Agenda Item: 5

Meeting of:	**Cabinet**
Date of Meeting:	**Monday, 19 July 2021**
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Annual Treasury Management Report 2020/21
Purpose of Report:	To present to Cabinet the annual review report on Treasury Management 2020/21.
Report Owner:	Executive Leader and Cabinet Member for Performance and Resources
Responsible Officer:	Carys Lord, Head of Finance/Section 151 Officer
Elected Member and Officer Consultation:	Carys Lord, Head of Finance/Section 151 Officer
Policy Framework:	This is a matter for Executive decision by Cabinet and thereafter decision by Council.

Executive Summary:

The Council's borrowing requirement reduced by £315k in 2020/21 giving a Total Capital Financing Requirement of £198.763M at 31st March 2021. At the same date the Council held £152.735M of Gross External Borrowing. The Council was therefore under borrowed by £46.028M as at 31st March 2021.

The Council's External Borrowing was well within the Authorised Limit and Operational Boundary set for 2020/21.

The Council held Loans from the Public Works Loan Board (PWLB) £144.417M, Concessionary Loans from Welsh Government (WG) £500k, Market Loans £6M and a Temporary Loan £0.10M at 31st March 2021. Additional external loans taken out in year amounted to £1.7185M and were advanced by Salix, Salix SEELS and Welsh Government. The Council continued to finance new Capital Expenditure £3.908M from internal borrowing.

Land Appropriation between the Housing Revenue Account (HRA) & the General Fund Account (GF) took place in 2020/21 amounting to £1.095M.

During 2020/21 the Council invested in Money Market Funds & interest yielding Bank Deposit Accounts.

The Council held investments of £92.160M at 31st March 2021.

Recommendations

1. That Cabinet accepts the annual report on Treasury Management 2020/21 and that the report be referred to Council for approval.

Reason for Recommendation

1. To accept and refer the report to Council.

1. Background

1.1 The Council is required by regulations issued under the Local Government 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 CIPFA Code of Practice on Treasury Management (the Code), the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Welsh Government (WG) revised guide on Local Government Investments (April 2010).

1.2 During 20020/21 the reporting requirements were that Full Council should receive the following reports:

- An Annual Treasury Strategy in advance of the year (Council 26/02/2020, minute no 713).
- A Mid-year Treasury Update Report (Council 10/03/2021, minute no 468).
- An Annual Review Report comparing actual activity to the strategy (this report).

1.3 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 outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 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 before they were reported to the Full Council. Member training on treasury management issues was undertaken during the year on 01/03/2021 in order to support members' scrutiny role.

1.5 This annual outturn Treasury Management Report covers.

- The Economy/Interest rates in 2020/21;
- The Strategy for 2020/21;
- Compliance with Treasury Limits and Prudential Indicators;
- The Borrowing Outturn for 2020/21;
- The Investment Outturn for 2020/21.

The UK Economy and Interest Rates 2020/21

1.6 The following information has been prepared by the Authority's Treasury Management advisors Link Asset Services and sets out the changing conditions under which Treasury Management operations were carried out.

1.7 The financial year 2020/21 will go down in history as being the year of the pandemic. This had a profound effect on interest rate forecasts throughout 2020/21 as illustrated below.

Forecast 31st January 2020

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

Forecast 6th July 2020

Link Group Interest Rate View 6.7.20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	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 LIBID	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-	-
6 Month LIBID	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	-	-	-	-
12 Month LIBID	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	-	-	-	-
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.20	2.20	2.30	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50

Forecast 8th March 2021

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

1.8 The first national lockdown in late March 2020 had a huge impact on the economy as it was unprepared for such an eventuality. This caused a severe economic downturn that even exceeded the one caused by the financial crisis of 2008/09.

1.9 A short second lockdown in November 2020 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 so much less damage was caused than in the first one.

1.10 The advent of vaccines commencing in November 2020 have been a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination promises to lead to a return to something approaching normal life during the second half of 2021. This in turn will be instrumental in speeding economic recovery and the reopening of the economy.

1.11 In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020. Therefore, there is expected to be plenty of pent-up demand and purchasing power stored up for services in the still depressed sectors like hospitality as soon as they reopen. It is forecast that the UK economy could recover to its pre-pandemic level of economic activity during quarter 1 of 2022.

1.12 The Monetary Policy Committee (MPC) cut Bank Rate from 0.75% to 0.25% and then to an emergency rate of 0.10% in March 2020. It also embarked on a £200bn programme of quantitative easing (QE). The MPC then further increased QE by £100bn in June and by £150bn in November to a total of £895bn.

1.13 While bank rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut 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.

1.14 There was a major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably".

1.15 That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, the MPC is not expected to intervene and raise bank rate until it can clearly see that level of inflation is going to be persistently above target if it takes no action to raise rates.

1.16 This sets a high bar for raising bank rate and no increase is expected until March 2024 and possibly for as long as five years.

1.17 Throughout the pandemic the Chancellor has implemented repeated rounds of support to businesses by way of cheap 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 ballooning in 2020/21 and 2021/22 so that the Debt to GDP ratio is now around 100%.

1.18 The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and return the government's finances to a balanced budget in 2025/26 and stop the Debt to GDP ratio rising further from 100%.

1.19 An area of concern is that the government’s debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations. Therefore there is much incentive for the Government to promote Bank Rate staying low.

1.20 The final Brexit 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. This situation now needs to be formalised on a permanent basis.

Other Economies & Interest Rates 2020/21

1.21 The US economy did not suffer as much damage as the UK economy due to the pandemic.

1.22 A $1.9trn (8.8% of GDP) stimulus package was passed in March 2021 on top of the $900bn fiscal stimulus deal passed by Congress in late December 2020. These, together with the vaccine rollout is promoting a rapid easing of restrictions and strong economic recovery during 2021.

1.23 There are also plans to pass a $2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package would be longer term, if passed, it would also help economic recovery in the near term.

1.24 At the mid-September meeting the Federal Bank agreed a new inflation target - in that "it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."

1.25 This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap".

1.26 There is now some expectation that where the Federal Bank has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow, as indeed the Bank of England has done so already.

1.27 The Federal Bank expects strong economic growth during 2021 to have only a transitory impact on inflation which explains why the majority of Fed officials project US interest rates to remain near-zero through to the end of 2023.

1.28 The key message is still that policy will remain unusually accommodative, with near-zero rates and asset purchases continuing for several more years. This is likely to result in keeping treasury yields at historically low levels.

1.29 In the Eurozone inflation was well below the 2% target in 2020/21.

1.30 The European Central Bank (ECB) did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its Pandemic Emergency Programme (PEPP) operations in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks.

1.31 The total PEPP scheme is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, unlikely to be a euro crisis while the ECB is able to maintain this level of support.

1.32 The rollout and take up of vaccines has been disappointingly slow in the European Union in 2021 which in turn has led to renewed severe restrictions or lockdowns during March 2021.

1.33 This will inevitably put back economic recovery after the economy had staged a rapid rebound from earlier lockdowns, ending 2020 at only 4.9% below its pre-pandemic level. Any economic recovery is now likely to be delayed until quarter 3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

1.34 In China after a concerted effort to get on top of the virus outbreak in quarter 1 of 2020, economic recovery was strong for the rest of the year. This has enabled China to recover all the contraction incurred in quarter 1. Policy makers have quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

1.35 In Japan three rounds of government fiscal support in 2020, relative success in containing the virus so far and the roll out of vaccines gathering momentum in 2021, should all help to ensure a strong recovery in 2021 to get back to pre-pandemic levels by quarter 3.

1.36 Overall world growth has been in recession throughout 2020. Inflation is unlikely to be a problem in most countries for some years to come due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Treasury Management Strategy 2020/21

1.37 The Coronavirus pandemic from March 2020 has had a significant impact on the Council's treasury management function in 2020/2021.

1.38 The Section 151 Officer continued to adopt a cautious approach with respect to treasury management operations. The Council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return.

1.39 Investment returns which had been low during 2019/20 plunged further during 2020/21 to near zero or even into negative territory. The Authority managed to avoid investing at negative rates throughout 2020/21.

1.40 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 causing the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to an emergency rate of 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy .

1.41 During 2020/21 the Welsh Government (WG) supplied significant levels of finance to local welsh councils to pass on as grants to businesses. This meant that for most of the year there was more liquidity in financial markets than there was demand to borrow. The consequent effect was that investment interest rates plummeted.

1.42 Cash flow forecasting became problematic as it was difficult to profile the Council's financial commitments.

1.43 As a consequence the Council found it difficult to follow its practice of placing the majority of its investments with other Local Authorities due to the lack of appetite to borrow and uncertainty concerning length of maturity periods for investment.

1.44 For a large portion of 2020/21 the Council was also unable to place surplus funds in the 'Debt Management Account Deposit Facility' (DMADF) (guaranteed by the British Government) as the yield was negative.

1.45 In order to overcome this the Council opened two Money Market Accounts with Federated Hermes & CCLA (both AAA credit rated & domiciled in the UK) and two interest earning bank accounts with Lloyds Bank PLC. These accounts attracted a slightly less favourable rate of investment return but have the benefit of instant access to the funds deposited.

1.46 No investments were placed in Treasury Bills during 2020/21 as for most of the period under review the investment return was negative.

1.47 The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the Public Works Loan Board at long term fixed rates of interest.

1.48 Throughout 2020/21 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. Such an approach has also provided benefits in terms of reducing counterparty risk exposure by having fewer investments placed in the financial markets.

1.49 This potential reduction of the Councils investment balances at times of elevated credit risk, poor investment return and the threat of the Coronavirus was still considered the most prudent option available to the Authority throughout 2020/21.

1.50 Funds received in respect of external borrowing during 2020/21 were for interest free loans only.

1.51 The implementation of IFRS16 which will bring currently off balance sheet leased assets onto the balance sheet was delayed until 2022/23. Revised Prudential Indicators and Minimum Revenue Provision (MRP) estimates will now be outlined in the 2022/23 Treasury Management Strategy & Investment Report.

1.52 The Section 151 Officer advises that all treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions.

2. Key Issues for Consideration

The Council's Capital Expenditure and Financing

2.1 The Council undertakes Capital Expenditure on long term assets. These activities may either be financed immediately through capital or revenue resources e.g. capital receipts, capital grants etc. Alternatively, the activities can give rise to a borrowing need which would create an increase in the Council's Capital Financing Requirement (CFR).

2.2 The table below shows the Council's capital expenditure and how it is financed.

In Year Movement in Capital Financing Requirement	**2020/21**	**2020/21**	**2020/21**
	General Fund	**HRA**	**Total**
	£M	**£M**	**£M**
Total Capital Expenditure	69.137	9.223	78.360
Financed in Year	(64.745)	(8.698)	(73.443)
Minimum Revenue Provision	(3.616)	(1.616)	(5.232)
Appropriation of land from GF to HRA	(1.095)	1.095	0
Movement in Capital Finance Requirement/Unfinanced Capital Expenditure*	(0.319)	0.004	(0.315)

*This is capital expenditure that will be funded by an increase in the Council's borrowing requirement.

The Council's Overall Borrowing Need

2.3 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

Gross Borrowing and the CFR

2.4 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 CFR for the current year (2020/21) and the next two financial years. The Council has complied with this prudential indicator in 2020/21.

2.5 The table below highlights the Council's Gross External Borrowing position against the CFR.

£

	31 March 2020	**31 March 2021**	**31 March 2021**
	Actual	**Budget**	**Actual**
	£M	**£M**	**£M**
CFR General Fund	119.940	121.642	119.822
CFR HRA	79.138	79.391	78.941
Total CFR	199.078	201.033	198.763
Gross Borrowing Position	(153.910)	(158.049)	(152.735)
Under/(Over) Borrowing of CFR	45.168	42.984	46.028

2.6 The Authorised Limit

The Authorised Limit is the affordable borrowing limit required by Section 3 of the Local Government Act 2003. Once it has been set, the Council does not have the power to borrow above this level.

2.7 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 above the boundary is acceptable subject to the Authorised Limit not being breached.

2.8 Actual Financing Costs as a Proportion of Net Revenue Stream

This indicator identifies the trend in the cost of capital, (borrowing and long term obligation costs net of investment income), against the net revenue stream.

2.9 The Council's performance against the above indicators in 2020/21 is set out in the table below.

2.10 Authorised Limit / Operation Boundary v Gross Borrowing

	2020/21
Authorised Limit	£216.333M
Maximum Gross Borrowing Position in Year	£153.910M
Operational Boundary	£204.430M
Average Gross Borrowing Position	£151.732M

2.11 Interest Rate Exposure

	2019/20	**2020/21**
	£M	**£M**
Upper Limit for Fixed Interest Rate Exposure	147.810	146.635
Upper Limit for Variable Rate Exposure expressed as an absolute value	0	0

2.12 Financing Costs as a proportion of Net Revenue Stream

	Non HRA (Council Tax)	**HRA (Rents)**
2020/21 Budget	3.19%	23.10%
2020/21 Actual	3.27%	22.40%

Treasury Position

2.13 At the beginning and the end of 2020/21, the Council's treasury position was as follows.

Debt Portfolio	31st March 2020		31st March 2021	
	Principal	**Rate of Return**	**Principal**	**Rate of Return**
	£M		**£M**	
Fixed Rate Funding				
PWLB	145.210	4.720%	144.417	4.699%
Concessionary Loans	2.600	0.000%	0.500	0.000%
Other Loans	0.000	0.000%	1.718	0.000%
Variable Rate Funding				
Market Loans	6.000	5.320%	6.000	5.320%
Temporary Loan	0.100	0.530%	0.100	0.056%
Total Debt	**153.910**		**152.735**	
CFR	(199.078)		(198.763)	
Over/(Under) Borrowing	**(45.168)**		**(46.028)**	

Movement in Net Debt

	31st March 2020	31st March 2021
	£M	**£M**
Total Debt	153.910	152.735
Total Investments	(98.000)	(92.160)
Net Debt	55.910	60.575

Maturity Structure of the Debt Portfolio

2.14 The Maturity Structure of the Debt Portfolio (excluding accrued interest) is set out below.

	2020/21 Original Limits	2020/21 Actual*	2020/21 Actual
	%	£M	%
Less than one year	20%	8.520	5.58%
Between one and two years	20%	7.693	5.04%
Between two and five years	30%	22.874	14.98%
Between five and ten years	40%	25.347	16.59%
Between ten and twenty years	100%	57.487	37.61%
Between twenty and thirty years	100%	18.364	12.05%
Between thirty and forty years	100%	12.450	8.15%
Between forty and fifty years	100%	0	0%
Total		152.735	100%

Borrowing Outturn 2020/21

2.15 During 2020/21 £3,908,048 of additional internal funds were used in the financing of capital expenditure. An average rate of interest was charged to reflect the use of capital resources. The total charges for interest and principal including for prudential borrowing during the year 2020/21 were £7,510,417 and £5,221,776 respectively.

2.16 For all borrowing excluding loans that are advanced under the Local Government Borrowing Initiative and those borrowed on an interest free basis an original estimate of 3.77% has been included in the estimates for 2020/21. The actual rate was 3.76%.

2.17 The Council internally borrowed for one new loan totalling £515,048. This new borrowing comprised of a loan to finance Affordable Housing at a rate of 3% in line with revenue stream to be received by Welsh Government.

2.18 The Council also raised one loan for supported borrowing in the sum of £3,393,000 as part of the Council's General Capital Funding for 2020/21.

2.19 Loans borrowed from the Public Works Loan Board (PWLB) are intended to assist local authorities in meeting their longer term borrowing requirements. The Council did not borrow any new loans from the PWLB during 2020/21, opting to fund from internal resources.

2.20 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 were used as an interim measure. This avoided the cost of carry on any new long term borrowing that was not immediately used to finance capital expenditure.

2.21 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this is being kept under review by the Section 151 Officer 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 refinancing maturing debt.

2.22 Market loans represent non-PWLB loans. The debt is comprised of 2 loans, a market loan of £2,000,000 of which will mature on the 8th November 2021 and another of £4,000,000 which will mature on the 23rd February 2054.

2.23 The Council repaid one of its Concessionary Loans for £2,100,000 on the 2nd June 2020 and remaining loan for £500,000 has had its maturity date extended until August 2022. Both loans were advanced to the Council by Welsh Government and are interest free.

2.24 Other loans include three new loans taken out by the Council during 2020/21. The first loan was from Salix for £963,724 to fund the street lighting energy reduction scheme, the second from Salix SEELS for £35,363 to fund the installation of a new boiler at Stanwell Comprehensive School and the third a Town Centre Loan for £550,000 advanced from Welsh Government. All loans are interest free funding.

2.25 Temporary Loans represent loans that have no fixed maturity date. Current loans have been borrowed from the Vale of Glamorgan Welsh Church Act Fund. Interest is calculated using SONIA (Sterling Overnight Interbank Average) rates. The interest rate payable on the Authority's outstanding temporary loans was 0.056% during 2020/21.

Borrowing in Advance of Need

2.26 The Council is under borrowed at 31st March 2020 and has not borrowed in advance of its needs during 2020/21.

Debt Rescheduling

2.27 The Council did not undertake any rescheduling activities during 2020/21 as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable

Investment Outturn for 2020/21

2.28 All investment activity during 2020/21 conformed to the approved strategy and the Council did not encounter any liquidity difficulties in year.

Internally Managed Investments

2.29 The Council manages investments in-house and is able to invest with those institutions which meet the minimum credit rating criteria and are included on the approved lending list as laid out in the investment strategy. The Council currently invests short term for a range of periods from overnight to 364 days, dependent on its cash flows, its interest rate view and the interest rates/periods on offer although this will be reviewed during 2021/22.

2.30 Investment movements for 2020/21 (excluding accrued interest) are summarised as follows.

Investment Portfolio	**Actual 31st March 2020**	**Actual Return %**	**Actual 31st March 2021**	**Actual Return %**
	£M		**£M**	
Debt Management Account Deposit Facility (DMADF)	11.000	0.486%	0.000	0.0317%
Local Authorities	87.000	0.788%	68.750	0.5889%
Federated Hermes Money Market Fund	0.000	N/A	9.550	0.0220%
CCLA Money Market Fund	0.000	N/A	9.100	0.0462%
Lloyds Instant Access	0.000	N/A	0.210	0.0100%
Lloyds Monthly Bonus	0.000	N/A	4.550	0.0217%
Total	98.000		92.160	

2.31 The continuing market uncertainties as a result of the coronavirus pandemic and the unpredictability of revenue streams resulted in the majority of available funds still being invested very cautiously. During 2020/21 investments continued to be placed with Local Authorities and the DMADF when positive interest rates were available.

2.32 In addition Money Market Funds (MMF) with Federated Hermes and CCLA together with interest yielding bank accounts with Lloyds Bank PLC were introduced as new investments tools to aid the management of the Council's investments.

2.33 During 2020/21 102 deposits were placed with local authorities for periods between 12 & 364 days. The Council made a return on these investments of £534,834 including accrued interest.

2.34 The Council made a return of £4,590 on deposits placed with the DMADF during 2020/21.

2.35 The Council commenced placing funds with Money Market Fund Accounts in September 2020. The return on these accounts was £1,571 during 2020/21.

2.36 The two interest earning accounts with Lloyds Bank PLC, the Instant Access and Monthly Bonus made returns of £128 & £298 respectively during 2020/21.

2.37 No investments were placed in Treasury Bills during 2020/21 as for most of the period under review the investment return was negative.

2.38 The overall return on investments for 2020/21 was £541,481 at a rate of 0.4833%.

2.39 The Section 151 Officer will continue to keep the borrowing and investment strategies under review.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

3.1 The Treasury Management and Investment Strategy ensures that the financial plans of the Council are sustainable into the future and do not adversely impact on future generations.

3.2 The Treasury Management and Investment Strategy underpins the financial management of the Council and its ability to achieve its well-being objectives as set out in the Corporate Plan.

4. Resources and Legal Considerations

Financial

4.1 Money is borrowed for capital purposes and interest is charged to revenue accounts.

Employment

4.2 There are no direct employment issues relating to this report.

Legal (Including Equalities)

4.3 Compliance with the Local Government Act 2003 and CIPFA's "Code of Practice for Treasury Management in the Public Services" is mandatory.

5. Background Papers

None.