by:		
Capital receipts and grants	£27.002m	£32.654m
Revenue	£8.911m	£7.810m
Capital expenditure - additional need to borrow for in-year capital spend	**£56.271m**	**£57.438m**

* From the mid-year Treasury Strategy – Council 16 December 2020

4.1.2 Gross Borrowing and the Capital Financing Requirement (CFR)

In order to ensure that borrowing levels are prudent, over the medium term the Council's gross borrowing must only be used for capital purposes. Gross borrowing should not therefore, except in the short term, exceed the total of the capital financing requirement 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. 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 in 2020/21.

4.1.3 The Chief Officer - Resources reports that the Council has complied with this indicator over the medium term (as can be seen by comparing the gross debt figure at 31 March 2021 with the anticipated CFR at 31 March 2024 as detailed in Table 4 below), and in the short term, the adjusted gross borrowing position also under the CFR as at 31 March 2021.

Table 4

	2020/21 Actual	2020/21 Revised Indicator*
Gross borrowing position per Table1	£544.813m	£551.127m
Long term liability	£96.292m	£96.337m
Adjusted gross borrowing position	**£641.105m**	**£647.464m**
Capital Financing Requirement	**£646.190m**	**£647.972m**

* From the mid-year Treasury Strategy – Council 16 December 2020

	2020/21 Actual
CFR at 31 March 2021	
2020/21 Actual	**£646.190m**
Estimated Movement in CFR*	
2021/22	£56.486m
2022/23	£32.419m
2023/24	£56.027m
Anticipated CFR at 31 March 2024	**£791.122m**
Gross Debt at 31 March 2021	**£641.105m**

* Estimated movement from the Treasury Strategy 2021/22 – 22 March 2021

4.1.4 The Authorised Limit

The Authorised Limit is the "Affordable Borrowing Limit" required by Section 35 of the Local Government in Scotland Act 2003. The Council does not have the power to borrow above this level. The information in Table 5 demonstrates that during 2020/21 the Council has maintained gross borrowing within its Authorised Limit.

4.1.5 The Operational Boundary

The Operational Boundary is the borrowing position that the Council expects to work around during the year, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached. The information in Table 5 demonstrates that during 2020/21 the Council has maintained gross borrowing within its Operational Boundary.

4.1.6 Actual financing costs as a proportion of net revenue stream

This indicator shows the actual impact of capital expenditure in 2020/21 compared to the projected impact of the General Services Capital Plan Refresh and the HRA Capital Plan Update as approved by Members on 22 March 2021 and 3 March 2021, respectively. The cost of capital is described as loan charges within the revenue budgets

Table 5

	2020/21	
Revised Indicator - Authorised Limit*	£776.957m	
Revised Indicator - Operational Boundary*	£712.210m	
Maximum gross borrowing position during 2020/21	£644.755m	
Minimum gross borrowing position during 2020/21	£575.256m	
	Estimated	**Actual**
Financing costs as a proportion of net revenue stream:		
General Fund	4.65%	4.07%
Housing	22.56%	23.59%

* From the mid-year Treasury Strategy – Council 16 December 2020

5. Summary of the Economic Factors affecting the Strategy during 2020/21

5.1 The Economy and Interest Rates

UK / Scotland. Coronavirus. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage and by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy.

Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing (QE).The MPC increased the QE by £100bn in June and by £150bn in November to a total of £895bn which includes QE undertaken prior to the pandemic. While the Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut the Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

Government support. The Chancellor has implemented repeated rounds of support to businesses by way of low cost loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 likely followed by tax rises to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. An area of concern is that the government's debt is now more sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low.

BREXIT. The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; and this now needs to be formalised on a permanent basis.

USA. The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate. This enabled the Democrats to pass a $1.9trn (8.8% of GDP) stimulus package in March on top of the $900bn

fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly will promote a rapid easing of restrictions and strong economic recovery during 2021.

EU. Both the roll out and take up of vaccines has been slow in the EU in 2021; this led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

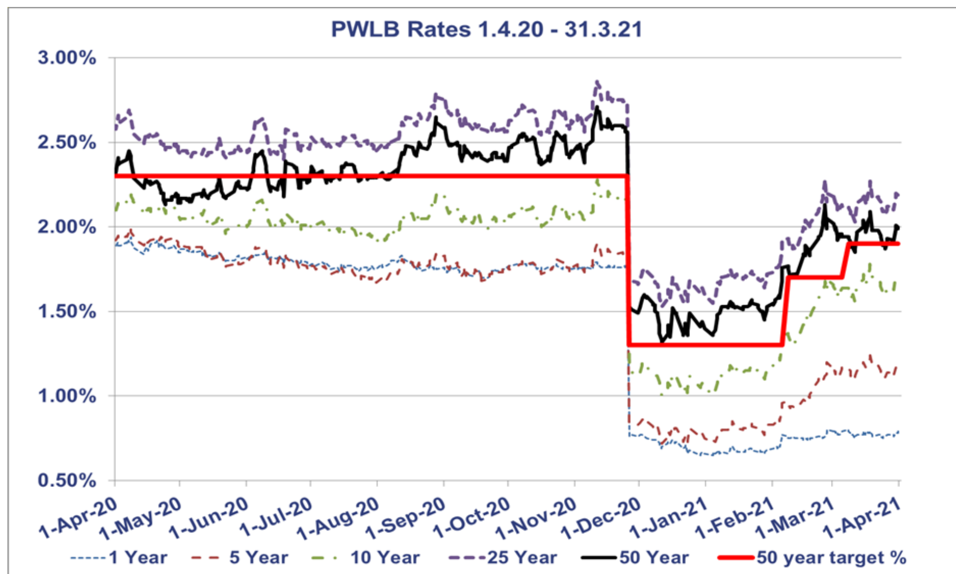
Japan. Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.

World growth. World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. After the pandemic exposed how frail extended supply lines were around the world, it is now likely to lead to a sharp retrenchment of economies into two blocs of western democracies versus autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates.

5.2 Borrowing Rates in 2020/21

The graph for PWLB interest rates below shows that, after remaining relatively static until interest rates reduced significantly during November 2020, most PWLB rates have been on a general upward trend since.



Source: Link Treasury Management Annual Report Template 2020/21 (Scotland)

6. Treasury Activity during 2020/21

6.1 **Borrowing** – The Council raised new long term loans of £10.000m and new short term loans of £260.250m during 2020/21 for the replacement of naturally maturing debt and to finance the Council's capital programme.

6.2 **Rescheduling** – No debt rescheduling has taken place in 2020/21.

6.3 **Repayment** – The Council repaid naturally maturing debt of £236.296m.

6.4 **Summary of Debt Transactions** – The overall position of the debt activity resulted in the average annual interest rate paid throughout the year, year on year falling to 2.11% (2020/21) from 2.25% (2019/20).

6.5 **Investment Policy –** The Scottish Government issued The Local Government Investments (Scotland) Regulations 2010 on 1 April 2010.

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

6.7 The Council's short term cash investments decreased from £21.246m at the beginning of the year to £17.475m at the end of the year with an average balance of £13.601m and received an average return of 0.25% over the year. In addition to the short term cash investments the Council also had 2 long term investments in Clydebank Property Company and Hub West Scotland with a total value of £0.495m as at 31 March 2021 as identified in table 2 above (investments over 364 days).

7. Performance Indicators set for 2020/21

7.1 The treasury strategy defined a set of performance indicators covering the following areas:

7.1.1 **Security** - In the context of benchmarking, assessing security is a very subjective area. Security is currently evidenced by the application of minimum

quality criteria to financial institutions that the Council may choose to invest in, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard & Poors). The Council has benchmarked security risk by assessing the historical likelihood of default for investments placed with any institution with a long term credit rating of A- (this is the minimum long term credit rating used in the Council's investment strategy). The Council's maximum security risk is that 0.09% of investments placed with financial institutions could theoretically default based on global historical data. During the year all investments within the Council's portfolio were repaid on their due dates with no defaults of the principal sums recorded.

7.1.2 **Liquidity** – As required by the CIPFA Treasury Management Code of Practice the Council has stated that it will "ensure that it has adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives". In respect to liquidity as defined above the liquidity arrangements during the year were maintained in line with the facilities and benchmarks previously set by the Council as follows:

- Bank overdraft - £1.000m; and
- Liquid short term deposits of at least £5.000m available overnight.

7.1.3 **Return** – For the financial year the investment return averaged 0.25% which is a decrease of 0.49% from the previous year. Table 6 illustrates that the Council's average return identified of 0.25% was above the average return from the Council's bankers investment account (0.10%) and higher than the LIBID rates (noted in table 6) which are the local measures of return investment benchmarks approved in March 2012.

The Council's bankers (and therefore the bank with which the investment account is held) are currently the Clydesdale Bank plc which falls within the Category 3 Investment Category approved in the investment strategy approved in February 2017. Due to the credit rating of this bank this category specified a maximum limit £5million which may be held on an overnight basis only thus limiting the ability to attract interest on this account.

Table 6

Benchmark	Benchmark Return	Average Return
Internal returns above the 7 day LIBID rate	0.07%	0.25%
Internal returns above the 1 month LIBID rate	0.05%	0.25%

8. Disclosure regarding the repayment of loans fund advances for 2021/22

8.1 The policy on the prudent repayment of loans fund advances was detailed in the Mid-Year Monitoring Report 2020/21 - Treasury Management and Prudential Indicators reported to Council on 16 December 2020. The Chief Officer - Resources can report that the policy has been complied within during 2020/21.

8.2 Table 7 shows the movement in the level of loan fund advances between 1 April 2020 and 31 March 2021 (excluding PPP).

Table 7

	General Fund	Housing
Opening Balance at 1 April 2020	**£295.078m**	**£201.998m**
New Advances in 2020/21	£19.775m	£36.496m
Repayments in 2020/21	(£2.150m)	(£5.020m)
Closing Balance at 31 March 2021	**£312.703m**	**£233.474m**

8.3 Table 8 details the anticipated repayment profile of the balance on the internal loans fund advances (excluding PPP) for both General Services and Housing held at 31 March 2021 (note, this is not external debt).

Table 8

Future Repayment Profile at 31 March 2021	General Fund	Housing	Total
	£m	**£m**	**£m**
Under 12 months	£2.118	£6.614	£8.732
2 years to 5 years	£9.892	£29.504	£39.396
6 years to 10 years	£16.438	£40.502	£56.940
11 years to 15 years	£23.348	£33.809	£57.157
16 years to 20 years	£23.742	£38.077	£61.819
21 years to 25 years	£17.555	£44.916	£62.471
26 years to 30 years	£12.221	£28.721	£40.942
31 years to 35 years	£10.314	£5.496	£15.810
36 years to 40 years	£11.443	£1.255	£12.697
41 years to 45 years	£10.384	£0.403	£10.787
46 years to 50 years	£11.539	£0.269	£11.808
51 years to 55 years	£15.497	£0.413	£15.911
56 years to 60 years	£21.021	£0.609	£21.629
61 year +	£127.192	£2.886	£130.078
Total	**£312.703**	**£233.474**	**£546.177**

9. Risk and Performance

9.1 The Council has complied with all relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach. Ongoing consideration of future affordability and sustainability are reported and considered by Members each year when setting the Council's General Fund and HRA capital and revenue budgets.

9.2 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's treasury advisers, has proactively managed its treasury position within the current economic climate taking advantage of lower interest rates where it is deemed appropriate. The Council has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, with the majority of debt comprised of long-term loans.

9.3 Shorter-term rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.