

7th September 2021

Report of	Assistant Director Corporate & Improvement	Author	Paul Cook ☎ 505861 Mark Jarvis ☎ 282774
Title	Treasury Management – Annual Review 2020/21		
Wards affected	Not applicable		

1 Executive Summary

- 1.1 This report is part of the cycle of monitoring treasury management and covers all the borrowing and investment activities of the Council.
- 1.2 Over the years, the borrowing strategy has sought to borrow internally given the low investment rates on offer however given the increase in the capital programme and reduction in available capital receipts.
- 1.3 The Council has been required to borrow an additional £7.5m on a short-term basis to fund the capital programme. External borrowing increased to £169.9m compared to £162.4 million in 2019/20.
- 1.4 The investment policy reflected the Council's low appetite for risk. The financial year continued the challenging low return investment environment of previous years. The Council's investments at the end of the year totalled £51 million.
- 1.5 The Council employ Link Asset Services to provide a consultancy service in respect of treasury management, to include advice on borrowing, investments, counterparty credit details and general capital accounting information. Their performance was considered satisfactory in 2020/21.
- 1.6 The current capital programme and Treasury Management Strategy (TMS) excludes the proposed Turnstone development which could increase the Council's external debt by in excess of £63 million. A revised TMS for 2021/22 may be needed to accommodate this change.

2 Action required

- 2.1 The Committee is asked to note the TMS Annual Review for 2020/21.
- 2.2 To note the Council's increase in borrowing to fund the capital programme.
- 2.3 The Committee is asked to note the satisfactory performance of Link Asset Services.

3 Reason for scrutiny

- 3.1 The CIPFA Treasury Management Code of Practice requires the Council to produce three main reports each year, which are all required to be scrutinised and reviewed:

- the Treasury Management Strategy Statement
- the Mid-Year Treasury Management Report
- the Annual Treasury Management Review (this report)

4 Treasury Management Review 2020/21

4.1 The Annual Treasury Management Review 2020/21 is attached as a separate document in appendix A.

4.2 Summary of TMS Prudential Indicators:

Investments

Indicator	2019/20	2020/21 Strategy	2020/21 Actual	Comments
	£m	£m	£m	
Creditworthiness	Link creditworthiness system			All investments within policy
Country Limits		AA-		All investments within policy
Non-UK not to exceed		£15m		All investments within policy
Return on in-house funds.	0.87%	0.75%	0.23%	Reduced return

Borrowing

Indicator	2019/20	2020/21 Strategy	2020/21 Actual	Comments
	£m	£m	£m	
Authorised Borrowing Limit	162,444	262,617	169,944	
Operational Boundary	206,849	247,617	169,944	
Maturity Structure				
< 1 year	21.8%	15%	4.9%	Over time the period to maturity of existing loans decreases and may cause variations. The strategy limits exceed 100% in total allowing some flexibility to choose loan maturities.
1 to 2	2.1%	15%	8.8%	
2 to 5	6.2%	15%	0.4%	
5 to 10	0.4%	15%	1.8%	
10 to 20	13.5%	40%	13.4%	
20 to 30	22.2%	40%	22.3%	
30 to 40	21.8%	40%	21.7%	
40 to 50	6.5%	20%	21.4%	
50+	5.5%	10%	5.3%	
Average borrowing rate	4.43%		3.52%	

5 Strategic Plan references

5.1 Prudent treasury management underpins the budget strategy required to deliver all Strategic Plan priorities.

6 Publicity considerations

6.1 Appendix B to the annual report is confidential.

7 Financial implications

- 7.1 Interest paid and earned on borrowing and investments is shown within the Central Loans and Investment Account (CLIA). Outturn figures for 2020/21 show a favourable variance of £133k. This considers additional borrowing costs, which is offset by the current low borrowing rates.
- 7.2 Throughout 2020/21 there have been no rate changes made by the BOE, this is still currently 0.10%.
- 7.3 Following the 2019/20 audit of the Council's accounts, the auditors highlighted two areas in relation to the loan investment into Colchester Commercial Holdings Limited that need to be reviewed. These are in relation to the interest rate of the loans provided to the company and the decision to provide MRP (Minimum Revenue Provision) on these loans.
- 7.4 A review was undertaken during 2020/21 with the authority's treasury advisors, Link Asset Services which confirm the rates currently charged to Colchester Commercial Holdings Limited are in line with current market rates given the impact of Covid has had on the housing market.
- 7.5 The requirement to provide MRP is to ensure the Council provide sufficient funds to repay its debt. With regards to the loans to CAHL and CAEL, no provision was made in 2019/20 on the basis that there is a contractual arrangement in place to repay the loans within a 3-to-5-year period. Following conclusion of the 2019/20 audit, a review of the company accounts / business plan and discussions with the Council's treasury advisors, identified the potential need to provide MRP on the loan and accrued interest to CAEL within the Council's 2020/21 accounts. This will be required to be reviewed again during 2021/22 and the need to provide further contributions will be assessed at end of the financial year.
- 7.6 The Council is in the process of entering into an agreement that would develop the northern gateway site referred to as Turnstone. This project is being managed by Colchester Commercial Holdings the project that includes
- Securing the funding agreement
 - Viability of the project
 - Reviewing the lease agreements
- 7.7 Based on the proposal, the Council will take on an index linked loan uplifted by RPI on a yearly basis. As soon as the agreement is signed with the funder, the Council external debt will increase in excess of £60m and therefore potentially exceed its borrowing limits. Timing is still uncertain however a revision to the current Treasury Management Strategy for 2021/22 may be needed. This will be the only variable rate loan on the Council's portfolio and the details of the proposal are detailed in the March 2020 Cabinet report.

8 Risk management implications

- 8.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Policy Statement contains a section on treasury Risk Management (TMP1).

8.2 TMP1 covers the following areas of risk all of which are considered as part of our treasury management activities:

- Credit and counterparty risk
- Liquidity risk
- Interest rate risk
- Exchange rate risk
- Refinancing risk
- Legal and regulatory risk
- Fraud, error and corruption, and contingency management
- Market risk

9 Other standard references

9.1 Having considered consultation, equality, diversity and human rights, community safety, and health and safety implications, there are none that are significant to the matters in this report.

Appendices

Appendix A – Treasury Management Review

Appendix B – Investment held as at 31st March 2021 (Confidential).

Background Papers

Treasury Management Strategy 2020/21

Draft Statement of Accounts 2020/21